

LEASING SECTOR IN MACEDONIA-STATES AND TRENDS

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ABSTARCT: *In conditions of limited access to traditional sources of funding when lending a privilege of the largest and most creditworthy companies, contemporary, alternative ways of funding, including the leasing are increasingly gaining importance. They are particularly attractive for small and medium enterprises that grow rapidly and are facing a shortage of funds. In terms of general illiquidity of the Macedonian economy, on the one hand, and restrictive credit policies of banks on the other hand, creating a business climate where will apply and promote alternative modes of financing in the Republic of Macedonia is a very importance for the operation and development of small and medium enterprises.*

KEY WORDS: *corporate sector; lease; lease company; SME's; source of funding.*

JEL CLASSIIFICATION: *G29.*

1. INTRODUCTION

In this article the subject of the research is lease, as one alternative source of capital. It's specially importance as a source of capital for SME's that are very significance for the national economy development. Considering the low economic development of the Macedonian economy, the SME's are very important factor for its development that is necessary to include Macedonian economy in the global economy.

When we have in mind the said prior by one side, and additional international experience in the application of the lease by other side, which indicate the existence of a trend of increasing use of this instrument for financing by enterprises can draw a conclusion about the importance and relevance of the lease in macedonian conditions.

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2. CREDIT INDEBTEDNESS OF THE ENTERPRISES IN THE REPUBLIC OF MACEDONIA

In its operation of the Macedonian companies credit support from domestic banks has presented most important external source of funding for the activities of the corporate sector in the country. Table 1 shows the total credit indebtedness of enterprises in Macedonia in the period 2005 to 2009 year.

Table 1. Total debt to credit companies for the period 2005-2009

	2005	2006	2007	2008	2009
	Structure	Structure	Structure	Structure	Structure
Banks	69.60%	69.90%	44.62%	45.40%	43.30%
Lease	2.00%	2.20%	2.60%	2.80%	3.20%
Foreign loan	28.40%	27.90%	52.80%	51.70%	53.40%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: National Bank of Macedonia, Department of Banking Regulation, Report on financial stability in 2009, p.40

The data in the table it is obvious that the indebtedness of the corporate sector throughout the past period has seen a trend of growth. In 2009 the indebtedness of the corporate sector continues to grow, but with a slower pace, as a result of several reasons: the reduction of domestic economic activity and consequent reduction in demand for loans, narrowing the sources of funding for resident creditors of the corporate sector (mainly domestic banks) and continuation of keeping tight monetary policy by the central bank. Also its effect on slowing the indebtedness of the corporate sector had reduced foreign trade exchanges, as well as reducing the credit rating of the Republic of Macedonia (which conditions greater caution in lending to non-residents of domestic enterprises).

The biggest slowdown in the growth of indebtedness of domestic enterprises (nearly six times) was recorded for debt to the banking system. On the other hand, despite the double lower annual growth rate of debt to non-residents, this component of the total indebtedness of domestic enterprises made a major contribution (70.8%) annual increase in the debt of the corporate sector, which reinforced the dominant part in total debt of domestic enterprises by 51.7% on 31.12.2008, at 53.4% on 31.12.2009. Non-residents from 2007 represent the largest creditor of the corporate sector. Unlike the trend in the previous two years the banking sector was the largest creditor (lender) of the corporate sector in the country.

Despite the rise in credit debt corporate sector, financial intermediation, as a ratio between the total loans to enterprises and GDP is still relatively low and amounted to 25, 37% in 2009 (while in 2005 was 6.4%). This indicator is low compared with countries in the euro area (EMU-12) and the European Union (EU-25), where at the end of 2005 amounted to 42.6% and 39.7% respectively (National Bank of Macedonia, 2006, p. 37).

In terms of indebtedness of the corporate sector through leasing contracts in the period 2005-2009 shows permanent growth, but despite having this type of debt in total debt of enterprises is minimal and varies in the range of 2.2% in 2005 to 3.2% in 2009.

Higher participation of the corporate sector exposure to banks in total credit exposure, in large part explained by the limited use of alternative ways of funding the activities by enterprises in the country. Right here, leasing as an alternative source of funding, can successfully play the role of a tool for development of domestic small and medium enterprises.

3. LEASE FINANCING IN MACEDONIA

Republic of Macedonia as can be seen from Figure 1 number of leasing companies in 2005 was 2, while by 2009 this number increases to the number 9 leasing companies activities in this country are focused mainly on performing activities of financial leasing, in particular for movable objects. Although the establishment and operation of leasing companies is regulated for many years, they still have relatively little importance in the financial system and the overall domestic economy, which is perceived by many parameters which are elaborated in the following section.

In 2006 the total assets of active leasing companies represent 0.9% of GDP and 1.4% of the total assets of the financial system, i.e. 14.1% of the total assets of non-depository financial institutions. By contrast in 2009 the assets of the leasing sector was 2.2% of GDP and 3% of the total assets of the financial sector, i.e. 29.1% of the total assets of non-depository financial institutions, which speaks of a revival of the leasing sector in the economy.

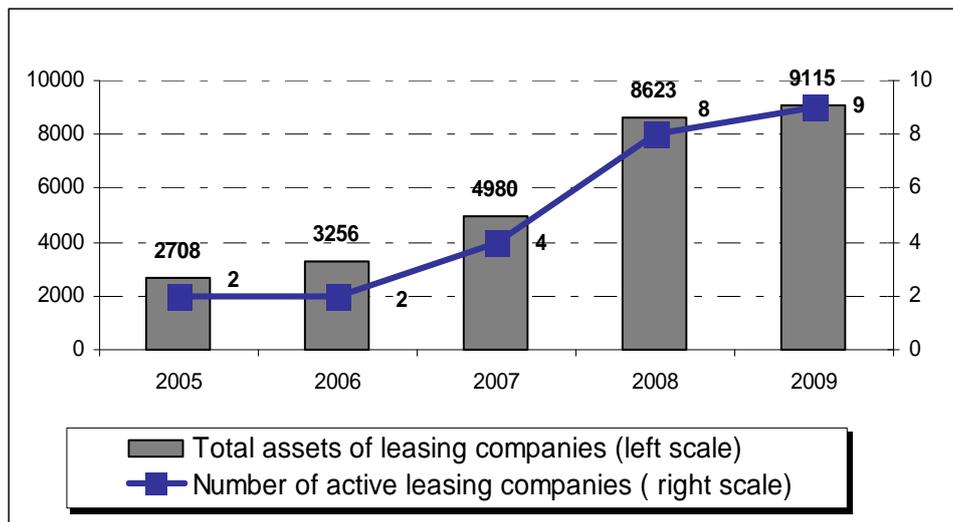


Figure 1. Trends in total assets and number of leasing companies for the period 2005 to 2009

From Figure 1 also shows that the significant revival of the leasing sector comes in 2008 when the assets of the leasing sector rose as much as 73.15% (4980 million of total assets in 2007 to 8,623 million total assets in 2008). But in 2009, the assets of the leasing sector grew only by 5.7%, making this sector experienced the largest slowdown of activities within the financial sector.

Despite the revival of the leasing sector in the last two or three years, compared with countries in the region, and some countries of the European Union, the leasing sector is still poorly developed, which illustrate that this sector in 2009 found last in comparison with the countries analyzed in terms of share of his assets to GDP and the value of new agreements in relation to GDP. The share of the value of contracts for leasing in GDP in these countries is moving in the interval of 1.1% for Greece to 7.1 in Estonia.

Regarding the ownership structure of the dominant capital leasing companies owned by foreign entities, while in terms of the type of institutions, most of the capital of leasing companies owned by foreign financial institutions.

Within the industry sector of leasing services, active leasing contracts¹ with the population dominate by 2007. On 31.12.2006 the indebtedness of individuals on the basis of 3557 (data on the number of new contracts not listed in Table 2) active lease agreements amounted to 36,1 million € which represents 7.6% (see Table 2) of the total indebtedness of population based on borrowings from the banking sector and used leasing services (National Bank of Macedonia, 2006, p. 100).

In contrast, according to report of 31.12.2006 indebtedness of entities based on 1477 active leasing contracts which represents 3.7% of the total indebtedness of entities based on borrowings from banks and used leasing services. The data can be observed that more individuals are opting for the use of leasing rather than legal subjects. This is because the leasing contracts further burden the companies (legal subjects) and to impose requirements that discourage use lease with greater intensity.

During 2004 and 2006 with increasing intensity has grown indebtedness of entities on the basis of lease contracts (the value of concluded leasing contracts rising by 13.5%, while the value of active leasing contracts rising by 127.4% against the indebtedness of individuals that according to the leasing contracts grew by 3.8%, while on active leasing contracts rising by 123.3%.

Unlike the previous period in 2007, the indebtedness on the basis of lease contracts by legal entities grew faster in relation to individuals that have raised appropriate changes in the sectoral structure of leasing services. Namely, the debt of entities on the basis of active leasing contracts increased by 93.3% compared to 2006, which represented a double growth compared with growth of indebtedness of individuals.

In 2009 the number and value of new leasing contracts declined by 51.2% and 31.2%, respectively. This trend of leasing companies are going in parallel with a

¹Active contracts are forwarded through the years if they are closed. The number of active contracts is an indication that users are late with their payments on time so that the time limit of contracts extended.

significant slowing credit activity of banks, in contrast to some developed countries, where reduced lending by banks was replaced by using financial leasing.

Table 2. Structure of the leasing contracts, by type of users (legal and natural persons) for the period 2005-2009

	2004		2006		2007		2008		2009	
	Firms	Individuals								
Values of contracts (in millions €)	12.2	15.4	13.8	16.0	_*	_*	44.9	19.8	34.2	10.3
Values of active contracts (in millions €)	15.9	18.0	36.1	40.7	71.0	57.5	100.7	62.5	125.5	61.9

Source: National Bank of Macedonia, Department of Banking Regulation: Financial Stability Report 2005, 2006, 2007, 2008, 2009

* Not available

On the other hand, rising difficult in the servicing the debt, which in the banking sector reflect in the worsening of the risk categories of placements, to the leasing companies are manifested through early termination of contracts with clients due to difficult collection of receivables and separation impairment of receivables. This situation had contributed to the tightening of the criteria (before increasing interest rates) and increased conservatism and vigilance in approving these services (National Bank of Macedonia, 2009, p.116).

Regarding the type of subject of leasing (movable or immovable) dominate leasing contracts for movable objects. Table 3 shows the structure of the leasing contracts in the period 2004-2009, according to the type of object.

Under the contracts for leasing of movable objects, dominate the leasing contracts for light vehicles, which represent 87.4% of the total number of contracts for movable items in 2006, or 82.6% of the total number of active contracts for movable objects of 31.12.2006. Of the total cars sold in 2006, 15.4% were sold by signing lease agreements with interested buyers. On the other side and noted the increased number of active contracts for equipment to almost seven times from 2004 to 2006. During 2009, the value and number of new lease agreements for all types of movable objects decreased. Most of the portfolio of the leasing contract is still in favor of leasing contracts for light vehicles. Their participation in the number of new contracts for movable objects was 86.4% (an increase of 8.3 percentage points).

However, the biggest decline in the number of contracts (contracts for 1161, or 45.5%) are observed in contracts for the purchase of light vehicles. Thus, expectations of some leasing companies that tightening credit policies of banks will shift their

customers to use financial lease have not been forthcoming. Of the total 11,692 vehicles (heavy and light) sold in 2009, only 1,540 (or 8.7%) were sold through leasing agreements (National Bank of Macedonia, 2009, p.118).

Table 3. Structure of leasing contracts for movable objects

	2004	2006	2007	2008	2009
Equipment (machines)					
Number of contracts	34	43	109	194	25
Number of active contracts	49	337	225	338	276
Heavy vehicles					
Number of contracts	348	216	248	414	147
Number of active contracts	376	515	695	902	554
Light vehicles					
Number of contracts	1773	1878	2162	2554	1393
Number of active contracts	2097	4158	6123	7828	8554
Other					
Number of contracts	29	10	176	110	48
Number of active contracts	77	24	426	367	236

Source: National Bank of Macedonia, Reports on financial stability, 2005-2009

Services for leasing immovable objects have negligible participation in the portfolio of leasing contracts for the entire period of analysis. In 2009, it was not signed any new contract for immovable objects, with the number of active contracts for these cases remained unchanged and amounted to a total of four contracts. This situation is the result of still unchanged tax legislation and for her offer of financial leasing real estate is less attractive compared with the offer of loans by banks for this type of case. Unlike this situation in the Macedonian economy in European terms, the lease has a higher rate of increase of the total growth of the economy, primarily due to growth of leasing real estate (for example in 2005 compared to 2004 registered increase of 25%) (National Bank of Macedonia, 2009, p.118).

The structure of total assets and sources of funds to leasing companies for the entire period of analysis remains unchanged. The main sources of funding are loans from abroad, while domestic banks participate minimally (for example in 2009 only 2.3%). The assets of leasing companies are the most frequent claims based on contracts for leasing. Deposits in domestic banks are minimal (in 2009 only 2.5% of total assets compared with 5% of total assets in 2006).

From the above mentioned shows that the mutual dependence of the stability of the banking sector and the sector "lease" is extremely low, primarily because of their negligible interconnection. The data on financial indicators realized by leasing companies in the period 2005 -2009 are shown in Table 4.

Slowed economic developments in Macedonia adversely affected the financial operations of leasing companies in the 2009th they showed a loss of 50 million, and consequently this and indicators of return on equity and assets have negative values.

Namely, the actions of leasing companies in 2009 were not to the extent that would create a sufficient amount of revenue to cover the total expenses incurred for the year. The largest expenditure item in the structure of aggregated income statement of leasing companies is spending on interest generated primarily from the relatively high duties on the basis of credits.

Table 4. Indicators of financial operations of leasing companies for the period 2005-2009

	2005	2006	2007	2008	2009
Net profit/loss (in millions €)	0.2	1.84	1.2	1.8	-0.8
ROE	10.90%	66%	34.30%	50%	*
ROA	0.70%	4.60%	1.50%	1,6%	*

Source: National Bank of Macedonia, Department of Banking Regulation: Financial Stability Report for 2006, 2007, 2008 and 2009.

* The indicators are negative

Hence the need of taking appropriate measures which would go towards reducing the cost of leasing companies, reducing risk premiums and, consequently, improve their competitiveness (especially in relation to main competitors - the banks) and increasing the basis for Income generation, which would be related to:

- Implementation of structural transformation in the liabilities of leasing companies (an increase of capital as a permanent and irreversible investment of the owners at the expense of reduction of duties on the basis of credits);
- Improving performance, as in cases of withdrawal of the termination of the lease contracts with customers that do not comply with the provisions of the agreement, and in their sales (which requires better organization of the secondary market for movable and immovable objects in the Republic of Macedonia);
- Adoption and implementation of long awaited changes in tax regulations (those provisions that burden the operations of leasing companies);
- Such improvements in the functioning of the domestic leasing companies should contribute to easier maintenance of profitable and stable operation, not only in terms of expansion, but in times of crisis.

4. CONCLUSIONS

Research shows that lease financing has recovered in Macedonian economy in the past, but lags in terms of the lease financing in developed countries, where leasing is a third important source of financing, after loan and Euro-bonds. The survey also showed that there is an unfavorable structure lease financing in terms of types of contracts for lease financing, dominated the financing of vehicles, and to a much lesser extent, financing of equipment, which is important for companies development.

Hence there is a need to take appropriate measures to increase lease financing in the Macedonian economy by improving the legal and tax regulations, reduce the cost of using the lease on the one hand, and increasing the awareness of SME's about the benefits of lease financing of its investment activities by other side.

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