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RESULTS OF NON-FINANCIAL CORPORATIONS TO 2022 Q2

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ABSTRACT

The Central Balance Sheet Data Office Quarterly Survey data show that ordinary profit grew sharply in 2022 H1, with average profitability levels close to those of 2019. These positive economic developments translated into an improvement in the ability to repay corporate debt. For their part, average liquidity ratios declined, reversing the increase recorded following the onset of the COVID-19 pandemic. In any event, a more detailed analysis evidences a less favourable trend for certain groups of firms than that inferred from aggregate data. In particular, the article includes a box showing signs of deterioration in the economic and financial situation of some of the firms most exposed to the rise in energy prices. Specifically, firms whose activity has recovered less in the recent period because they have not benefited as much from the lifting of the pandemic-related restrictions on movement would be in this situation.

Keywords: activity, earnings, financial position, non-financial corporations.

JEL classification: L25, M21, M41.

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Introduction

The results of the Central Balance Sheet Data Office Quarterly Survey (CBQ) show that in the first half of 2022 firms' turnover grew at a very high rate, a reflection of both the recovery in activity and the increase in selling prices. Despite the notable rise in production costs, ordinary profit grew rapidly, posting very similar or even higher levels than before the COVID-19 crisis. These positive economic developments led to an improvement in firms' profitability and their debt repayment capacity, reducing the average ratio of debt to ordinary profit (gross operating profit (GOP) plus financial revenue) and the interest coverage ratio. Lastly, the liquidity ratio of most firms and sectors in the sample fell between January and June 2022, but remains, on average, at levels similar to those of 2019.

In any event, a more detailed analysis of the data reveals a high degree of heterogeneity across and within sectors. In particular, Box 1 indicates that the economic and financial situation of some of the firms most exposed to the rise in energy prices show signs of deterioration. Specifically, these firms would be those whose activity has recovered less in the recent period because they did not benefit as much from the easing of restrictions on movement. By contrast, those most affected by the COVID-19 crisis improved significantly.

Activity, employment and personnel costs

Between January and June 2022, the net turnover of CBQ firms was up 48.3% on the same period in 2021,[1] compared with the 12.6% increase recorded a year earlier (see Table 1 and Chart 1). Inputs increased at a fast pace (51.5%). In particular, purchases and other procurements outstripped sales (72.8%), amid surging energy and other commodity prices. As a result, gross value added (GVA), in nominal terms, also grew (by 18.8%, compared with 10.5% the previous year).

1 The CBQ contains information on the 920 firms which had reported their 2022 Q1 and Q2 data by 14 September. The sample represents 12.3% of the GVA of the entire non-financial corporations sector (according to the information furnished by the National Accounts).

Table 1

THE RECOVERY IN ACTIVITY AND PROFITS CONTINUED IN 2022 H1

	CBI Structure	CBI		CBQ (a)		
Bases	2020	2019	2020	2021 Q1-Q4 / 2020 Q1-Q4	2021 Q1-Q2 / 2020 Q1-Q2	2022 Q1-Q2 / 2021 Q1-Q2
Number of firms		836,810	780,808	973	998	920
Total national coverage (% of GVA)		55.3	53.1	11.9	12.1	12.3
Profit and loss account (rates of change with respect to same firms in the previous year)						
1 VALUE OF OUTPUT (including subsidies)	100.0	2.7	-12.7	18.1	11.9	41.6
Of which:						
Net amount of turnover and other operating income	*148.7*	*1.5*	*-12.9*	*21.2*	*12.6*	*48.3*
2 INTERMEDIATE CONSUMPTION (including taxes)	63.1	1.6	-12.7	21.0	12.6	51.5
Of which:						
Net purchases	*38.4*	*1.9*	*-16.0*	*33.0*	*23.4*	*72.8*
Other operating costs	*24.2*	*3.8*	*-9.1*	*8.0*	*3.7*	*22.6*
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	36.9	4.7	-12.7	11.7	10.5	18.8
3 Personnel costs	26.1	6.2	-5.1	2.9	2.1	6.4
S.2 GROSS OPERATING PROFIT [S.1 – 3]	10.8	2.0	-26.9	25.4	24.6	35.1
4 Financial revenue	4.0	9.2	-14.5	15.1	-9.2	51.1
5 Financial costs	2.2	-2.0	-3.1	-5.0	-7.0	14.3
6 Net depreciation, impairment and operating provisions	6.2	2.4	2.2	-3.7	-5.3	3.9
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	6.4	5.6	-42.4	64.3	88.0	84.6
7 Gains (losses) from disposals and impairment	-1.7	-69.9	—	—	—	104.6
7' As a percentage of GVA (7 / S.1)		1.5	-4.5	11.7	3.5	5.6
8 Changes in fair value and other gains (losses)	-0.7	6.5	3.6	-89.3	26.9	-17.2
8' As a percentage of GVA (8 / S.1)		-1.6	-1.8	-6.0	-2.4	-4.4
9 Corporate income tax	1.0	-6.5	-36.0	130.6	141.0	42.1
S.4 NET PROFIT [S.3 + 7 + 8 – 9]	3.0	-7.2	-68.2	—	—	120.0
S. 4' As a percentage of GVA (S.4 / S.1)		21.9	8.2	33.0	16.6	28.4
RATES OF RETURN	Formulae (b)					
R.1 Return on assets (before taxes)	(S.3 + 5.1) / NA	5.8	3.9	4.6	2.4	3.6
R.2 Interest on borrowed funds / interest-bearing borrowing	5.1 / IBB	2.2	2.0	1.7	1.6	1.6
R.3 Ordinary return on equity (before taxes)	S.3 / E	7.9	5.1	7.0	3.1	5.4
R.4 ROA – cost of debt (R.1 – R.2)	R.1 – R.2	3.6	1.9	3.0	0.9	2.1

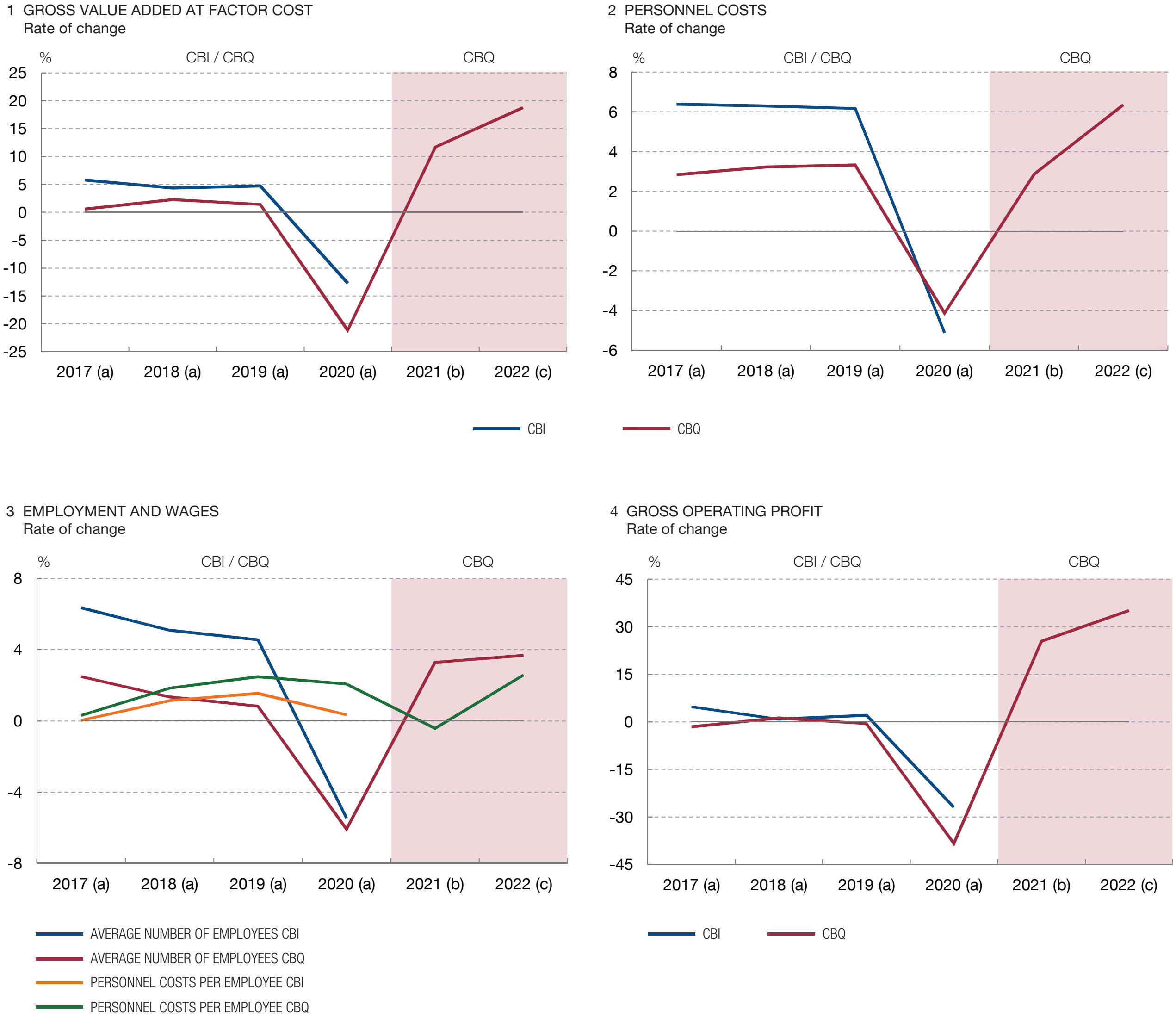
SOURCE: Banco de España.
NOTE: In calculating rates, internal accounting movements have been edited out of items 4, 5, 7 and 8.

a All the data in this column have been calculated as the weighted average of the quarterly data.
b NA = Net assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include the portion of financial costs that is interest on borrowed funds (5.1).

Chart 1

ACTIVITY, EARNINGS AND EMPLOYMENT CONTINUED TO RISE IN 2022 H1

GVA, GOP and employment increased between January and June 2022, prolonging the trend of recovery reported in 2021. Average compensation also rose somewhat in the sample as a whole.



SOURCE: Banco de España.

a 2017, 2018, 2019 and 2020 data, drawing on CBI firms, and average for the four quarters of each year compared with the previous year (CBQ).
b Average for the four quarters of 2021 relative to the same period in 2020.
c Data to 2022 Q2 relative to the same period in 2021.

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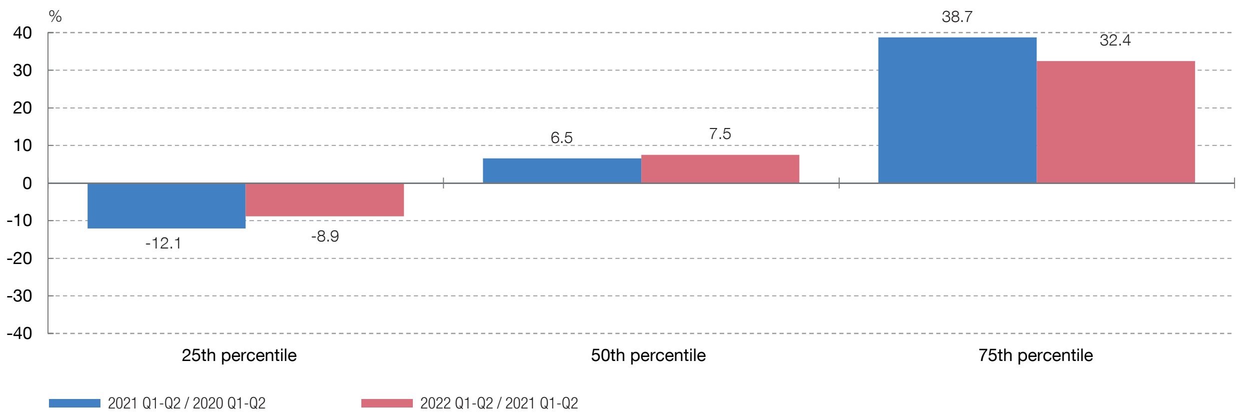
In a similar vein, Chart 2 shows that both the 25th percentile of the GVA growth distribution and the median growth rate stood, in 2022 H1, above the levels recorded a year earlier. The top quartile of the distribution, comprising the firms that reported larger increases in GVA, saw very high increases in 2022 (albeit somewhat lower than those of 2021, which were exceptionally high as a result of the strong recovery

Chart 2

GVA PERFORMED MORE FAVOURABLY IN 2022 H1, IN THE MEDIAN AND IN THE BOTTOM QUARTILE OF THE DISTRIBUTION, COMPARED WITH A YEAR EARLIER

In 2022 H1, the median year-on-year growth rate of GVA stood at 7.5%, compared with 6.5% in the same period of 2021. In the top quartile of the distribution the rate was high, but somewhat lower than in 2021, when many firms recorded very high growth following the sharp fall posted in 2020.



SOURCE: Banco de España.

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experienced in this period by some firms, following the sharp fall posted the previous year against the backdrop of the COVID-19 crisis).

Between January and June 2022 the breakdown by sector shows that most sectors recorded a recovery in GVA. Growth was noteworthy in the industrial (48%) and trade and hospitality (25.4%) sectors, and in the aggregate comprising “other activities” (24.5%) (see Table 2), within which the favourable performance of transport firms stands out. Lastly, in the energy sector, GVA saw a 9.4% decline, attributable mainly to the negative performance of electricity suppliers, which, in many cases, were unable to fully pass the increase in input costs through to their selling prices.[2]

GVA for the CBQ sample as a whole increased sharply and now stands slightly above (1.3%) the figure for 2019 H1 (see Chart 3). The sectoral breakdown shows that the trade and hospitality sector and, above all, industry, clearly exceeded pre-pandemic levels, while the other sectors analysed have not yet regained 2019 levels, although they are gradually approaching them.

2 Electric power companies recorded higher production costs (especially owing to the rising price of gas, an input for combined cycle power plants), which they passed through to their selling prices. Meanwhile, electricity suppliers were unable to do the same vis-à-vis some of their customers (on the free market) as, in such cases, they are bound by long-term fixed-price contracts. This was already discernible in the Q1 data. For further details, see the article "Results of non-financial corporations in 2022 Q1", *Economic Bulletin* 3/2022, Banco de España.

Table 2

GVA AND EMPLOYMENT GREW, ALBEIT UNEVENLY ACROSS SECTORS

	GVA at factor cost				Employees (average for the period)				Personnel costs				Average compensation			
	CBI	CBQ (a)			CBI	CBQ (a)			CBI	CBQ (a)			CBI	CBQ (a)		
Rate of change with respect to the same firms in the previous year (%)	2020	2021 Q1-Q4	2021 Q1-Q2	2022 Q1-Q2	2020	2021 Q1-Q4	2021 Q1-Q2	2022 Q1-Q2	2020	2021 Q1-Q4	2021 Q1-Q2	2022 Q1-Q2	2020	2021 Q1-Q4	2021 Q1-Q2	2022 Q1-Q2
TOTAL	**-12.7**	**11.7**	**10.5**	**18.8**	**-5.4**	**3.3**	**2.6**	**3.7**	**-5.1**	**2.9**	**2.1**	**6.4**	**0.3**	**-0.4**	**-0.6**	**2.6**
Size																
Small	-11.0	—	—	—	-5.9	—	—	—	-8.4	—	—	—	-2.6	—	—	—
Medium	-6.3	13.3	13.4	13.8	-4.0	7.8	6.3	7.6	-4.5	5.6	2.1	12.4	-0.5	-2.0	-3.9	4.5
Large	-14.4	11.7	10.5	18.9	-5.4	3.2	2.6	3.6	-3.4	2.8	2.1	6.3	2.2	-0.4	-0.5	2.6
Breakdown by activity																
Energy	-5.9	3.1	0.9	-9.4	-1.7	-0.7	-0.9	0.7	-0.1	1.9	-0.7	3.4	1.7	2.7	0.2	2.6
Industry	-10.8	36.4	57.1	48.0	-3.7	2.4	4.9	1.3	-3.5	2.2	4.9	5.5	0.2	-0.2	0.0	4.2
Trade and hospitality	-17.3	14.3	13.2	25.4	-10.2	5.3	5.0	5.1	-10.6	4.9	4.4	8.5	-0.5	-0.4	-0.6	3.2
Information and communication	-7.1	-3.1	-5.0	-0.2	0.5	2.4	0.4	3.0	0.1	3.8	1.6	4.0	-0.4	1.4	1.2	1.0
Other activities	-13.4	10.8	-1.4	24.5	-3.9	2.8	0.6	4.2	-3.8	1.6	-0.5	7.0	0.1	-1.1	-1.0	2.7

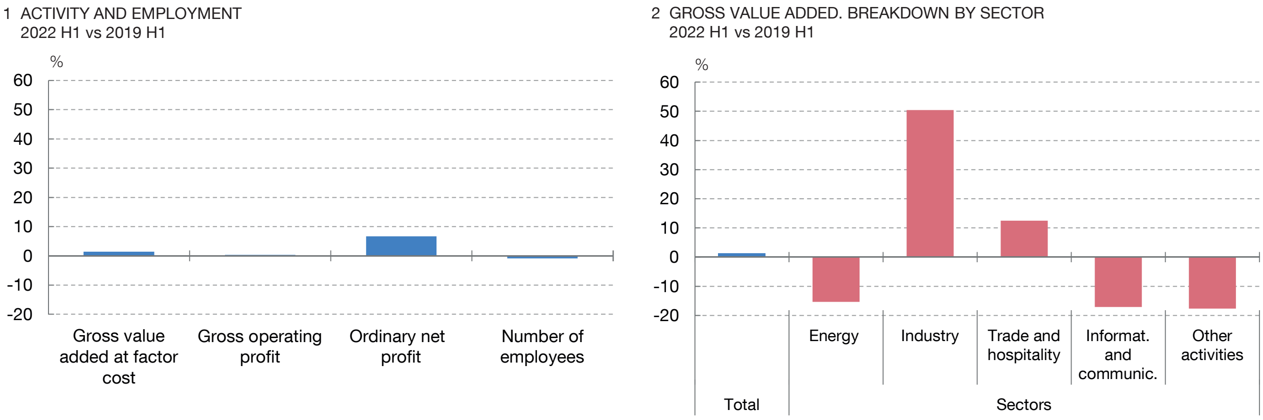
SOURCE: Banco de España.

a All the data in these columns have been calculated as the weighted average of the quarterly data.

Chart 3

FOR THE CBQ SAMPLE TAKEN AS A WHOLE, ORDINARY EARNINGS IN 2022 H1 STOOD AT LEVELS SIMILAR TO OR SOMEWHAT HIGHER THAN PRE-COVID-19 LEVELS

As a result of business activity growth in 2022 H1, earnings (GVA, GOP and ONP) already stand at similar or even higher levels than those recorded in the same period of 2019. Employment is already also very close to pre-pandemic levels, but still remains slightly below. In the case of GVA, the sectoral breakdown shows that there is much dispersion. Thus, while certain sectors, such as industry, and trade and hospitality, clearly exceed pre-COVID-19 levels, the energy, information and communication and "other activities" sectors still remain below.



SOURCE: Banco de España.

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Table 3
THE SHARE OF FIRMS CREATING EMPLOYMENT CONTINUED TO GROW IN JANUARY-JUNE 2022

	CBI (a)		CBQ (b)			
Percentage of firms in specific situations	2019	2020	2020 Q1-Q4	2021 Q1-Q4	2021 Q1-Q2	2022 Q1-Q2
Number of firms	563,874	524,122	940	973	998	920
Personnel costs	100	100	100	100	100	100
Falling	32.3	57.7	51.3	37.1	39.3	27.7
Constant or rising	67.7	42.3	48.7	62.9	60.7	72.3
Average number of employees	100	100	100	100	100	100
Falling	29.4	43.0	51.0	39.2	41.9	33.0
Constant	26.1	24.9	13.3	15.4	15.4	16.6
Rising	44.5	32.1	35.7	45.4	42.7	50.4

SOURCE: Banco de España.

a The calculation of these percentages does not include firms that have no employees in either year.
b Weighted average for the relevant quarters in each column.

Personnel costs rose 6.4% year-on-year in January-June 2022, driven by the increase in the average effective workforce[3] and, to a lesser extent, the rise in compensation, which grew 2.6% (see Table 2). Specifically, average effective employment rose by 3.7% in 2022 H1, compared with the increase of 2.6% a year earlier. Despite this, the average workforce stood slightly below (1.3%) the pre-pandemic levels recorded (see Chart 3). Employment grew only in the permanent staff group (up 5.2%), but declined among temporary workers (down 6.2%), which may be explained both by certain staff reductions and by the impact of the recently approved labour reform, which triggered a move towards permanent employment from employees on temporary contracts. In line with the positive developments in employment, somewhat more than half of the firms (50.4%) increased their effective workforce, 7.7 percentage points (pp) more than a year earlier (see Table 3).

Table 2 shows that the growth in employment was especially concentrated in the services sector. Thus, employment grew by 5.1% in trade and hospitality, 3% in information and communication and 4.2% in the "other activities" aggregate, a figure highly influenced by the good performance of transport firms. The robust growth in employment in these sectors of activity is linked to the gradual lifting of the COVID-19 restrictions, compared with a year earlier, and to the recovery of tourism, which also benefited from the easing of restrictions on movement. The average workforce in energy and industry also increased, albeit more moderately (0.7% and 1.3%, respectively).

3 Average effective workforce means the average number of employees that worked in the period considered, excluding furloughed workers.

Table 4
ORDINARY PROFIT AND RATES OF RETURN INCREASED, ALBEIT UNEVENLY ACROSS SECTORS

	GOP				ONP				Return on assets (R.1)				ROA – cost of debt (R.1 – R.2)			
	CBI	CBQ (a)			CBI	CBQ (a)			CBI	CBQ (a)			CBI	CBQ (a)		
Rates of change with respect to the same firms in the same period of the previous year, % and pp	2020	2021 Q1-Q4	2021 Q1-Q2	2022 Q1-Q2	2020	2021 Q1-Q4	2021 Q1-Q2	2022 Q1-Q2	2020	2021 Q1-Q4	2021 Q1-Q2	2022 Q1-Q2	2020	2021 Q1-Q4	2021 Q1-Q2	2022 Q1-Q2
TOTAL	**-26.9**	**25.4**	**24.6**	**35.1**	**-42.4**	**64.3**	**88.0**	**84.6**	**3.9**	**4.6**	**2.4**	**3.6**	**1.9**	**3.0**	**0.9**	**2.1**
Size																
Small	-18.9	—	—	—	-34.2	—	—	—	2.5	—	—	—	0.6	—	—	—
Medium	-11.2	36.8	54.7	17.0	-21.6	61.6	119.7	22.9	5.3	6.2	5.7	6.9	3.2	4.4	4.1	5.5
Large	-30.8	25.3	24.4	35.3	-45.8	64.3	87.7	85.3	4.3	4.6	2.4	3.6	2.2	3.0	0.9	2.1
Breakdown by activity																
Energy	-8.6	3.6	1.5	-13.7	-11.5	11.8	-0.3	-7.4	5.2	5.3	4.0	2.9	3.2	3.8	2.4	1.8
Industry	-23.2	143.9	—	99.1	-37.4	—	—	179.1	5.0	6.1	5.9	14.6	2.9	3.8	3.8	12.7
Trade and hospitality	-32.8	36.0	38.6	62.9	-48.8	32.2	140.0	141.3	4.3	7.2	4.5	9.6	2.2	5.2	2.7	7.7
Information and comnunication	-15.8	-7.9	-9.7	-3.4	-38.9	-16.7	-12.1	-6.2	6.9	7.5	7.6	7.2	4.7	6.1	6.1	6.0
Other activities	-37.9	91.1	-10.5	183.9	-40.0	5.9	-53.4	177.6	3.2	3.6	0.7	1.3	1.2	2.0	-0.8	-0.4

SOURCE: Banco de España.

a All the data in these columns have been calculated as the weighted average of the quarterly data.

Rates of return, liquidity and debt

In keeping with the recovery in activity, gross operating profit (GOP) grew by 35.1% in 2022 H1. As with GVA, this increase led the quarterly sample's overall GOP to stand at a level similar to the pre-pandemic level (see Chart 3).

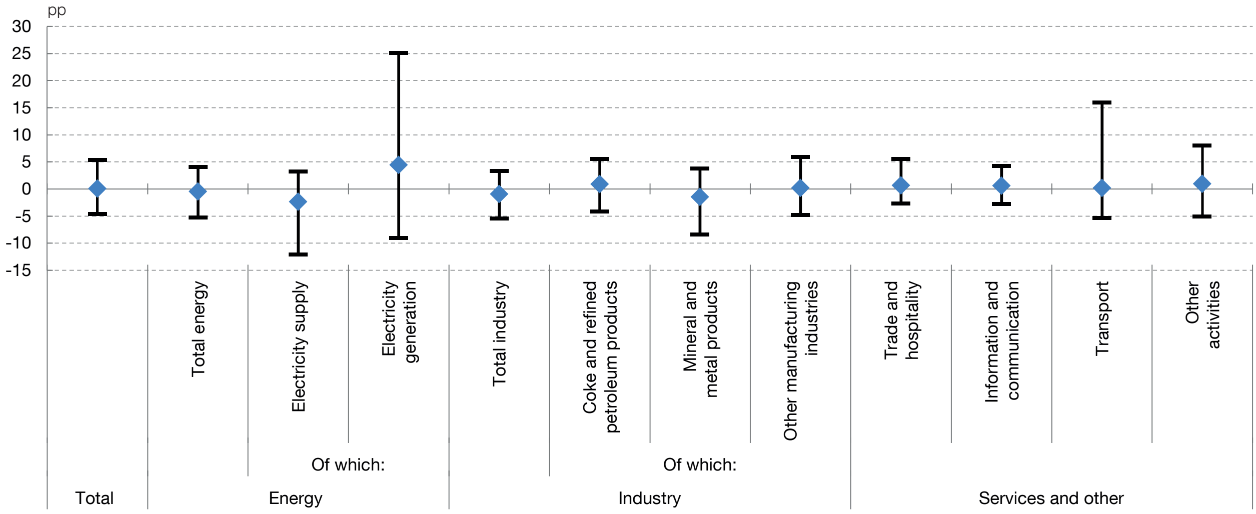
The breakdown by sector shows a mixed performance, with the “other activities” aggregate recording the sharpest increase in GOP (183.9%), largely driven by the strong growth posted by transport firms, which are included in this group (see Table 4). GOP also rose sharply in trade and hospitality (62.9%). In industry GOP almost doubled, highly influenced by the extraordinary growth in the oil refining sub-sector, amid the sharp hikes in crude oil prices that these firms seem to have passed through to their selling prices. Meanwhile, in information and communication, GOP contracted by 3.4%, driven by the gradual downward adjustment of telecommunications firms’ mark-ups. Lastly, the energy sector saw a 11.5% decline, attributable mainly to the negative performance of electricity suppliers, as mentioned above.

Chart 4

MEDIAN PROFIT MARGINS HELD STABLE, ALBEIT WITH MUCH DISPERSION

The median performance of profit margins suggests that they remained largely stable in 2022 for the quarterly sample as a whole, albeit with a high degree of heterogeneity. Part of this heterogeneity is sectoral, meaning that in some sectors, such as electricity supply and the mineral and metal products sector, the median change and much of the distribution stand in negative territory, which points to a predominance of narrowing margins in those sectors, while in others, such as electricity generation and manufacture of coke and refined petroleum products, growing margins predominate.

1 DISTRIBUTION OF CHANGE IN THE PROFIT MARGIN IN 2022 H1 VS 2021 H1. BREAKDOWN BY SECTOR (a)



SOURCE: Banco de España.

a Profit margin calculated as the ratio of GOP to net turnover.

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The positive performance of GOP, amid a sharp increase in production costs, reflects both the recovery in activity and the extent to which many firms have been able to pass the cost increase through to their selling prices. This is seen when analysing the changes in profit margins (defined as the ratio of GOP to sales), which declined by a mere 0.2 pp between 2021 H1 and 2022 H1 for the quarterly sample as a whole. The median of this indicator, which reflects the situation of the average firm, also shows a very stable performance of margins during the same period (see Chart 4). However, there was high sectoral heterogeneity. In particular, in some sectors (such as electricity supply and the mineral and metal products sector) the median change and much of the distribution stand in negative territory, which indicates the predominance of narrowing margins in those sectors, while in others, such as electricity generation and, to a lesser extent, manufacture of coke and refined petroleum products, growing margins predominate. In any event, notable dispersion is evident within each sector, suggesting, therefore, that the different performance of profit margins is not only explained by the sector of activity, but also by other factors.[4]

4 For more details, see Box 1 “Profit margins in Spain: recent developments and determinants” of the analytical article “Results of Non-Financial Corporations in 2022 Q1”, *Economic Bulletin* 3/2022, Banco de España.

Table 5

FINANCIAL COSTS GREW IN 2022 H2 OWING TO HIGHER INDEBTEDNESS AND, TO A LESSER EXTENT, THE SLIGHT INCREASE IN THE AVERAGE COST OF OUTSTANDING DEBT

Percentages

	CBI	CBQ	
	2019 / 2020	2021 Q1-Q4 / 2020 Q1-Q4	2022 Q1-Q2 / 2021 Q1-Q2
Change in financial costs	-3.1	-5.0	14.3
A Interest on borrowed funds	-3.0	-2.8	13.6
1 Due to cost (interest rate)	-8.0	-8.8	2.6
2 Due to the amount of interest-bearing debt	5.0	5.9	11.0
B Other financial costs	-0.1	-2.2	0.7

SOURCE: Banco de España.

Financial revenue in 2022 H1 increased by 51.1%, compared with a year earlier. This was as a result of both higher dividends received (which grew 54.7%) and of interest income, which rose by 37.5%. For their part, financial costs grew by 14.3% mainly owing to higher indebtedness and, to a lesser extent, the increase in the average cost of firms' outstanding debt, which rose by a mere 2.6% (see Table 5).

All this led ordinary net profit (ONP)[5] to rise by 84.6% year-on-year in 2022 H1, an increase similar to that recorded a year earlier (88%) (see Table 1 and Chart 5). This sharp rise allowed the CBQ sample's overall ONP to stand 6.7% above its pre-pandemic level.

Extraordinary costs and revenue gave a further boost to net profit as, in contrast to the large losses on financial asset sales in 2021, some capital gains on similar transactions were generated in 2022, albeit for a smaller amount. This led to a 120% increase in final net profit in 2022 H1, to 28.4% as a percentage of GVA, up almost 12 pp on a year earlier (see Table 1).

The growth in ordinary profit resulted in an increase in average profit ratios. Specifically, the return on assets (ROA) increased by somewhat more than 1 pp to 3.6% and the return on equity (ROE) rose to 5.4% compared with 3.1% a year earlier.[6] The median values of these indicators also performed favourably, with ROA increasing by almost 1 pp to 4.7% and a somewhat sharper rise in ROE (up from 5.4% to 6.8%) (see Table 6). The table also shows that, compared with 2021 H1, the distribution of firms by profitability bracket has shifted somewhat towards higher

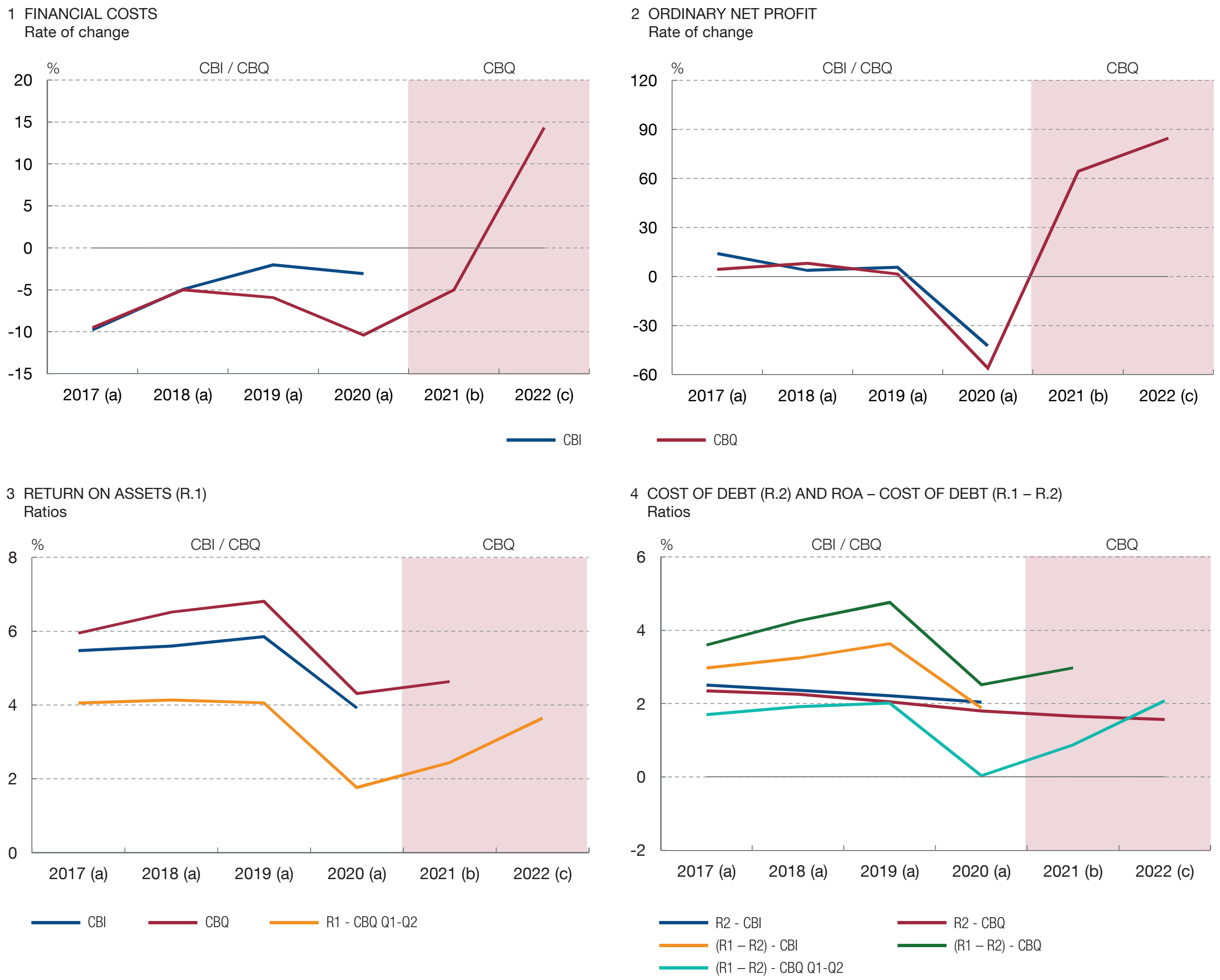
5 ONP equals GOP less financial costs and depreciation and amortisation and operating provisions, plus financial revenue.

6 ROA is defined as (ONP + Financial costs) / Net assets, while ROE is defined as ONP / Equity.

Chart 5

ORDINARY EARNINGS AND RETURNS GREW IN 2022 H1 AND ARE NOW CLOSE TO PRE-PANDEMIC LEVELS

The rise in ordinary profit led to higher average ROA levels in 2022 H1, which were close to, albeit still slightly below, the values recorded in 2019. This development, against a backdrop of little change in the average cost of outstanding debt, allowed the spread between these two ratios to widen.



SOURCE: Banco de España.

a 2017, 2018, 2019 and 2020 data, drawing on CBI firms, and average for the four quarters (CBQ). The rates are calculated relative to the previous year.
b Average for the four quarters of 2021. The rates are calculated relative to the same period of 2020.
c Data to 2022 Q2. The rates are calculated relative to the same period of 2021.

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values. Moreover, Chart 5 suggests that average ROA has continued to move towards pre-pandemic levels, although in 2022 H1 it is still slightly below 2019 levels (0.5 pp lower).

The sectoral breakdown reveals an uneven performance of ROA. Thus, profitability levels rose in the trade and hospitality sector and, in particular, in the industrial sector, to stand at 9.6% and 14.6%, respectively. By contrast, profitability fell by

Table 6

MEDIAN RETURN INCREASED AND THE PERCENTAGE OF FIRMS WITH LOWER PROFITABILITY DECREASED

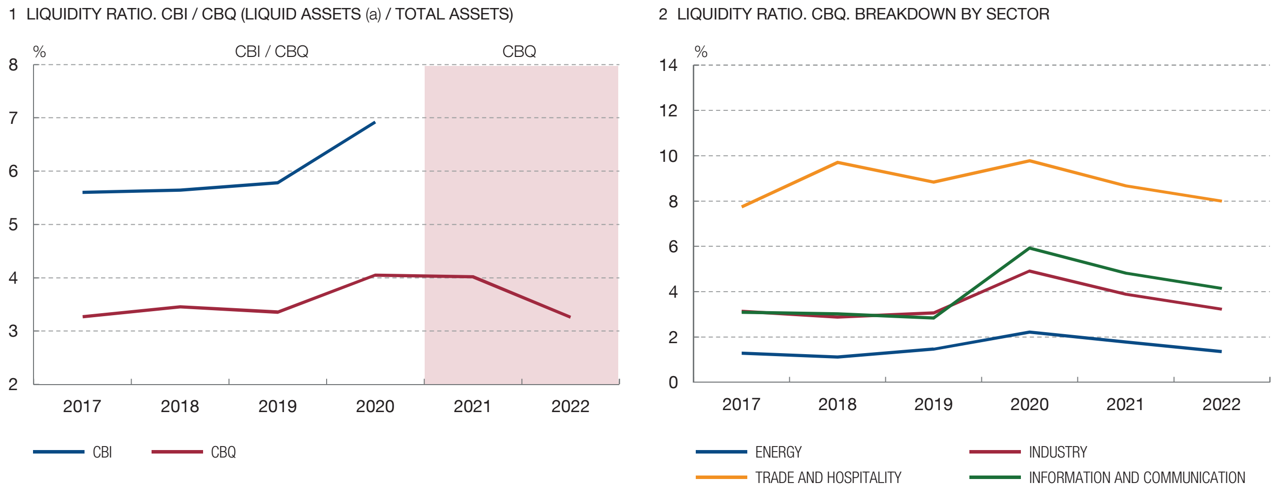
		CBQ			
		Return on assets (R.1)		Ordinary return on equity (R.3)	
		2021 Q1-Q2	2022 Q1-Q2	2021 Q1-Q2	2022 Q1-Q2
Number of firms		998	920	998	920
Percentage of firms by profitability bracket	R <= 0%	29.8	26.9	31.7	29.9
	0% < R <= 5%	24.0	23.8	16.8	16.0
	5% < R <= 10%	12.4	12.2	9.3	9.6
	10% < R <= 15%	8.2	9.1	8.0	8.0
	15% < R	25.6	27.9	34.2	36.4
MEMORANDUM ITEM: Median return (%)		3.8	4.7	5.4	6.8

SOURCE: Banco de España.

Chart 6

FIRMS' LIQUIDITY RATIO DECLINED ACROSS THE BOARD IN 2022 H1

The average liquidity of CBQ sample firms declined between January and June 2022, returning to around 2019 levels. The sectoral breadown shows that this ratio fell across all sectors.



SOURCE: Banco de España.

a Cash on hand and other equivalent liquid assets are considered liquid.

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1.1 pp in the energy sector and by 0.4 pp in the information and communication sector, to 2.9% and 7.2%, respectively (see Table 4).

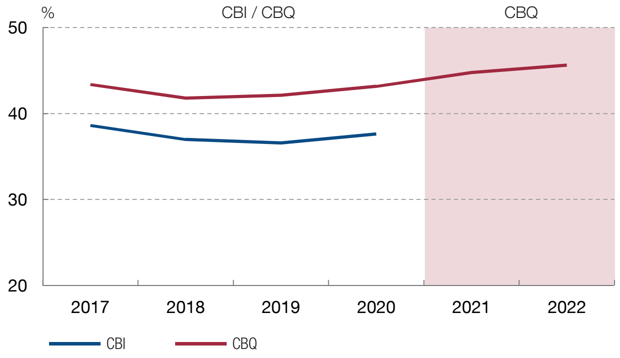
The average cost of outstanding debt held stable at around 1.6%, showing that the rise in market interest rates has not yet significantly affected financial costs in this

Chart 7

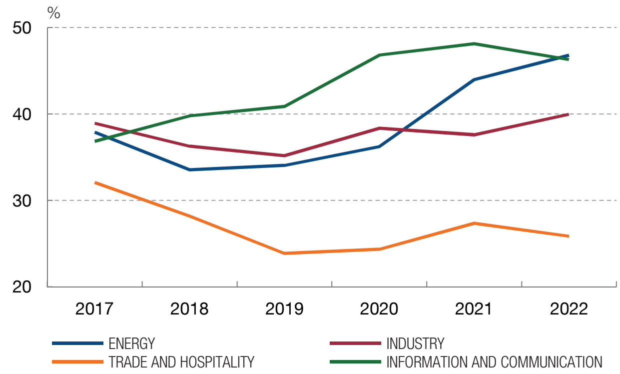
DESPITE THE INCREASE IN DEBT, REPAYMENT CAPACITY IMPROVED DUE TO THE RECOVERY IN PROFIT

In 2022 H1, on average, firms' indebtedness increased as a proportion of net assets. Conversely, it fell relative to ordinary profit, thanks to a rise in the latter. The recovery in earnings allowed the debt burden to fall to levels even somewhat lower than in 2019, despite the increase in financial costs. By sector, energy recorded a sharp rise in the two debt ratios, although the debt burden held stable, whereas in the remaining sectors the changes were consistent with the average performance of the sample.

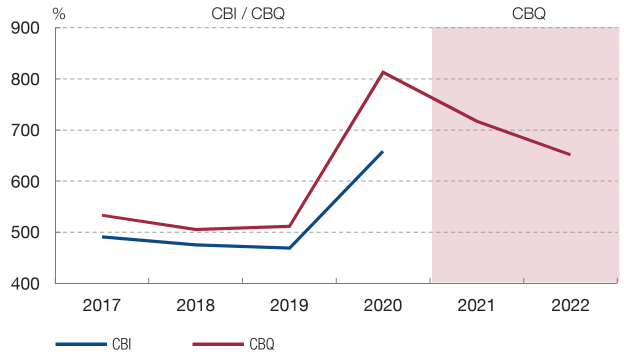
1 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
TOTAL FIRMS
Ratios



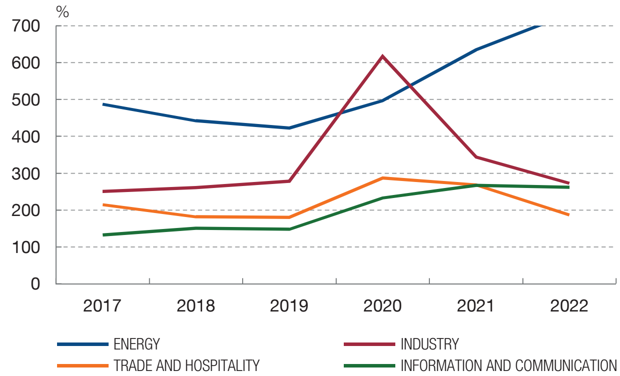
2 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
BREAKDOWN BY SECTOR. CBQ
Ratios



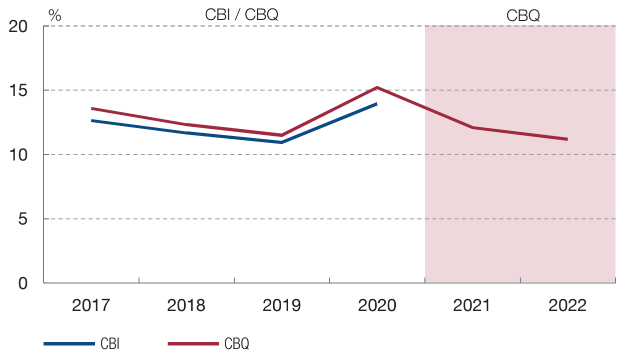
3 E.2. INTEREST-BEARING BORROWING (b) / (GOP + Financial revenue) (c)
TOTAL FIRMS
Ratios



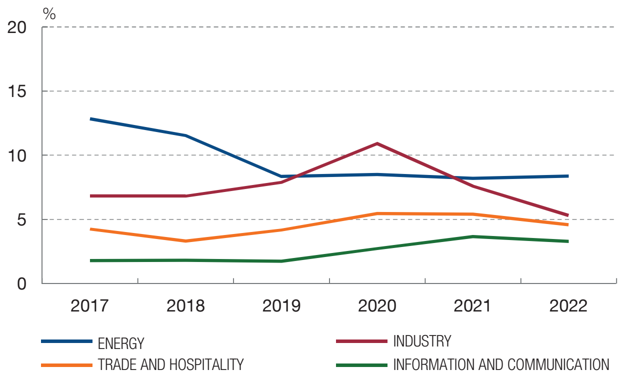
4 E.2. INTEREST-BEARING BORROWING (b) / (GOP + Financial revenue) (c)
BREAKDOWN BY SECTOR. CBQ
Ratios



5 INTEREST BURDEN
TOTAL FIRMS
(Interest on borrowed funds) / (GOP + Financial revenue) (c)



6 INTEREST BURDEN
BREAKDOWN BY SECTOR. CBQ
(Interest on borrowed funds) / (GOP + Financial revenue) (c)



SOURCE: Banco de España.

a Ratio calculated from final balance sheet figures. Equity includes an adjustment to current prices.
b Concept calculated from final balance sheet figures. Includes an adjustment to eliminate intra-group debt (approximation of consolidated debt).
c The expenditure and revenue included in these ratios are calculated on the basis of cumulative four-quarter amounts.

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firm sample. Developments in ROA and borrowing costs led to an increase of just over 1 pp in the spread between these two ratios compared with the previous year, to stand at 2.1 pp.

Firms' average liquidity ratio declined in 2022 H1, returning to around 2019 pre-pandemic levels (see Chart 6.1). Chart 6.2, which provides a sectoral breakdown, shows that this ratio decreased across all sectors.

Lastly, in June 2022 the debt of CBQ firms stood 3.7% above the end-2021 level. As a result, the average debt-to-net asset ratio grew by 0.8 pp to 45.6% (see Chart 7). The sectoral breakdown shows that this ratio increased in the energy sector and in industry, while it decreased in the trade and hospitality sector and in information and communication. By contrast, the ratio of debt to ordinary profit (with the latter obtained as the sum of GOP and financial revenue) declined, helped by the rise in ordinary profit, to stand at 651% (66 pp down on a year earlier, albeit still above 2019 levels). The breakdown by sector shows it fell in most sectors, with the exception of the energy sector, where the joint effect of the increase in debt and the drop in ordinary profit continued to drive up this indicator to its highest level since the beginning of the quarterly series (in 1994). Lastly, the interest coverage ratio continued to decline in 2022 H1 (albeit at a slower pace than in the previous year) since, despite the growth in ordinary profit, interest payments also grew, albeit to a lesser extent. This put the ratio at 11.2%, slightly below the level in 2019 and down almost 1 pp on 2021. The sectoral breakdown of this last ratio shows it declined or held stable across all sectors.

22.9.2022.

Box 1

RECENT DEVELOPMENTS IN FIRMS' FINANCIAL VULNERABILITY ACCORDING TO THE CBQ

The COVID-19 crisis triggered a sharp drop in business activity in 2020, with many companies seeing their profits and net worth take a marked turn for the worse. The recovery in activity in 2021 and in 2022 to date, which was particularly strong in the sectors most affected by the pandemic, has contributed to improving firms' economic and financial position. However, the sharp rise in commodity prices, including in energy commodities, that began in 2021 H2 may have acted in the opposite direction, particularly for the firms most exposed to these developments.

Drawing on Central Balance Sheet Data Office Quarterly Survey (CBQ) data, this box analyses how these economic and financial indicators have changed between 2019 and 2022 for four groups of firms, constructed on the basis of the

Chart 1
MEDIAN ROA. H1. Breakdown by sector (a) (b)

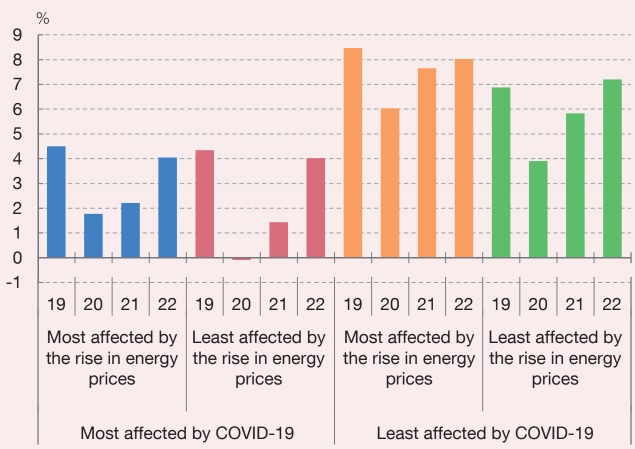


Chart 2
MEDIAN RATIO OF NET DEBT / (GOP + FINANCIAL REVENUE). H1. Breakdown by sector (a)

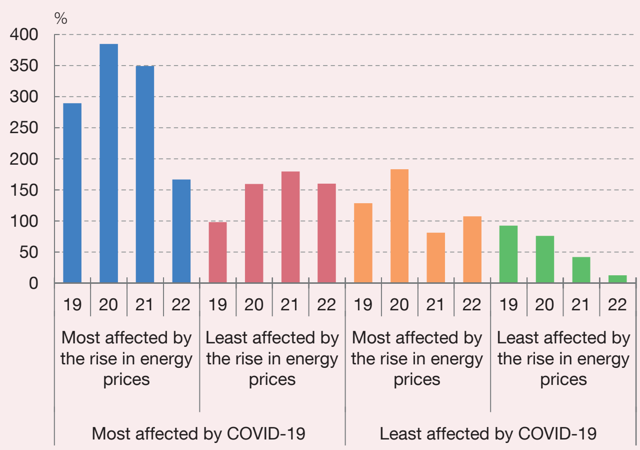


Chart 3
PERCENTAGE OF FIRMS WITH NEGATIVE ROA. H1. Breakdown by sector (a) (b)

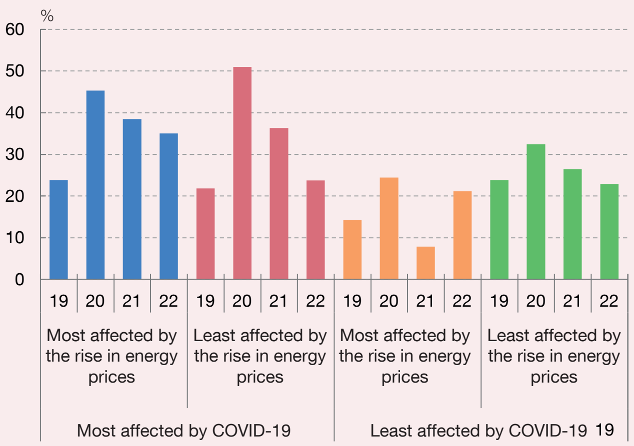
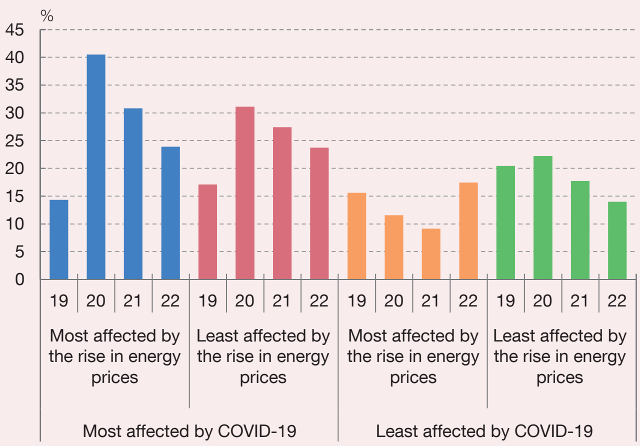


Chart 4
PERCENTAGE OF VULNERABLE FIRMS ACCORDING TO THE RATIO OF NET DEBT / (GOP + FINANCIAL REVENUE). H1. Breakdown by sector (a) (c)



SOURCE: Banco de España.

a Holding companies, head offices and firms in the manufacture of coke and refined petroleum products, mining and quarrying and energy supply sectors are excluded. The sectors most affected by the COVID-19 crisis are defined as those whose sales fell by more than 15% in 2020. The sectors most affected by the rise in energy prices include transportation, mining and quarrying, basic metals, chemical products and non-metallic mineral products, plastic and fishing. The data for 2022 have been chain-linked based on the variation recorded for the firm sample during that period.
b ROA is defined as the ratio of (Ordinary net profit + Financial costs) / Assets net of non-interest-bearing liabilities.
c Firms are defined as vulnerable if their Net financial debt / (GOP + Financial revenue) ratio is greater than 10 or if they have positive net financial debt and zero or negative earnings.

degree to which they have been affected by the COVID-19 crisis and their exposure to the rise in energy costs.[1, 2]

Chart 1 shows that, after the sharp drop in 2020 prompted by the COVID-19 crisis, firms' median return on assets (ROA) increased across the board from 2021, in line with the gradual recovery in activity. This improvement has been particularly marked in the first two groups, which comprise the firms most affected by COVID-19, although the recovery in profitability appears to have been somewhat more moderate in those firms that are also comparatively more exposed to the rise in energy costs. In both cases, median profitability in 2022 would have stood at around 4%, close to pre-pandemic levels. In the firms least affected by COVID-19, which had higher profitability levels at the outset in 2019, the decline in 2020 was proportionally lower. However, the subsequent recovery appears to have been weaker, as these firms would have benefited less from the lifting of the mobility restrictions. In any event, this improvement was sufficient for the sectors least affected by both the COVID-19 crisis and the energy crisis to reach slightly higher median profitability levels in 2022 than before the pandemic (7.2%). Conversely, the group of firms most affected by the energy crisis within the firms least affected by the pandemic, which includes some manufacturing sectors,[3] saw a more modest increase in median profitability in 2022 (of just 0.4 pp, to stand at 8%).

An improvement can also be seen in recent years in the median debt-to-earnings ratio (which proxies firms' ability to service their debt with the funds generated), which has been moving on a downward trend since 2021 after rising sharply in 2020 (see Chart 2). The only exception to this trend is the group comprising firms largely unaffected by the economic consequences of the pandemic, but highly exposed to the rise in energy costs. These firms have seen an increase in their median debt ratio in 2022 to 106.9%, which, nevertheless, is still lower than that recorded in the two groups of firms most affected by COVID-19.

In order to complement the previous analysis based on the median of the distribution of the indicators, which proxies the situation for the average firm, Charts 3 and 4 examine how the proportion of firms that are most vulnerable (defined as those whose profitability and indebtedness indicators lie, respectively, above and below certain thresholds) has changed.[4] The findings of this exercise are similar to those obtained above by analysing changes in the median. Thus, the percentage of firms with negative profitability increased across all sectors in 2020 in the wake of the COVID-19 crisis. The proportion of firms with a high debt ratio also rose in almost all cases. This deterioration was particularly acute among firms in the sectors most affected by this crisis. Based on the two indicators analysed, the proportion of vulnerable firms saw a decline in 2021, which was generally sharper in the group of those hardest hit by the economic fallout of the pandemic. This positive trend continued during 2022 H1, with the percentage of vulnerable firms decreasing in almost all of the groups analysed, including the sectors most affected by both the COVID-19 and the energy crises (red bars), which continued to improve despite higher production costs. This suggests that the recovery in activity in these sectors prompted by the lifting of the mobility restrictions is at least partially offsetting the negative effects stemming from the energy crisis.

Conversely, the group of firms largely unaffected by the economic fallout of the pandemic but highly exposed to the increase in energy prices saw a rise in the proportion of economically and financially vulnerable firms in 2022 H1. In the case of the indebtedness-based indicator, this proportion stands at 17% (8 pp more than a year earlier). This suggests that some of these firms are being negatively affected by the energy crisis. However, it should be borne in mind that this group had the lowest proportion of vulnerable firms in 2021 and that, even after the increase, the proportion would still be low compared with the other groups.

1 The sectors most affected by the COVID-19 crisis are defined as those where sales fell by more than 15% in 2020. The sectors most affected by the rise in energy costs are defined as those where a 22% increase in energy prices drives up production costs by more than 1.9% (see Chart 3.17 of the Banco de España *Annual Report 2021,* published in May 2022). Holding companies and head offices are excluded. Energy utilities and refining companies are also excluded as, given that energy is their core business activity, including them could distort the results of the analysis.

2 These results should be taken with caution, as some of the groups analysed comprise a small number of firms.

3 This group includes manufacturers of wood and cork products, chemicals and chemical products, rubber and plastic products and other non-metallic mineral products, and the basic metals industry.

4 Firms are defined as most vulnerable, based on profitability, when this indicator is negative. In terms of the ratio of Net financial debt / (Gross operating profit (GOP) + Financial revenue), firms are defined as vulnerable when they are highly indebted, i.e. when this ratio is higher than 10 or if they have positive net financial debt and zero or negative earnings.