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Results of non-financial corporations to 2018 Q4: preliminary year-end data

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Abstract

The activity of non-financial corporations remained on an upward trend in 2018, leading to overall increases in ordinary profit (ordinary net profit grew by 5%, up 0.3 pp from 2017) and employment, which were also seen in most sectors and firms. As a result of the good corporate earnings performance, average rates of return continued to improve, and the spread over the cost of borrowing widened further. Extraordinary revenue and costs had a positive impact on net profit in 2018, resulting in strong net profit growth. Average debt ratios, relative to assets and ordinary profit, fell. Lastly, the debt burden ratio also declined, driven by the lower cost of borrowing and the growth in surpluses. A box analysing the recent developments in trade credit and average payment and collection periods is included in this article.

Keywords: activity, operating profit, financial situation, non-financial corporations.

JEL codes: L25, M21, M41.

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2018 Q4: PRELIMINARY YEAR-END DATA

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Overview[1]

The data collected by the Central Balance Sheet Data Office Quarterly Survey (CBQ) shows that firms' activity continued to expand in 2018, their gross value added (GVA) growing by 3.3%, in nominal terms, as compared with 0.5% in 2017. However, the strength of this acceleration was affected by the behaviour of certain sectors that are overrepresented in the quarterly sample. Thus, the reweighted rate, calculated by applying to each sector its actual weight in the non-financial corporations sector as a whole, shows stronger GVA growth in 2017 (2.5%)[2] and a very similar rate in 2018 (3.2%). This increase occurred against a background of more buoyant domestic demand, so that purchases and sales in Spain, as a percentage of total purchases and sales, respectively, were both higher than in 2017.

Employment grew by 1.5% in 2018, almost one percentage point (pp) less than in 2017 (2.4%). This increase in the number of employees was mainly driven by the growth in permanent staff, of 1.9%.

The increased buoyancy of activity led to growth in gross operating profit (GOP) of 3.5%. This, along with the decline in financial costs, driven by the fall in interest rates, led to an increase in ordinary net profit (ONP) of 5% in 2018, as compared with 4.7% in 2017. Extraordinary income and expenses had a very positive impact on the profit for the year, which was twice as high as in 2017. As a percentage of GVA, net profit stood at 48.8%, almost 25 pp higher than in 2017. This exceptional increase was basically linked to the behaviour of extraordinary costs and revenue.

The growth in ordinary profit led to an increase in the average profit ratios. Also, the average cost of borrowing continued to decline slightly in 2018, so that the spread between the return on investment and the cost of debt widened again.

As regards firms' financial position, their debt ratios, relative to assets and ordinary profit, fell in 2018. Also, the debt burden ratio remained on the downtrend of recent years, with the help of the lower borrowing costs and the growth in ordinary profit (the denominator).

In short, this information shows that the economic and financial situation of the firms making up the CBQ sample strengthened in 2018.

Activity

GVA growth picked up to 3.3% in 2018, from 0.5% in 2017 (see Table 1 and Chart 1). However, the extent of this acceleration is debatable, given that the GVA growth rate,

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1 This article draws on information on the 960 firms that had reported their 2018 data to the CBQ as of 14 March 2019. The coverage, in terms of GVA, of the non-financial corporations sector as a whole (according to the National Accounts) was 12%.

2 The better performance in 2017 of the re-weighted GVA growth rate relative to the unadjusted rate is explained by the negative growth of the energy sector that year. This sector is overrepresented in the quarterly sample, and therefore the re-weighting (which assigns a relative weight closer to the one that this industry has in the non-financial corporations sector as a whole) reduces the impact of this contraction on the final rate.

BUSINESS ACTIVITY AND EARNINGS WERE EXPANSIONARY IN 2018

TABLE 1

Databases	CBI structure 2017	CBI 2016	CBI 2017	CBQ (a) 2016 Q1-Q4 / 2015 Q1-Q4	CBQ (a) 2017 Q1-Q4 / 2016 Q1-Q4	CBQ (a) 2018 Q1-Q4 / 2017 Q1-Q4
Number of corporations		695,717	542,683	980	991	960
Total national coverage (% of GVA)		50.2	42.7	14.0	13.3	12.0
PROFIT AND LOSS ACCOUNT (rates of change, %)						
1 VALUE OF OUTPUT (including subsidies)	100.0	2.4	6.5	-0.4	6.0	6.2
Of which:						
Net amount of turnover and other operating income	*148.2*	*1.2*	*6.8*	*-3.4*	*7.5*	*7.2*
2 INPUTS (including taxes)	63.8	0.6	7.2	-2.7	8.8	7.6
Of which:						
Net purchases	*41.3*	*0.2*	*8.3*	*-1.0*	*11.2*	*8.5*
Other operating costs	*22.8*	*1.1*	*5.0*	*-2.8*	*4.4*	*4.5*
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	36.2	5.6	5.2	4.2	0.5	3.3
3 Personnel costs	22.9	4.7	5.8	0.8	3.0	3.0
S.2 GROSS OPERATING PROFIT [S.1 – 3]	13.3	7.3	4.2	7.9	-1.8	3.5
4 Financial revenue	3.6	5.8	11.4	1.7	12.2	-1.6
5 Financial costs	2.2	-9.0	-9.7	-12.1	-9.2	-5.2
6 Depreciation, impairment and operating provisions	5.5	1.9	0.1	-0.1	0.6	0.8
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.1	18.3	14.3	19.5	4.7	5.0
7 Gains (losses) from disposals and impairment	-0.9	-	-	-	-	-
7' As a percentage of GVA (7 / S.1)		0.0	-2.4	12.4	-4.1	19.6
8 Changes in fair value and other gains (losses)	-0.5	7.2	32.5	-16.7	59.2	-
8' As a percentage of GVA (8 / S.1)		-1.4	-1.3	-4.6	-1.7	-3.7
9 Corporate income tax	1.5	162.8	-27.2	-	-50.8	-12.8
S.4 NET PROFIT [S.3 + 7 + 8 - 9]	6.2	35.7	-3.8	145.6	-22.0	102.6
S.4' As a percentage of GVA (S.4 / S.1)		14.6	17.2	30.5	23.9	48.8
COST RATIOS AND RATES OF RETURN (%)	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / NA	5.2	5.4	6.0	6.1	6.5
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / IBB	2.8	2.6	2.6	2.3	2.2
R.3 Ordinary return on equity (before taxes)	S.3 / E	6.8	7.3	8.6	9.1	9.9
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	2.3	2.8	3.3	3.7	4.3
MEMORANDUM ITEM: TOTAL SAMPLE RE-WEIGHTED						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]		5.7	5.4	4.8	2.5	3.2
S.2 GROSS OPERATING PROFIT [S.1 – 3]		7.6	5.3	9.7	1.6	2.8

SOURCE: Banco de España.

a All the data in these columns 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).

when re-weighted[3] in accordance with the weight of each sector in the National Accounts, rises to 2.5% in 2017, while changing very little in 2018 (3.2%). Moreover, the median GVA growth rate slowed somewhat, from 3.1% in 2017 to 2.7% in 2018 (see Chart 2). Chart 2

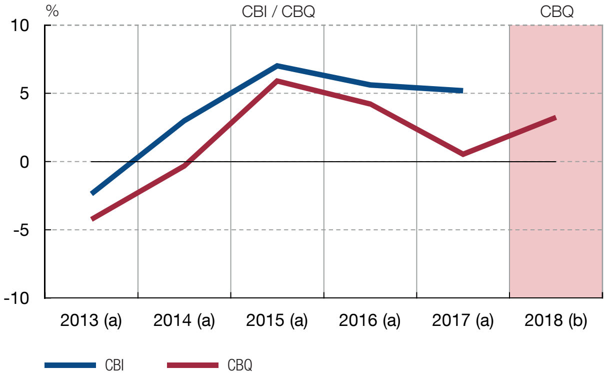
3 The re-weighted figure is obtained by applying, to the aggregate rate of each industry, the weight of such industry in the total non-financial corporations sector, approximated using National Accounts data. For more information, see Box 1, "Re-weighting of GVA and GOP on the basis of the weight of the different sectors in the national economy", in the Analytical Article "Results of non-financial corporations in 2018 Q1" published in the Economic Bulletin 2/2018.

FIRMS' ACTIVITY AND OPERATING PROFIT GREW IN 2018

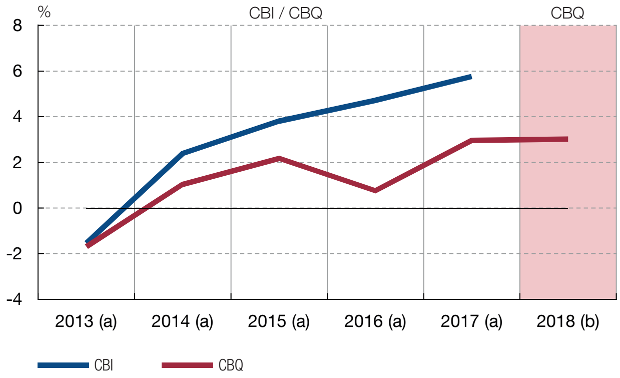
CHART 1

Business activity was expansionary in 2018, prompting increases in ordinary profits and employment. Average compensation increased somewhat.

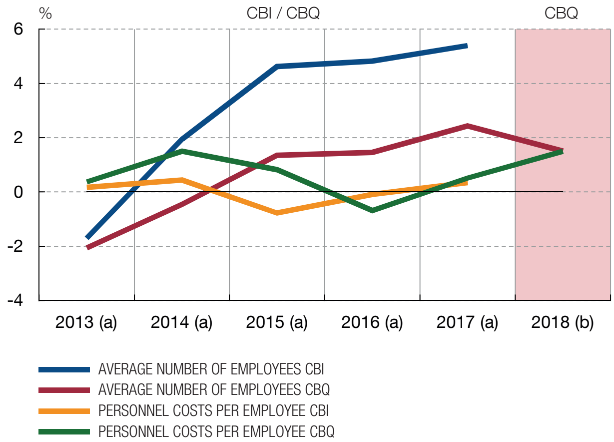
1 GROSS VALUE ADDED AT FACTOR COST
Rate of change



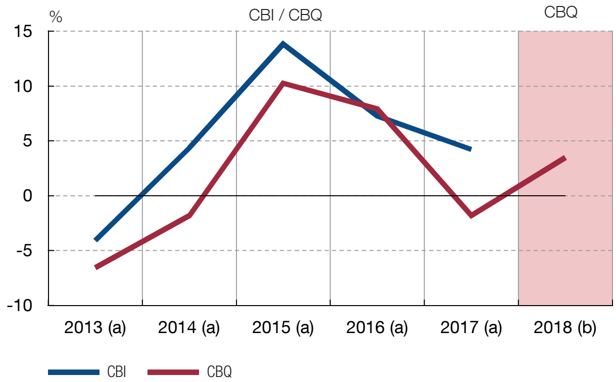
2 PERSONNEL COSTS
Rate of change



3 EMPLOYMENT AND WAGES
Rate of change



4 GROSS OPERATING PROFIT
Rate of change



Reporting non-financial corporations		2013	2014	2015	2016	2017	2018
Number of corporations	CBI	627,102	688,853	711,056	695,717	542,683	—
	CBQ	841	884	982	980	991	960
% of GVA of the sector non-financial corporations	CBI	48.0	49.9	51.2	50.2	42.7	—
	CBQ	11.9	13.4	14.0	14.0	13.3	12.0

SOURCE: Banco de España.

a The 2013, 2014, 2015, 2016 and 2017 data, for the corporations reporting to the CBI, and the average data of the four quarters of each year in relation to the previous year (CBQ).
b Average of the four quarters of 2018 relative to the same period in 2017.

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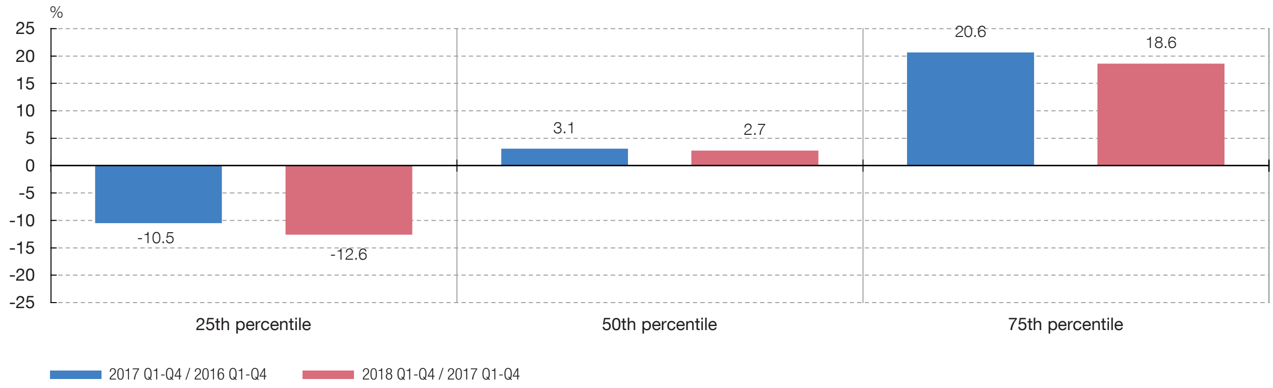
also shows, given the distance between the 25th and 75th percentiles, that there is still a large degree of heterogeneity in the GVA growth rates of CBQ firms.

This growth occurred against a background of continued growth in trading activity, reflected in an increase of 7.2% in turnover. In line with these developments, customer and supplier balances rose, although more moderately than in 2017, while average collection and payment periods declined (see Box 1). In addition, domestic demand grew in 2018 more sharply than external demand, meaning that both sales and purchases in Spain

HIGH DEGREE OF HETEROGENEITY IN GVA GROWTH

CHART 2

The median GVA growth rate reflects a somewhat more moderate performance in 2018 than the aggregate figure suggests.



SOURCE: Banco de España.

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FIRMS' DOMESTIC ACTIVITY GAINS WEIGHT

TABLE 2

		CBA		CBQ (a)	
		2016	2017	2017 Q1-Q4	2018 Q1-Q4a
Total corporations		9,601	9,601	960	960
Corporations reporting source/destination		9,601	9,601	906	906
Percentage of net purchases according to source (structure)	Spain	65.5	65.3	68.5	70.2
	Total abroad	34.5	34.7	31.5	29.8
	EU countries	19.3	20.1	19.4	18.9
	Third countries	15.2	14.6	12.0	10.9
Percentage of net turnover according to destination (structure)	Spain	76.3	76.4	80.1	80.6
	Total abroad	23.7	23.6	19.9	19.4
	EU countries	15.5	15.4	13.2	12.8
	Third countries	8.2	8.2	6.7	6.6
Change in net external demand (exports less imports), rate of change	Industry	4.4	-5.1	3.4	3.2
	Other corporations	24.6	-11.8	-57.0	58.1

SOURCE: Banco de España.

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

gained somewhat in weight relative to total sales and purchases, to stand at 80.6% and 70.2% respectively, as compared with 80.1% and 68.5% in 2017 (see Table 2).

By sector, GVA grew in almost every branch of activity except industry (see Table 3). In particular, there were notable increases in energy (6.7%) and in wholesale and retail trade and accommodation and food services activities (6%), a clear improvement on the declines in 2017. In industry, by contrast, GVA declined by 1.2%. Within this sector, there were notable declines in the refining and chemicals subsectors, of 10.1% and 11.6% respectively. The other industrial subsectors recorded growth, ranging from 2.1% in mineral and metallic products to 5% in transport equipment. Finally, in information and communications, GVA increased by 1.8%, while in the sector aggregating other activities, there was an increase of 2.8%, assisted especially by the sound performance of firms in the transport industry.

GVA AND EMPLOYMENT GROWTH WAS BROAD-BASED

TABLE 3

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)	
Rate of change (%)	2016	2017	2017 Q1-Q4	2018 Q1-Q4	2016	2017	2017 Q1-Q4	2018 Q1-Q4	2016	2017	2017 Q1-Q4	2018 Q1-Q4	2016	2017	2017 Q1-Q4	2018 Q1-Q4
TOTAL	**5.6**	**5.2**	**0.5**	**3.3**	**4.8**	**5.4**	**2.4**	**1.5**	**4.7**	**5.8**	**3.0**	**3.0**	**-0.1**	**0.4**	**0.5**	**1.5**
SIZE																
Small	8.3	8.8	—	—	6.9	6.8	—	—	7.6	8.6	—	—	0.7	1.6	—	—
Medium	6.6	6.8	5.2	5.8	4.5	5.3	4.7	4.4	5.5	7.0	5.4	5.9	1.0	1.6	0.7	1.4
Large	4.3	3.7	0.5	3.2	3.3	4.5	2.4	1.5	3.0	4.2	2.9	3.0	-0.3	-0.2	0.5	1.5
BREAKDOWN BY ACTIVITY																
Energy	-0.9	-5.4	-9.8	6.7	2.1	3.1	2.7	0.8	0.1	3.2	2.5	0.9	-2.0	0.1	-0.2	0.1
Industry	4.9	4.9	4.6	-1.2	3.6	3.6	1.5	0.5	4.4	4.5	3.4	2.9	0.8	0.9	1.9	2.4
Wholesale and retail trade and accommodation & food service activities	8.2	5.6	-0.7	6.0	5.3	5.2	2.3	1.1	5.7	6.3	3.7	4.2	0.5	1.0	1.3	3.1
Information and communications	4.9	3.2	3.0	1.8	3.1	3.2	0.2	2.9	1.9	2.9	-0.6	2.8	-1.1	-0.3	-0.8	-0.1
Other activities	6.0	8.1	5.0	2.8	5.4	6.7	3.4	2.3	5.1	6.9	3.5	3.0	-0.2	0.2	0.2	0.7

SOURCE: Banco de España.

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

EMPLOYMENT GROWTH WAS DRIVEN BY GROWTH IN PERMANENT STAFF

TABLE 4

		Total CBQ corporations 2018 Q1-Q4	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations		960	632	328
NUMBER OF EMPLOYEES				
Initial situation 2017 Q1-Q4 (000s)		901	599	302
2018 Q1-Q4/ 2017 Q1-Q4 (%)		1.5	4.8	-5.0
Permanent	Initial situation 2017 Q1-Q4 (000s)	729	489	240
	2018 Q1-Q4/ 2017 Q1-Q4 (%)	1.9	4.2	-2.8
Non-permanent	Initial situation 2017 Q1-Q4 (000s)	172	110	62
	2018 Q1-Q4/ 2017 Q1-Q4 (%)	-0.1	7.4	-13.4

SOURCE: Banco de España.

Employment and personnel costs

CBQ personnel costs increased by 3% in 2018, as a result of the expansion of workforces and the increase in average compensation. In particular, the average number of workers employed by the sample firms rose by 1.5%, a more moderate rate than in 2017 (2.4%, see Table 3). The increase in employment was mainly driven by the growth in permanent staff (1.9%, see Table 4). In line with Spanish Labour Force Survey data, this growth was higher than in 2017. In contrast, CBQ data show practically zero growth in temporary employment in 2018 (it fell by 0.1%), owing to the impact of the decline in this type of employment at some of the sample firms.

The percentage of firms that created employment was 50.3% in 2018, down slightly from 2017 (50.6%, see Table 5), but still well above the proportion of firms that destroyed jobs (34.2%).

THE PERCENTAGE OF FIRMS CREATING EMPLOYMENT IS STILL WELL ABOVE THE PERCENTAGE DESTROYING JOBS

TABLE 5

Structure (%)	CBI (a) 2015	CBI (a) 2016	CBI (a) 2017	CBQ (b) 2016 Q1 - Q4	CBQ (b) 2017 Q1 - Q4	CBQ (b) 2018 Q1 - Q4
Number of corporations	519,873	508,655	400,772	980	991	960
PERSONNEL COSTS	100	100	100	100	100	100
Falling	39.4	34.4	31.7	38.1	32.6	32.6
Constant or rising	60.6	65.6	68.3	61.9	67.4	67.4
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	30.4	28.6	28.2	37.4	34.3	34.2
Constant	27.3	27.5	27.5	15.4	15.1	15.5
Rising	42.3	43.9	44.3	47.2	50.6	50.3

SOURCE: Banco de España.

a To calculate these percentages, corporations that did not have any staff in 2015, 2016 or 2017 were excluded.
b Weighted average of the relevant quarters for each column.

THE DECLINE IN FINANCIAL COSTS WAS DRIVEN BY LOWER AVERAGE FINANCING COSTS

TABLE 6

Rates of change and contribution (%)	CBI 2017 / 2016	CBQ 2017 Q1-Q4 / 2016 Q1-Q4	CBQ 2018 Q1-Q4 / 2017 Q1-Q4
Change in financial costs	-9.7	-9.2	-5.2
A Interest on borrowed funds	-7.8	-9.3	-5.5
1 Due to the cost (interest rate)	-6.7	-10.3	-7.1
2 Due to the amount of interest-bearing debt	-1.1	1.0	1.6
B Other financial costs	-1.9	0.1	0.3

SOURCE: Banco de España.

By sector, employment growth was seen across all industries, albeit with varying intensity. Thus, the increases in average workforces ranged from 0.5% in industry to 2.9% in information and communications. Employment growth was also notable in the sector encompassing all other activities (2.3%), while both energy and wholesale and retail trade and accommodation and food service activities recorded increases of around 1%.

There was a slight increase in average compensation in 2018, of 1.5%, as against 0.5% in 2017 (see Table 3). This acceleration was basically driven by wholesale and retail trade and accommodation and food service activities and by industry, where these costs increased by 3.1% and 2.4% respectively. By contrast, in the other productive sectors wage increases were more moderate: 0.7% in other activities and practically zero in energy and in information and communications.

Profits, rates of return and debt

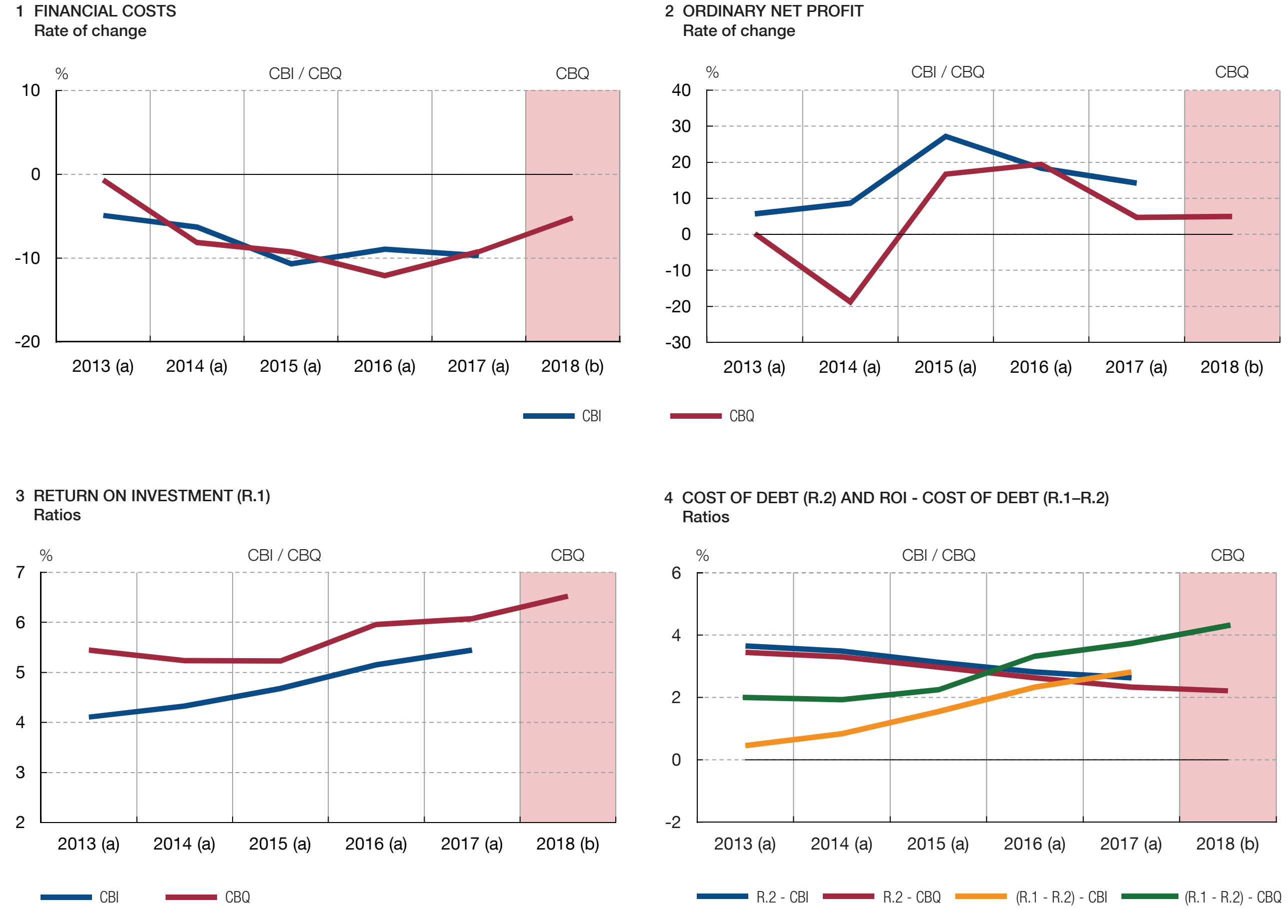
Gross operating profit (GOP) increased by 3.5% in 2018, in contrast to the decline of 1.8% recorded by the quarterly sample in 2017 (see Table 1 and Chart 1). However, as in the case of GVA, the re-weighted GOP growth rates were somewhat more moderate, with increases of 2.8% in 2018 and 1.6% in 2017.

Financial revenue edged down in 2018, by 1.6%, as a consequence of the lower level of interest received, while dividend income was practically unchanged. Financial costs, on

THE INCREASE IN ORDINARY PROFIT RESULTED IN AN INCREASE IN RETURNS

CHART 3

The buoyancy of activity and the ongoing decline in financial costs drove the growth in ordinary profit. This led to growth in returns which, along with the lower average cost of debt, allowed the spread between these two ratios to continue to widen.



Reporting non-financial corporations		2013	2014	2015	2016	2017	2018
Number of corporations	CBI	627,102	688,853	711,056	695,717	542,683	—
	CBQ	841	884	982	980	991	960
% of GVA of the sector non-financial corporations	CBI	48.0	49.9	51.2	50.2	42.7	—
	CBQ	11.9	13.4	14.0	14.0	13.3	12.0

SOURCE: Banco de España.

a The 2013, 2014, 2015, 2016 and 2017 data for the corporations reporting to the CBI and the average data of the four quarters of each year (CBQ). The rates are calculated relative to the previous year.
b Average of the four quarters of 2018. The rates are calculated relative to the same period in 2017.

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the other hand, continued to decline, by 5.2%. This downward trend was driven by lower average financing costs for firms, which were partly offset by slight growth in interest-bearing debt (see Table 6).

Against this background, ONP grew by 5% in 2018 (see Chart 3). Extraordinary costs and revenue, meanwhile, had a very positive impact, mainly due to the existence of certain transactions for the sale of financial assets that generated large gains. As a result, the profit for the year was twice as high as in 2017. As a percentage of GVA, it stood at 48.8% in 2018 (as against 23.9% in 2017).

MEDIAN RETURNS STABILISED OR FELL SLIGHTLY

TABLE 7

		CBQ			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		2017 Q1-Q4	2018 Q1-Q4	2017 Q1-Q4	2018 Q1-Q4
Number of corporations		991	960	991	960
Percentage of corporations by profitability bracket	R <= 0%	23.9	23.7	26.2	26.5
	0% < R <= 5%	22.6	23.3	15.6	16.5
	5% < R <= 10%	15.7	14.4	10.9	10.6
	10% < R <= 15%	10.4	10.4	9.4	9.0
	15% < R	27.4	28.3	37.8	37.4
MEMORANDUM ITEM: Median return (%)		6.0	6.0	8.9	8.4

SOURCE: Banco de España.

UPWARD TREND IN ORDINARY PROFIT AND RETURN ON INVESTMENT

TABLE 8

	Gross operating profit				Ordinary net profit				Return on investment (R.1)				ROI–cost of debt (R.1 – R.2)			
	CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)	
Rates of change (%)	2016	2017	2017 Q1-Q4	2018 Q1-Q4	2016	2017	2017 Q1-Q4	2018 Q1-Q4	2016	2017	2017 Q1-Q4	2018 Q1-Q4	2016	2017	2017 Q1-Q4	2018 Q1-Q4
TOTAL	**7.3**	**4.2**	**-1.8**	**3.5**	**18.3**	**14.3**	**4.7**	**5.0**	**5.2**	**5.4**	**6.1**	**6.5**	**2.3**	**2.8**	**3.7**	**4.3**
SIZE																
Small	10.5	9.5	—	—	19.9	15.2	—	—	3.2	3.4	—	—	0.6	1.0	—	—
Medium	9.4	6.2	4.7	5.7	14.5	7.0	15.3	5.9	7.1	7.0	6.6	7.4	4.2	4.4	4.3	5.2
Large	6.2	2.9	-1.9	3.5	18.3	14.6	4.7	5.0	5.7	6.0	6.1	6.5	2.8	3.3	3.7	4.3
BREAKDOWN BY ACTIVITY																
Energy	-1.4	-9.1	-14.4	9.3	14.4	-2.6	-14.0	6.4	5.4	5.3	5.4	5.1	2.3	2.4	2.8	2.7
Industry	5.7	5.6	6.0	-5.5	12.2	7.9	3.3	-2.3	8.5	8.8	10.0	9.3	5.7	5.9	7.3	6.7
Wholesale & retail trade and accommodation & food service activities	14.4	4.2	-7.2	9.1	27.9	3.7	-6.1	14.4	8.5	8.6	12.5	15.6	5.7	6.0	10.6	13.9
Information and communications	8.3	3.6	5.2	1.2	27.5	5.4	5.8	1.9	11.4	11.9	17.2	16.1	8.6	9.5	15.7	14.8
Other activities	8.4	11.2	7.5	2.4	16.6	33.6	28.3	6.1	3.5	3.9	4.3	5.1	0.7	1.3	2.0	2.9

SOURCE: Banco de España.

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

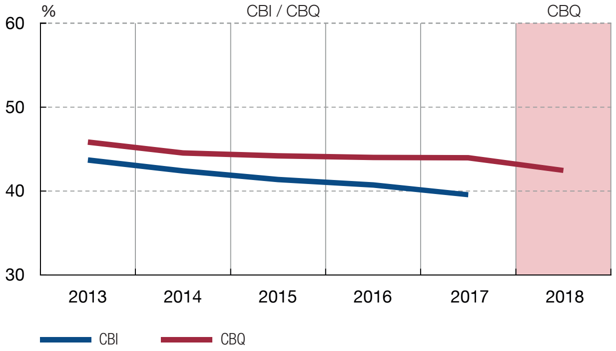
The aggregate rates of return increased in 2018: the return on investment by 0.4 pp and the return on equity by 0.8 pp, to 6.5% and 9.9%, respectively. However, as regards the median values of these indicators, in the case of the return on investment it was steady (at 6%), while in that of the return on equity it edged down 0.5 pp, to 8.4%, (see Table 7). This table also shows the wide dispersion in the quarterly sample, as is evident from the high percentage of firms that continued to record negative values for these indicators in 2018 (almost 24% in the case of the return on investment and more than 26% in the return on equity). The different behaviour of the aggregate and median values of these indicators is explained by the heavy influence of large firms on the aggregate value. On this occasion, the behaviour of the returns of large firms was more positive than that of the returns of the rest of the CBQ firms.

THE DEBT RATIOS AND INTEREST BURDEN DECLINED IN 2018

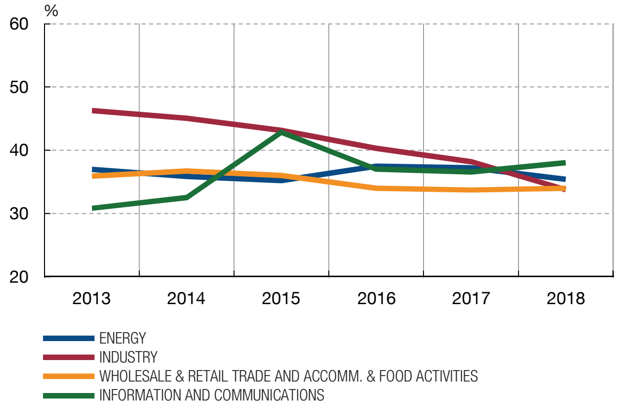
CHART 4

Debt continued to fall in 2018, relative to both assets and ordinary profit. Also, the interest burden continued to decline, with the help of the fall in finnancial costs and the rise in profits.

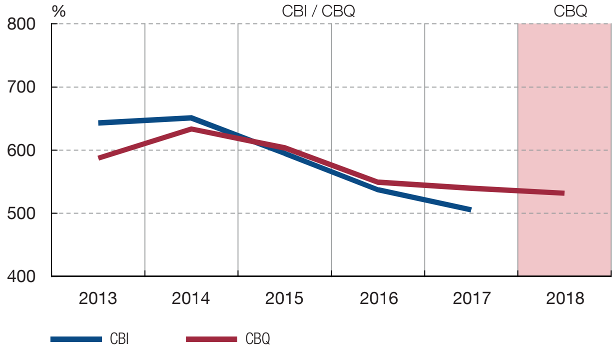
1 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
TOTAL CORPORATIONS
Ratios



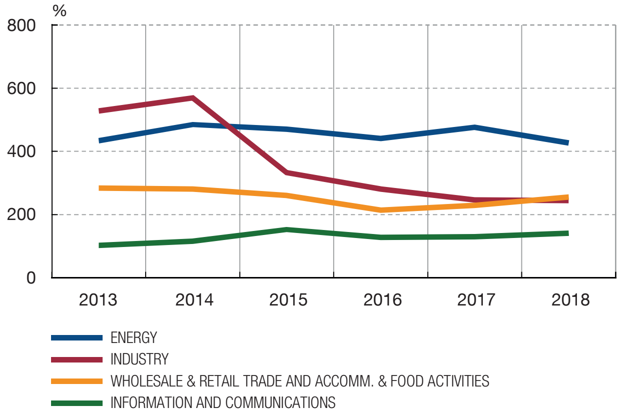
2 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
BREAKDOWN BY SECTOR. CBQ
Ratios



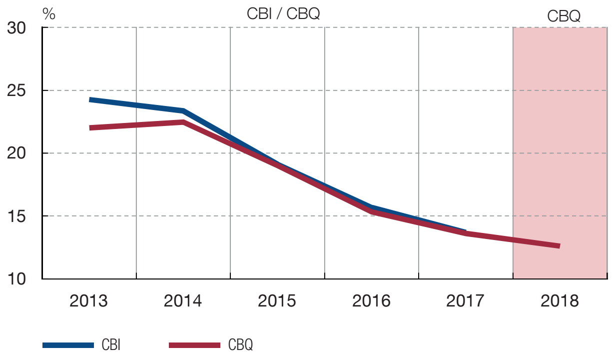
3 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)
TOTAL CORPORATIONS
Ratios



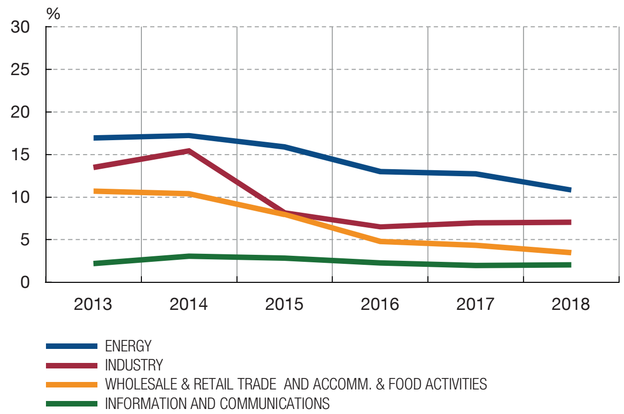
4 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)
BREAKDOWN BY SECTOR. CBQ



5 INTEREST BURDEN
TOTAL CORPORATIONS
(Interest on borrowed funds) / (GOP + FR) (c)



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



SOURCE: Banco de España.

a Ratio calculated from final balance sheet figures. Own funds include an adjustment to current prices.
b Ratio calculated from final balance sheet figures. Interest-bearing borrowing 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 cumulated four-quarter amounts.

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The sectoral breakdown of the aggregate return on investment reveals disparate behaviour in 2018. Declines were recorded in information and communications (of somewhat more than 1 pp, to 16.1%), in industry (of 0.7 pp, to 9.3%) and in energy (of 0.3 pp, to 5.1%), and increases in wholesale and retail trade and accommodation food service activities (returns rose by 3 pp, to 15.6%) and in the sector encompassing all other activities (up 8 pp to 5.1%; see Table 8).

The average cost of borrowing fell by 0.1 pp in 2018, to 2.2%. The increase in the return on investment and the lower cost of borrowing prompted further widening of the spread between the two ratios, to 4.3 pp, up 0.6 pp from 2017.

Lastly, the E1 ratio, which measures debt as a proportion of net assets, fell by 1.5 pp in 2018, to 42.4%. At the sector level, it can be seen that this fall was a result of declines in energy and industry, that were partly offset by mild increases in information and communications and in wholesale and retail trade and accommodation and food service activities (see Chart 4). The E2 ratio, which measures debt as a proportion of ordinary profit (obtained as the sum of GOP and financial revenue) also declined, due to the growth in profit, to stand at 532% (540% in 2017). By sector, this indicator fell in energy and rose slightly in wholesale and retail trade and accommodation and food service activities and in information and communications, remaining practically unchanged in industry. Meanwhile, the ratio that measures the interest burden fell again in 2018, by 1 pp, to 12.6%, as a result of the decline in financial costs and the increase in ordinary profit. The sectoral breakdown shows a downtrend in energy and in wholesale and retail trade and accommodation and food service activities, and relative stability in the other sectors.

26.3.2019.

Trade credit is a form of financing that arises from the deferral of payment or collection in purchase and sale transactions, through which non-financial corporations can raise, in net terms, funds from other firms or grant them financing. This box examines recent developments in trade credit and in indicators that make it possible to calculate approximate average supplier payment and customer collection periods (which measure the number of days that firms take, on average, to pay their suppliers or to collect payment from their customers)[1]. This information can help identify the degree of financial pressure to which firms may be subject, indicating, for example, the existence of possible liquidity problems (if supplier payment periods are extended), or tensions associated with extensions in customer collection periods, when they cannot be offset by increases in other sources of financing. These tensions may influence firms' investment and hiring decisions. The analysis is based on the Central Balance Sheet Date Office's annual (CBA) and quarterly (CBQ) databases.

Charts 1 and 2 show that, according to CBI data, the balances of customers and suppliers were increasingly buoyant in the period 2013-2017, in line with the improvement in the productive activity of non-financial corporations. Specifically, in 2017, SME customer balances quickened, and those of large firms increased, for the first time since 2011, at a similar rate to the group of smaller firms. As regards supplier balances, the increase in 2017 was more pronounced in the case of large firms than in that of small and medium-sized enterprises. The latest data of the CBQ, in which large firms have a significant weight, show that in 2018 growth was again recorded in both balances, albeit at a more moderate rate than in the previous year.

The developments in trade credit were accompanied by a notable reduction, from 2010 to 2016, in average payment and collection periods (of around 16-17 days and 12-13 days, respectively) both in SMEs and large firms (see Chart 3). However, in 2017, the average payment period is estimated to have fallen by just one day, to 64 days at SMEs and 66 days at larger firms, while collection periods remained stable, at 57 days for smaller firms and 46 days in the case of larger firms. On the latest information from the quarterly sample, both ratios are estimated to have resumed a declining path in 2018.

With respect to the average term for net trade finance granted (which indicates the number of days that the firm grants – or receives, if the figure is negative – funds, in net terms, as a result of its trading transactions)[2] it is clear that firms, as a whole, usually grant finance to other companies and institutional sectors. The course of this indicator at SMEs shows that it has remained largely unchanged since 2012, with an average granting period of 18 days in 2017 (see Chart 4). At larger firms, where this ratio evidences much lower values, there was a declining trend which settled in 2017, at an average fund-granting period of only two days. Drawing on information from the CBQ, this trend is estimated to have continued in 2018 (see Chart 4).

Calculating net trade finance at the aggregate level may conceal heterogeneity and, therefore, an analysis of the distributions is useful. The information in Chart 5 shows that although non-financial corporations at the aggregate level grant finance, a significant portion of them obtained funds, in net terms, as a result of their trading transactions. Thus, in terms of weight in sales, around 34% of small- and medium-sized enterprises obtained finance in 2017 (a weight similar to that recorded throughout the period of analysis), while at large firms this proportion is comparatively higher, at 50%, in both 2017 and 2018, according to the CBQ. Lastly, the results in Chart 6 show that from 2010 to 2016, regardless of firm size, there was a decline in the period of net trade finance, both in the group of firms which raise funds in this way (25th percentile) and, more markedly, in those granting finance over lengthier periods (75th percentile), thus reducing the heterogeneity of the sample. The CBQ expects the downward trend to continue in 2018, in the case of the 75th percentile (the level above which 25% of firms granting net trade finance over longer periods are found), with the 25th percentile remaining stable.

To conclude, the evidence presented in this box shows that in 2017 trade finance remained very buoyant, thus continuing the trend observed in previous periods, while more recent data signal a slight slowdown for large firms in 2018. Following a period of gradual decline, the average collection and payment periods stabilised in 2017, and the information drawn from the CBQ suggests that they resumed a downward path in 2018, at least in the case of larger firms. That would be a sign that liquidity tensions have remained moderate.

1 Specifically, the average supplier payment period is calculated as the ratio of the balance of suppliers (net of advances) to annual purchases (plus work performed by other companies and VAT borne by suppliers for domestic transactions). The average customer collection period is calculated in an equivalent fashion (customers, net of advances, over annual sales, plus VAT charged to customers for domestic transactions, multiplied by 365).

2 Specifically, the average period for net trade finance granted is obtained as the difference between the balance of customers (net of advances) and that of suppliers (net of advances), divided by total annual sales plus VAT charged to suppliers for domestic transactions, multiplied by 365.

RECENT DEVELOPMENTS IN TRADE FINANCE RECEIVED AND GRANTED BY NON-FINANCIAL CORPORATIONS (con'd)

BOX 1

Chart 1
GROWTH OF CUSTOMER BALANCE

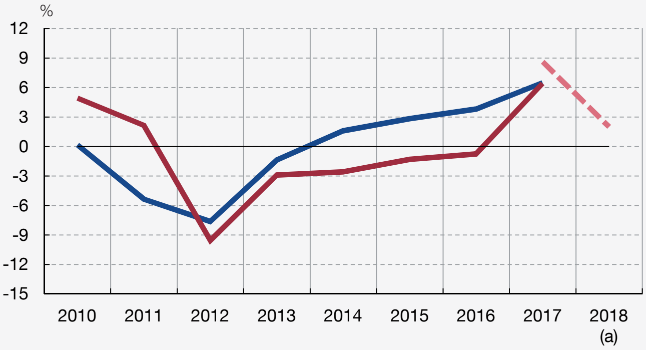


Chart 2
GROWTH OF SUPPLIER BALANCE

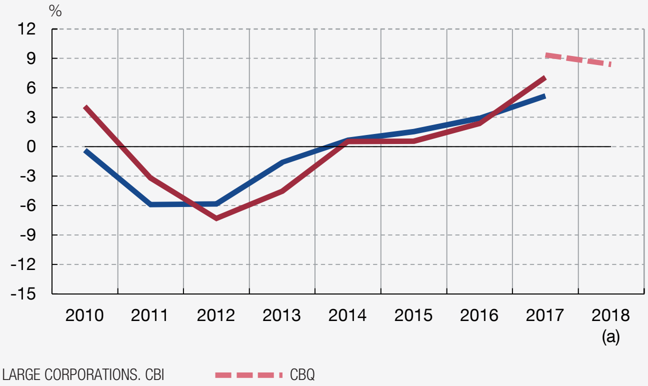


Chart 3
AVERAGE SUPPLIER PAYMENT AND CUSTOMER COLLECTION PERIODS
WEIGHTED AVERAGE (b)

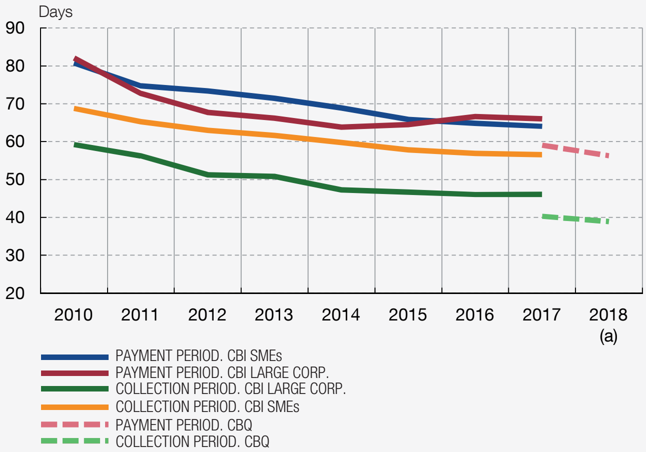


Chart 4
NET TRADE FINANCE. WEIGHTED AVERAGE (c)

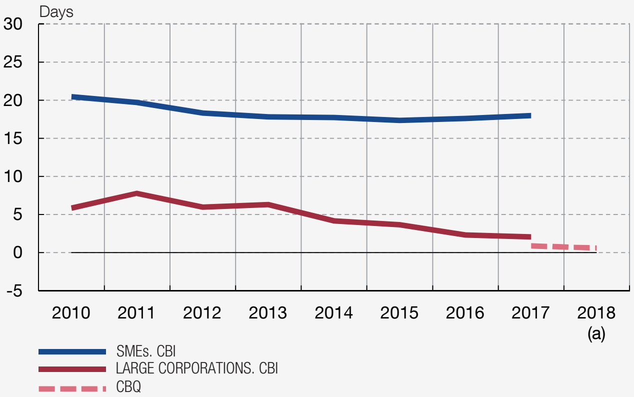


Chart 5
WEIGHT OF SALES DEPENDING ON SIGN OF NET TRADE FINANCE (c)

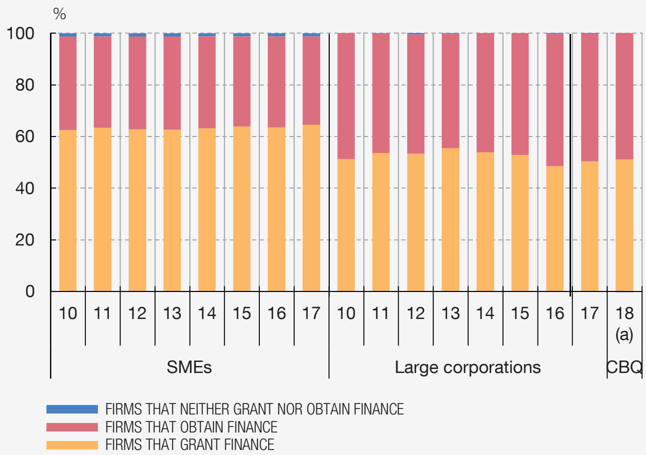
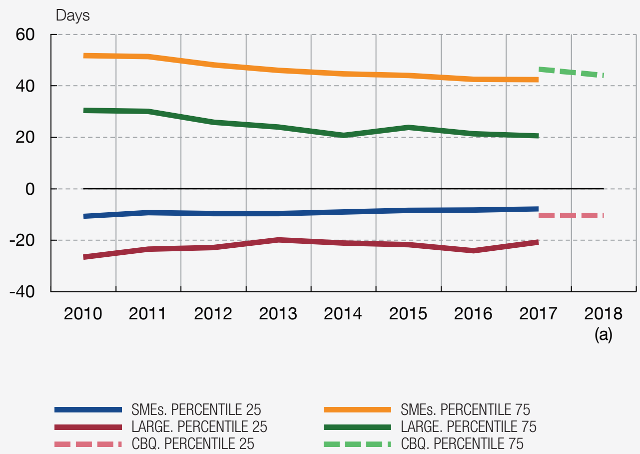


Chart 6
NET TRADE FINANCE. DISTRIBUTION (c)



SOURCE: Banco de España.

a CBQ data. Average of the four quarters of the year. In the case of chart 5, the data are the outcome of adding, to the previous year's figure, the change in the annual average of the weight of sales.
b The supplier payment period is defined as the ratio of suppliers to annual purchases multiplied by 365. The customer collection period is defined as the ratio of customers to annual sales multiplied by 365.
c Defined as the ratio of customers minus suppliers to annual sales multiplied by 365.