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RESULTS OF NON-FINANCIAL CORPORATIONS
IN 2018 AND IN THE FIRST THREE QUARTERS
OF 2019

Álvaro Menéndez and Maristela Mulino

ABSTRACT

According to the annual survey of the Central Balance Sheet Data Office (CBA), the activity of non-financial corporations remained on an upward trend in 2018, although it was a more moderate one than in the preceding year. The quarterly survey (CBQ) suggests that this slowdown intensified in the first nine months of 2019, which translated into smaller increases in ordinary profit and employment than in the previous year. In this connection, the return on ordinary activities, which had increased slightly in 2018, remained relatively stable in the first three quarters of this year. Extraordinary costs and revenues, meanwhile, had a positive impact on the net profit for 2018, but had the opposite effect in the first nine months of 2019. Also a change in trend is observed in the financial position of corporations, insofar as average debt ratios continued to decline in 2018, but rose in the first nine months of 2019. Finally, the debt burden ratio declined in both periods, driven mainly by the ongoing decline – albeit at a slowing pace – in financial costs. This article includes two boxes, the first of which analyses the economic and financial performance of SMEs on the basis of data to 2018. The second box studies the degree of financial vulnerability of the Spanish corporate sector and its sensitivity to a hypothetical deterioration in the macrofinancial scenario.

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

JEL classification: L25, M21, M41.

RESULTS OF NON-FINANCIAL CORPORATIONS IN 2018 AND IN THE FIRST THREE QUARTERS OF 2019

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Overview

The information compiled by the Integrated Central Balance Sheet Data Office Survey (CBI) for 2018 confirms the main features of the dynamics of the Spanish corporate sector already seen in the Quarterly Survey (CBQ)¹. The productive activity of non-financial corporations continued to show an upward trend last year, although a more moderate one than in the previous year. The nominal gross value added (GVA) of this sample grew by 4.1%, clearly below the rate in the previous year (5.7%)². The CBQ confirms that, in the first nine months of 2019, this trend slowdown in activity intensified, so that nominal GVA grew by only 0.5% in this period, as against 3.7% a year earlier.

The upward trend in employment was maintained in 2018, with an increase of 4.4%, and in the first three quarters of 2019, when it grew by 0.6%. However, in both cases, these rates were clearly down from those recorded in 2017 (6.2% and 2%, respectively). In these two periods, employment growth was driven mainly by the rise in the hiring of permanent staff, which increased by 4.9% in 2018 and by 1.1% in the first nine months of this year.

In 2018, financial costs continued to decline, and this, combined with the increase in financial revenue (mainly due to greater dividend receipts), boosted ordinary net profit, which increased by 5.4%. In contrast, in the first nine months of 2019, this variable declined by 1% year-on-year.

For its part, net profit increased by 43.8% in 2018, driven by the behaviour of extraordinary costs and revenue. However, in the first three quarters of this year, these extraordinary

1 See the article "[Results of non-financial corporations to 2018 Q4: preliminary year-end data](#)".

2 This article draws on information on the 537,923 firms comprising the CBI sample for 2018 (although data is still expected to be received from other firms, until the total number reaches around 800,000), and on the 957 firms that had submitted data for the first three quarters of 2019 to the CBQ by 21 November. The CBI sample represents 42.2% of the GVA generated by the entire non-financial corporations sector, while the CBQ represents 12.7% of such GVA. As regards the CBI sample, there is more detailed sectoral information available in the application "[Sectoral aggregates](#)".

items had the opposite effect, leading to a reduction of 44.5% in net profit. Expressed as a percentage of GVA, net profit stood at 20.7% in the first three quarters of 2019, down almost 15 percentage points (pp) from the same period a year earlier.

The higher ordinary profits meant that the average profit ratios continued to increase in 2018. However, in the first three quarters of this year, these ratios stood at similar or slightly lower levels, with the proportion of corporations posting negative returns increasing to 28%. All this in a context in which the average cost of borrowing continued to decline, allowing the spread between the return on assets and this variable to widen slightly.

With regard to the financial position of corporations, the average level of debt continued to decline in 2018, relative to both assets and ordinary profit. As in the case of other indicators discussed above, this dynamic changed in the first nine months of 2019, when both ratios edged up. For its part, the debt burden ratio fell slightly in both periods, due to the growth in ordinary net profit and the decline in the cost of debt.

Activity

According to the CBI, non-financial corporations posted an increase in GVA of 4.1% in 2018 (see Table 1 and Chart 1), somewhat more than one-and-a-half percentage points down from the previous year (5.7%). For the sixth consecutive year, growth was higher among small and medium-sized firms (7.1%) than among the largest firms (2.6%) (see Box 1). According to the CBQ data, this slowdown intensified in the first three quarters of 2019, with GVA increasing in this period by merely 0.5%, as against 3.7% a year earlier. The re-weighted GVA growth rate,³ adjusted to reflect the weights of the sectors in the National Accounts, reveals a similar profile, with an increase of 0.7 % in 2019, as against 3.6 % in the previous year. The median GVA growth rate also decreased, albeit less sharply, from 2.9% in 2018 to 2.3% in the first three quarters of 2019 (see Chart 2). Also, the distance between the 25th and 75th percentiles of the distribution widened, pointing to greater heterogeneity in GVA growth among the sample firms.

Marked heterogeneity across the various sectors is observed in the latest period. In particular, the 9% contraction in GVA in industry is notable (see Table 3). These

³ The re-weighted figure is obtained by applying, to the aggregate rate of each sector, the weight of such sector in the economy, approximated using National Accounts data. For further 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 article “Results of non-financial corporations in 2018 Q1”, *Economic Bulletin*, 2/2018.

Table 1

ACTIVITY SLOWED IN 2018 AND IN JANUARY-SEPTEMBER 2019, WHILE SOME MEASURES OF ORDINARY PROFIT DETERIORATED IN THE LATTER PERIOD

	CBI structure		CBI		CBQ (a)	
	2018	2017	2018	2018 Q1-Q4 / 2017 Q1-Q4	2018 Q1 / 2017 Q1	2019 Q1 / 2018 Q1
Databases						
Number of corporations		757,098	537,923	1,018	1,035	957
Total national coverage (% of GVA)		53.4	42.2	13.8	14.2	12.7
PROFIT AND LOSS ACCOUNT						
1 VALUE OF OUTPUT (including subsidies)	100.0	6.6	5.3	5.2	5.9	0.3
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	152.2	6.9	6.7	6.8	7.6	-1.2
2 INPUTS (including taxes)	64.1	7.2	6.0	6.3	7.0	0.1
<i>Of which:</i>						
<i>Net purchases</i>	40.4	8.0	3.1	6.2	8.8	-1.7
<i>Other operating costs</i>	22.9	5.3	6.0	5.2	6.5	0.8
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	35.9	5.7	4.1	2.8	3.7	0.5
3 Personnel costs	22.8	6.2	5.7	3.3	3.7	2.9
S.2 GROSS OPERATING PROFIT [S.1 – 3]	13.1	4.7	1.5	2.2	3.8	-1.6
4 Financial revenue	4.1	11.5	8.2	12.1	-4.5	8.8
5 Financial costs	2.1	-9.7	-4.2	-4.7	-4.7	-3.0
6 Depreciation, impairment and operating provisions	5.4	1.3	1.8	1.6	1.0	3.4
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.6	14.2	5.4	8.6	5.1	-1.0
7 Gains (losses) from disposals and impairment	1.6	–	–	–	–	–
7' As a percentage of GVA (7 / S.1)		-1.9	4.5	15.4	10.5	-2.7
8 Changes in fair value and other gains (losses)	-0.7	38.8	-91.3	-87.6	–	-64.5
8' As a percentage of GVA (8 / S.1)		-1.1	-2.0	-3.2	-3.4	-5.7
9 Corporate income tax	1.5	-23.1	2.9	-9.3	-11.1	-0.5
S.4 NET PROFIT [S.3 + 7 + 8 – 9]	9.0	1.3	43.8	87.8	52.3	-44.5
S. 4' As a percentage of GVA (S.4 / S.1)		16.7	25.1	44.3	35.1	20.7
RATES OF RETURN						
	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / NA	5.4	5.5	6.5	4.6	4.5
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / IBB	2.5	2.4	2.2	2.2	2.0
R.3 Ordinary return on equity (before taxes)	S.3 / E	7.3	7.4	9.7	6.4	6.4
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	2.9	3.2	4.3	2.4	2.5
MEMORANDUM ITEM: TOTAL SAMPLE RE-WEIGHTED						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]		5.8	4.3	3.2	3.6	0.7
S.2 GROSS OPERATING PROFIT [S.1 – 3]		5.4	1.9	2.5	3.1	-3.0

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.

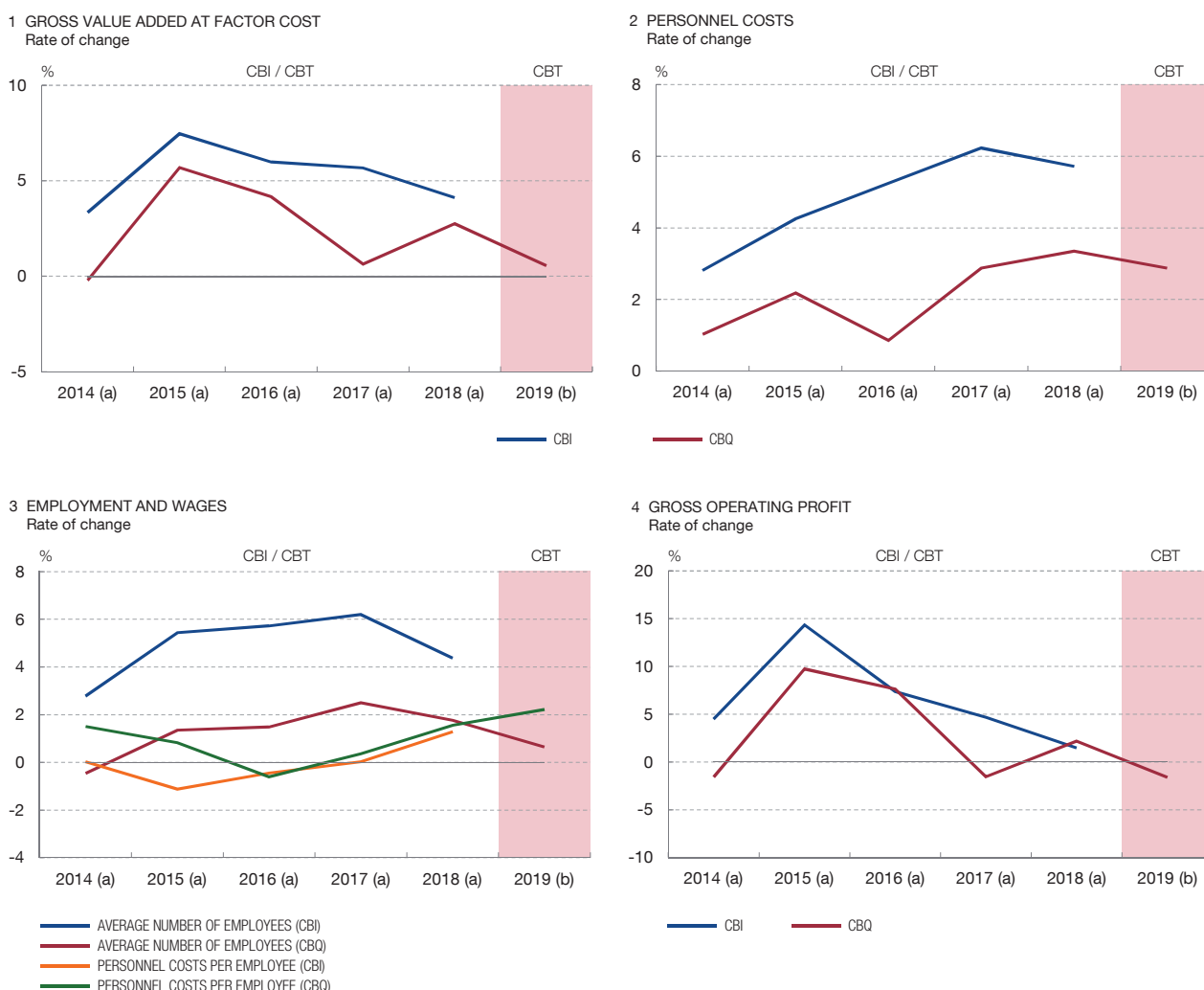
b NA = Net assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include the portion of financial costs that is interest on borrowed funds (5.1).

developments were heavily influenced by the decline in the oil refining sub-sector (35.2%), although significant declines were also recorded in the manufacture of mineral and metal products (19.5%) and of computer and electronic products (18%). The other sectors posted increases in GVA, notably energy, with a rise of 6.6%, up one percentage point from the previous year. Finally, wholesale and retail trade and information and communications recorded more moderate growth, of 1%.

Chart 1

ACTIVITY, EMPLOYMENT AND ORDINARY PROFITS HAVE SLOWED OVER THE LAST TWO YEARS

Business activity decelerated in 2018 and in the first nine months of 2019, with progressively more moderate increases in GVA. Also, employment continued to rise, albeit at a slower rate than in previous years, in the context of a certain pick-up in average compensation.



Reporting non-financial corporations		2014	2015	2016	2017	2018	2019
Number of corporations	CBI	838,497	843,457	844,923	757,098	537,923	—
	CBQ	883	982	982	991	1,018	957
% of GVA of the sector non-financial corporations	CBI	53.5	55.8	56.1	53.4	42	—
	CBQ	14.0	14.6	14.7	14.0	13.0	12.7

SOURCE: Banco de España.

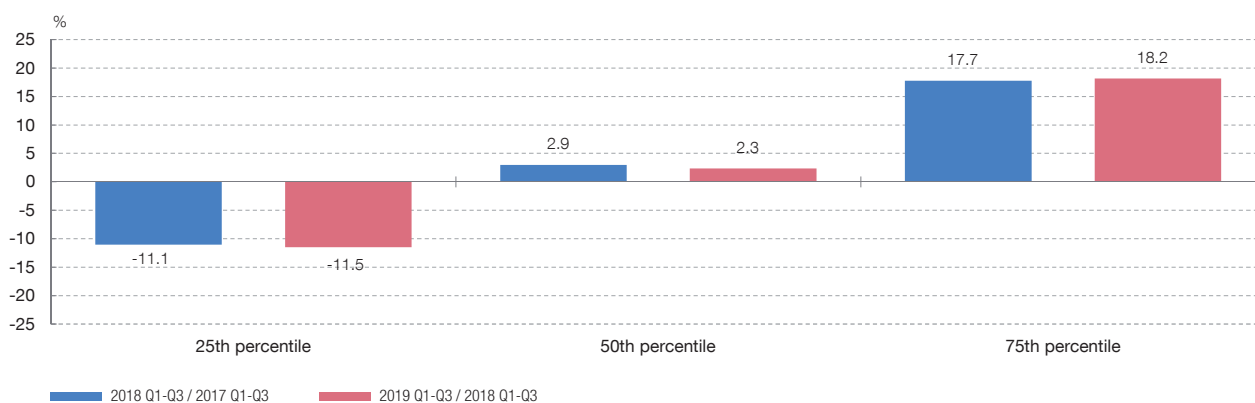
- a The 2014, 2015, 2016 and 2017 data, for the corporations reporting to the CBI, and the average data of the four quarters of each year in relation to the previous year (CBQ).
- b 2019 Q3 data relative to the same period of 2018.



Chart 2

THE SLOWDOWN IN GVA WAS BROADLY BASED

The slowdown in GVA was broadly based so that median growth rates were lower than in the previous year.



SOURCE: Banco de España.



Employment and personnel costs

Personnel costs grew by 5.7% in 2018, according to the CBI. This was a consequence of an increase of 1.3% in average compensation (as compared with no change the previous year) and, above all, an increase of 4.4% in employment (down from 6.2% the previous year) (see Table 3). In the first three quarters of 2019, personnel costs grew at a more moderate rate (2.9%), driven by the growth of employment (0.6%, as against 2% a year earlier), and especially the increase in wages (2.2%, up more than half a percentage point from the previous year).

In both periods, employment growth was driven mainly by the growth of permanent staff (4.9% and 1.1%, respectively), breaking the tendency that had prevailed until 2017 for temporary employment to show larger increases. In these latest two periods, by contrast, the growth in temporary employment progressively moderated, growing by 2.9% in 2018 (as against 9.7% in 2017) and decreasing by 1.3% in the first three quarters of 2019 (see Table 4).

In 2018, the percentage of firms creating jobs fell for the first time since 2013, to 44.4%, down from 46.1% in 2017 (see Table 5). The CBQ data for 2019 show a continuation of this behaviour, so that in the period to the end of September the number of companies in the sample that increased their average workforce numbers was 48.9%, down 2.8 pp from the previous twelve months. That said, these percentages were still, in both samples, above those of firms destroying jobs (28.9% in the case of the CBI and 36.4% in the quarterly sample), although the distance between these two groups narrowed relative to previous years.

Table 2

THE WEIGHT OF IMPORTS HAS EDGED DOWN IN 2019, WHILE THAT OF EXPORTS HAS REMAINED STEADY

		CBA (a)		CBQ	
		2017	2018	2018 Q1-Q3	2019 Q1-Q3
Total corporations		8,194	8,194	957	957
Corporations reporting source/destination		8,194	8,194	900	900
Percentage of net purchases according to source	Spain	65.3	64.2	69.1	71.2
	Total abroad	34.7	35.8	30.9	28.8
	EU countries	19.6	19.1	19.9	20.1
	Third countries	15.1	16.7	11.1	8.7
Percentage of net turnover according to destination	Spain	76.3	76.5	80.1	80.0
	Total abroad	23.7	23.5	19.9	20.0
	EU countries	15.7	15.1	13.3	13.4
	Third countries	8.1	8.3	6.6	6.5
Change in net external demand (exports less imports), rate of change	Industry	-2.0	-5.3	6.1	6.1
	Other corporations	-5.7	-43.4	22.4	—

SOURCE: Banco de España.

a All the data in this column have been calculated as the weighted average of the quarterly data.

Table 3

IN 2019, GVA AND EMPLOYMENT WERE WEAKER IN ALMOST ALL SECTORS

	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)	
	2018	2018 Q1-Q4	2018 Q1-Q3	2019 Q1-Q3	2018	2018 Q1-Q4	2018 Q1-Q3	2019 Q1-Q3	2018	2018 Q1-Q4	2018 Q1-Q3	2019 Q1-Q3	2018	2018 Q1-Q4	2018 Q1-Q3	2019 Q1-Q3
TOTAL	4.1	2.8	3.7	0.5	4.4	1.8	2.0	0.6	5.7	3.3	3.7	2.9	1.3	1.6	1.6	2.2
SIZE																
Small	7.6	—	—	—	6.6	—	—	—	8.5	—	—	—	1.7	—	—	—
Medium	5.1	7.3	10.4	-1.2	4.9	3.8	3.9	4.5	6.2	6.3	6.0	5.2	1.3	2.4	2.0	0.7
Large	2.6	2.7	3.7	0.6	2.7	1.7	2.0	0.6	4.2	3.3	3.6	2.8	1.5	1.5	1.6	2.3
BREAKDOWN BY ACTIVITY																
Energy	4.0	5.8	5.6	6.6	1.0	0.8	1.1	-1.7	2.1	0.8	1.5	0.5	1.1	0.1	0.4	2.2
Industry	2.5	-1.0	3.7	-9.0	3.3	0.9	1.1	-0.4	4.5	3.1	3.9	1.9	1.2	2.2	2.7	2.3
Wholesale and retail trade and accommodation & food service activities	4.0	4.1	5.6	1.0	3.6	1.9	2.0	1.8	5.7	4.8	5.1	3.3	2.0	2.8	3.1	1.5
Information and communications	1.5	0.7	0.5	1.0	4.9	2.5	2.6	2.0	4.5	2.3	1.7	2.9	-0.4	-0.1	-0.9	0.9
Other activities	5.9	3.7	3.1	2.3	5.5	2.2	2.6	0.3	6.9	3.6	3.8	3.9	1.4	1.4	1.2	3.6

SOURCE: Banco de España.

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

Table 4

SLIGHT EMPLOYMENT GROWTH WAS BASED ON THE INCREASE IN PERMANENT STAFF

	Total CBQ corporations 2019 Q1-Q2	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations	957	637	320
NUMBER OF EMPLOYEES			
Initial situation 2018 Q1-Q3 (000s)	885	477	408
Rate 2019 Q1-Q3/ 2018 Q1-Q3	0.6	5.3	-4.8
Permanent	Initial situation 2018 Q1-Q3 (000s)	402	324
	Rate 2019 Q1-Q3/ 2018 Q1-Q3	1.1	-2.7
Non-permanent	Initial situation 2018 Q1-Q3 (000s)	75	84
	Rate 2019 Q1-Q3/ 2018 Q1-Q3	-1.3	-12.9

SOURCE: Banco de España.

By sector, energy and industry were the ones to record the largest declines in the average number of workers in 2019 (1.7% and 0.4%, respectively), while the other industries continued to record increases in their workforces (2% in the information and communications sector). For its part, average wage growth in the latest period was basically driven by the increases in the energy, industrial and other activities sectors (2.2%, 2.3% and 3.6%, respectively).

Profit, rates of return and debt

Gross operating profit (GOP) continued to grow in 2018 (1.5%), albeit at a slower rate than in the previous year (4.7%). In the latest period, however, GOP declined by 1.6%, in contrast to the rise of 3.8% recorded in the first nine months of the previous year (see Table 1 and Chart 1). As in the case of GVA, the re-weighted GOP rates confirm the negative performance of this variable, with a decline of 3% in 2019, as compared with a rise of 3.1% in 2018.

Financial revenue grew by 8.2% in 2018 and by 8.8% in the first three quarters of this year, driven in both cases by higher dividend receipts, which increased by around 10% in 2018 and by 8% in the first three quarters of 2019. Financial costs, meanwhile, continued to fall, by 4.2% in 2018 and by 3% in the period to end-September 2019, basically on account of the lower cost of borrowing borne by firms, which offset the increase in debt recorded in both periods.

In this context, ordinary net profit (ONP) grew by 5.4% in 2018, while in the first three quarters of 2019 it fell by 1% (see Chart 3). The decrease in ordinary profit in 2019 was broad-based across sectors, energy being the only one in which it increased.

Table 5

**THE PROPORTION OF FIRMS CREATING JOBS STILL EXCEEDS THE PROPORTION DESTROYING THEM,
BUT BY LESS THAN BEFORE**

	CBI (a)		CBQ (b)			
	2017	2018	2017 Q1-Q4	2018 Q1-Q4	2018 Q1-Q3	2019 Q1-Q3
Number of corporations	521,954	386,878	991	1,018	1,035	957
PERSONNEL COSTS	100	100	100	100	100	100
Falling	31.0	32.1	32.6	32.3	31.6	33.1
Constant or rising	69.0	67.9	67.4	67.7	68.4	66.9
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	27.4	28.9	34.1	33.4	33.4	36.4
Constant	26.5	26.7	15.1	14.8	14.9	14.6
Rising	46.1	44.4	50.7	51.7	51.7	48.9

SOURCE: Banco de España.

- a To calculate these percentages, corporations that did not have any staff in either of these years were excluded.
b Weighted average of the relevant quarters for each column.

Table 6

**ANALYSIS OF THE CHANGES IN FINANCIAL COSTS
Percentages**

	CBI	CBQ	
	2018 / 2017	2018 Q1-Q4 / 2017 Q1-Q4	2019 Q1-Q3 / 2018 Q1-Q3
Change in financial costs	-4.2	-4.7	-3.0
A Interest on borrowed funds	-4.4	-5.1	-2.1
1 Due to the cost (interest rate)	-4.9	-5.7	-7.1
2 Due to the amount of interest-bearing debt	0.5	0.7	5.0
B Other financial costs	0.2	0.3	-0.9

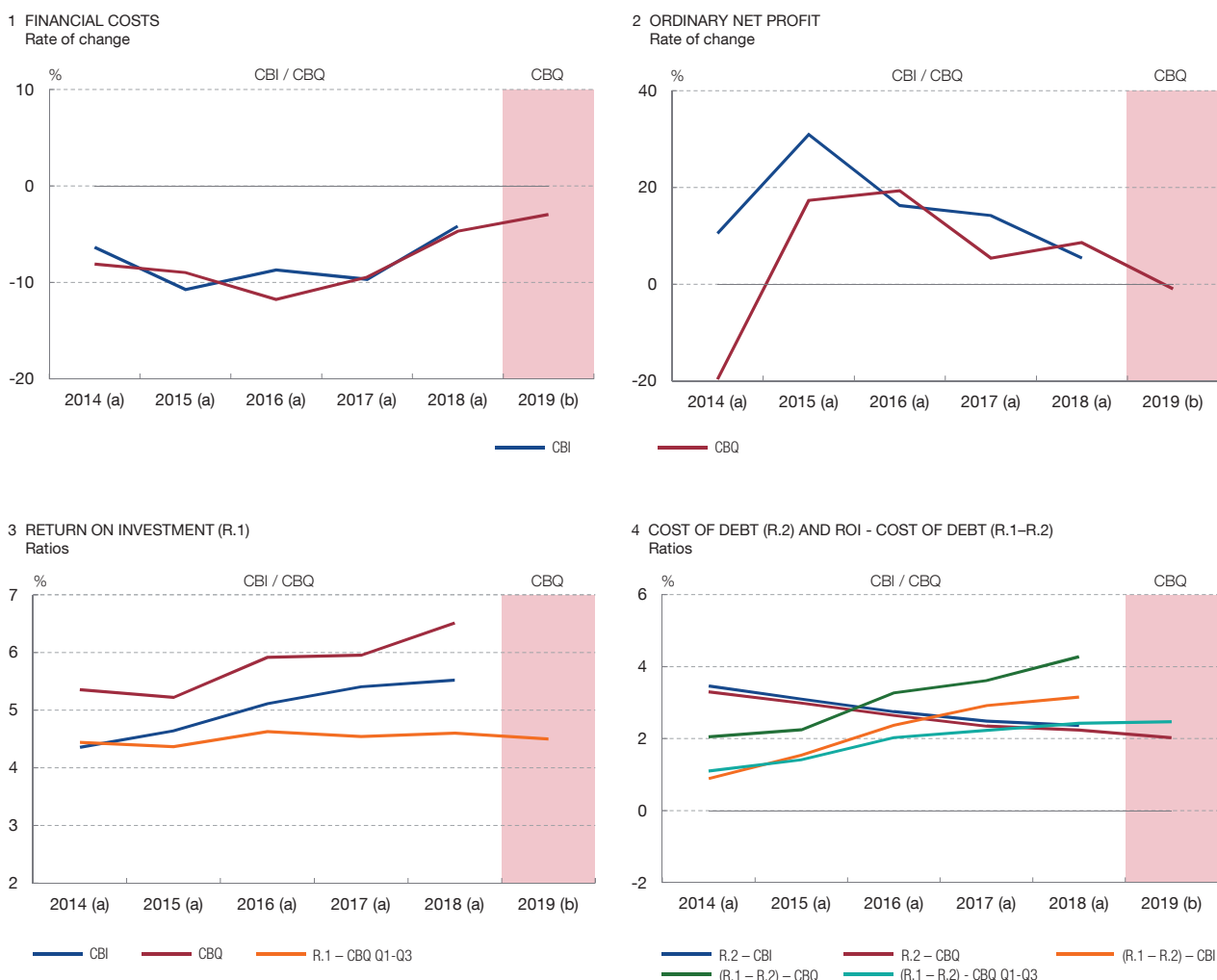
SOURCE: Banco de España.

The favourable behaviour of extraordinary costs and revenue in 2018 led to a 43.8 % rise in net profit. Specifically, significant capital gains on the sale of financial assets were recorded, in contrast to the loss of value due to impairment of assets of the same nature recorded the previous year. In the first nine months of 2019, by contrast, the behaviour of non-recurrent items had a negative impact, especially due to the high extraordinary gains generated the previous year, although the recording in 2019 of some losses and impairment associated with financial assets also contributed to this. As a result, from January to September 2019, net profit fell by 44.5%. As a percentage of GVA, net profit stood in the first nine months of 2019 at 20.7% (as against 35.1% in the same period of 2018).

Chart 3

AGGREGATE LEVELS OF PROFITABILITY HAVE REMAINED STEADY OR FALLEN SLIGHTLY IN 2019, ALTHOUGH THE SPREAD OVER THE COST OF BORROWING HAS WIDENED SOMEWHAT

The performance of ordinary profits in 2019 has translated into similar or slightly lower levels of profitability than in 2018. The lower average cost of borrowing has led to a slight widening of the spread between profitability and this indicator.



Reporting non-financial corporations		2014	2015	2016	2017	2018	2019
Number of corporations	CBI	838,497	843,457	844,923	757,098	537,923	—
	CBQ	883	982	982	991	1,018	957
% of GVA of the sector non-financial corporations	CBI	53.5	55.8	56.1	53.4	42	—
	CBQ	14.0	14.6	14.7	14.0	13.0	12.7

SOURCE: Banco de España.

- a The 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 2019 Q3 data. The rates are calculated relative to the same period of 2018.



Table 7

THE PERCENTAGE OF FIRMS WITH NEGATIVE RETURNS HAS GROWN IN 2019

		CBQ			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		2018 Q1-Q3	2019 Q1-Q3	2018 Q1-Q3	2019 Q1-Q3
Number of corporations		1,035	957	1,035	957
Percentage of corporations by profitability bracket	R <= 0%	23.3	25.3	26.0	27.9
	0% < R <= 5%	24.6	24.0	17.4	15.8
	5% < R <= 10%	14.5	14.2	11.1	11.2
	10% < R <= 15%	10.1	9.2	8.8	8.5
	15% < R	27.5	27.3	36.7	36.7
<i>MEMORANDUM ITEM</i> : Median return (%)		5.5	5.2	7.9	7.6

SOURCE: Banco de España.

Table 8

AGGREGATE RETURNS FELL SLIGHTLY, WITH SOME HETEROGENEITY ACROSS SECTORS

	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)	
	2018	2018 Q1-Q4	2018 Q1-Q3	2019 Q1-Q3	2018	2018 Q1-Q4	2018 Q1-Q3	2019 Q1-Q3	2018	2018 Q1-Q4	2018 Q1-Q3	2019 Q1-Q3	2018	2018 Q1-Q4	2018 Q1-Q3	2019 Q1-Q3
TOTAL	1.5	2.2	3.8	-1.6	5.4	8.6	5.1	-1.0	5.5	6.5	4.6	4.5	3.2	4.3	2.4	2.5
SIZE																
Small	5.1	—	—	—	5.2	—	—	—	3.5	—	—	—	1.3	—	—	—
Medium	2.4	9.5	19.8	-13.3	2.4	11.5	22.2	-18.5	7.0	8.6	8.8	6.8	4.6	6.5	6.7	5.3
Large	0.5	2.1	3.7	-1.5	5.7	8.5	5.0	-0.8	6.0	6.5	4.6	4.5	3.6	4.3	2.4	2.5
BREAKDOWN BY ACTIVITY																
Energy	5.0	8.0	7.4	8.7	5.7	4.4	12.8	38.0	5.2	5.0	4.0	5.1	2.2	2.6	1.6	3.1
Industry	-0.4	-5.3	3.4	-20.6	-2.1	-6.3	0.7	-27.1	8.5	9.4	8.3	6.4	6.0	6.9	6.1	4.0
Wholesale & retail trade and accommodation & food service activities	0.4	3.1	6.3	-2.3	9.7	22.6	-3.9	-2.8	9.1	16.3	10.0	8.3	6.8	14.4	8.2	6.5
Information and communications	-1.4	-0.2	-0.2	0.1	-3.9	0.1	1.8	-2.2	11.3	16.7	16.2	16.5	9.4	15.4	15.0	15.3
Other activities	3.4	3.7	1.9	0.0	12.5	23.3	14.3	-13.8	4.0	5.0	3.0	2.8	1.7	2.7	0.8	0.7

SOURCE: Banco de España.

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

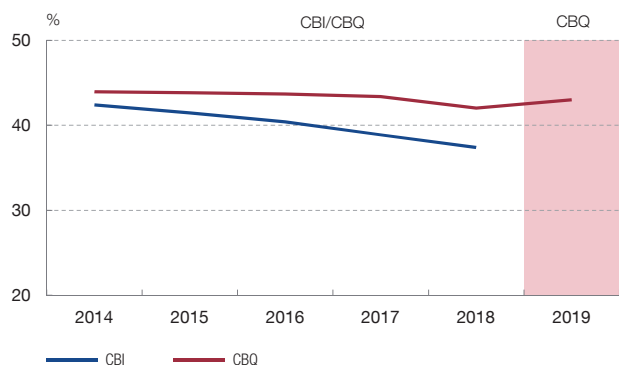
Profit ratios were slightly higher in 2018 than in 2017, standing at 5.5% in the case of the return on investment and 7.4% in that of the return on equity, up 0.1 pp on the previous year in both cases. In the first three quarters of 2019 these indicators ceased to grow, so that the return on investment stood, for the CBQ sample as a

Chart 4

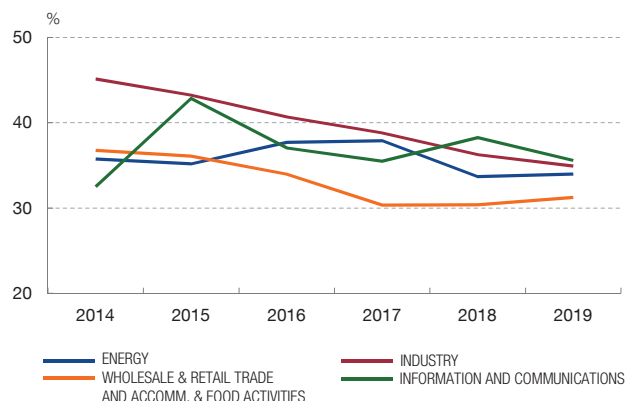
DEBT RATIOS HAVE INCREASED IN 2019, WHILE THE DEBT BURDEN HAS CONTINUED TO DECLINE, ALTHOUGH AT AN INCREASINGLY MODERATE RATE

Debt levels fell in 2018 and rose in the first nine months of 2019, whereas the debt burden continued to fall in both periods, although at an increasingly moderate rate.

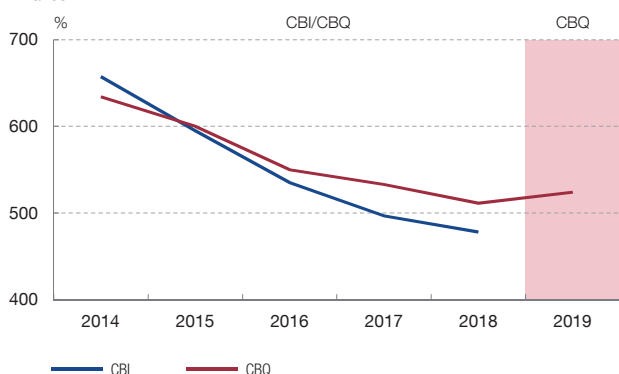
1 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
TOTAL CORPORATIONS
Ratios



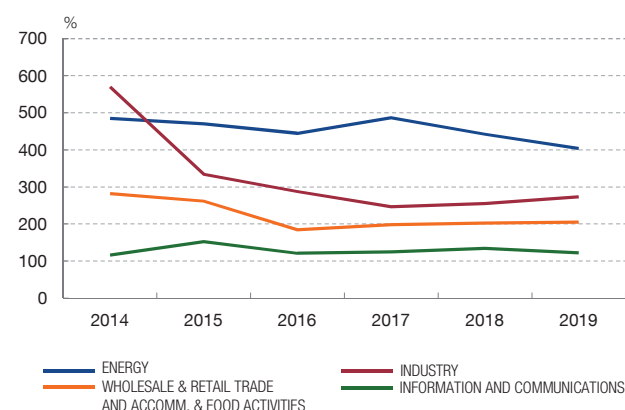
2 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
BREAKDOWN BY SECTOR. CBQ
Ratios



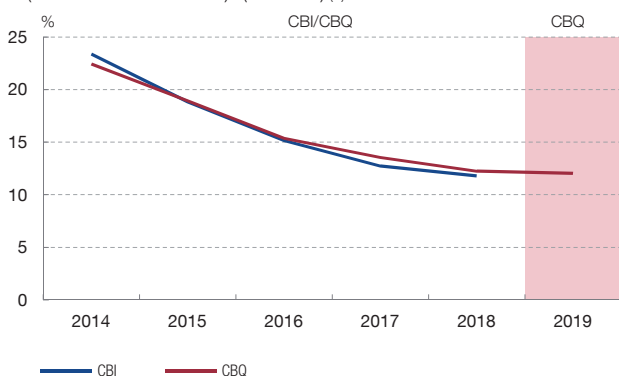
3 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)
TOTAL CORPORATIONS
Ratios



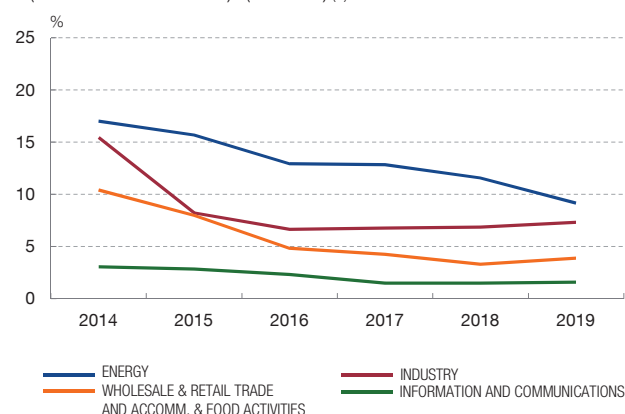
4 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)
BREAKDOWN BY SECTOR. CBQ
Ratios



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. Equity includes an adjustment to current prices.
- b 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.



whole, at 4.5% (as against 4.6% in the same period of 2018), and that on equity stood at 6.4%, similar to its level in the previous year. The percentage of corporations posting negative returns increased in 2019 (to 25.3% in the case of the return on investment and to 27.9% in that of the return on equity), something that had not happened since 2012 (see Table 7). This has contributed to an increase in the percentage of vulnerable firms (i.e. those whose interest coverage ratio is less than one for two consecutive years), and in the volume of debt associated with these companies. In this setting, a theoretical exercise reveals that the proportion of vulnerable firms would rise significantly in the event of a hypothetical deterioration in the macrofinancial scenario (fall in profits or rise in interest rates). However, the increase would be substantially lower than if the same shocks were applied to the financial position of firms in 2008, a consequence of the deleveraging in the corporate sector in recent years, which has meant that companies are now less sensitive to adverse macrofinancial developments than in 2008 (see Box 2).

The breakdown of the aggregate return on assets by sector reveals that energy was the only sector in which this indicator clearly increased in 2019 (by one percentage point, to 5.1%) The other sectors either posted similar (e.g. information and communications) or lower returns (e.g. almost two percentage points lower in industry, at 6.4%, and in wholesale and retail trade and accommodation and food service activities sector, at 8.3%).

The average cost of borrowing fell by 0.1 pp in 2018, to stand at 2.4%, a trend that continued during 2019, when it fell, in the quarterly sample, by 0.2 pp, to 2%. The performance of the return on assets, along with the decline in the cost of debt, caused the spread between these two ratios to continue to widen, both in 2018 (to 3.2 pp) and in the first three quarters of 2019 (to 2.5 pp).

Finally, in 2018, aggregate debt levels continued to decline, both in relation to net assets (E1) and with respect to gross operating profit (E2). By contrast, between January and September 2019, both ratios rose, in the case of the E1, by 1 pp to 43%, and in that of the E2, to 524% (from 510% a year earlier) (see Chart 4). The increase in the E1 ratio in 2019 reflected the increases in energy and wholesale and retail trade and accommodation and food service activities, which were only partly offset by declines in industry and information and communications. As for the E2 ratio, the sector information indicates an increase in industry and a decline in energy, and no significant changes in other sectors. For its part, the interest burden ratio continued to fall in both periods, although at a gradually diminishing rate. The sector breakdown shows a decline in energy and a slight rise in industry and in wholesale and retail trade and accommodation and food service activities, while it remained relatively flat in information and communications.

29.11.2019.

TRENDS IN SPANISH SMES' ACTIVITY AND EARNINGS IN 2018

This box analyses the developments in 2018 in the activity and results of SMEs,¹ on the basis of the information available in the Integrated Central Balance Sheet Data Office Survey (CBI), which provides data for some 519,000 such companies.² In 2018, the SMEs in this sample posted an increase in GVA for the fifth consecutive year, with a year-on-year growth rate that, as in preceding years, exceeded that of the GVA of the aggregate of large companies (7.1%, as compared with 2.6%) (see Chart 1). However, the GVA growth rate posted by SMEs in 2018 was almost 2 pp down from the 9% rate recorded the previous year. The sector-level data shows that manufacturing, construction and wholesale and retail trade were the most dynamic sectors in 2018 in the SME segment (with increases in GVA of 5.5%, 12.4% and 6.1%, respectively), although activity slowed across the board.

SMEs' personnel costs grew by 8 % in 2018, which was 1 pp less than in the previous year. The increase in this item stemmed from the rise in average wages (of 1.6%, up 0.5 pp from 2017) and especially the growth of employment (6.3%). This growth, which continued to exceed the rate observed for large firms during the same period, was, however, lower than in 2017 (7.9%) (see Chart 2). In line with this slowdown in job creation, the percentage of SMEs reporting staff increases in 2018 fell (to 44.2%, from 45.9% in 2017), something that had not happened since 2012. Also, the proportion of SMEs destroying jobs increased during the year by more than 1.5 pp, to 29%. The sectoral breakdown reveals that the slowdown in job creation was broadly based and that, as in the case of GVA, manufacturing, construction and wholesale and retail trade were the sectors that contributed most to the increase in the total employment of the SMEs in the sample (with increases of 4.6%, 9.6% and 4.7%,

respectively). At the same time, the breakdown by contract type shows that, unlike in previous years, it was permanent staff numbers that grew most in 2018 (by 7.2%, as against 3.8% growth for temporary staff).

The financial costs of the SMEs in the sample declined by 2.2% in 2018, extending the downward path of this item of recent years. This decrease, the smallest since 2012, was basically a consequence of the fall in the average cost of borrowing, which edged down 0.1 pp during the year, to stand at 2.3%. Deleveraging also contributed to the decrease, but to a lesser extent.

The ordinary net profit of these companies increased in 2018 by 4.5%, the lowest growth rate since 2013, although this was, nevertheless, in line with the behaviour of this variable in the case of the largest companies (see Chart 3). As a result of all this, SMEs' return on investment departed from the upward path followed in previous years, to stand at 4.1% in 2018, very close to its level in 2017 (see Chart 4). The sectoral breakdown shows that this stagnation of returns was recorded across all sectors, with the increase of 1 pp in the profitability of the electricity industry (to 5.8%) and, in the other direction, the decline of 1 pp in that of the transportation and storage industry (to 4.9%) standing out. Finally, the slight fall in the average cost of borrowing caused the spread between the return on investment and such cost to widen by 0.1 pp to 1.8 pp.

In short, according to the CBI data available, SMEs' activity grew in 2018 for the fifth year running, and, like in previous years, by more than large companies' activity. However, in 2019, the growth rate of profits and employment has been more moderate than in 2017, which is also true of large corporations. This has caused the profitability of SMEs to stabilise at around 4%, breaking the trend of constant increases that dates back to 2013.

1 According to the criterion used by the Central Balance Sheet Data Office, in line with European Commission Recommendation 2003/361/EC, businesses with no more than 250 employees and whose asset value and net turnover do not exceed €50 million and €43 million, respectively, are classed as SMEs. Moreover, irrespective of the above-mentioned criteria, neither state-owned enterprises nor enterprises owned by business groups that exceed these thresholds are considered to be SMEs.

2 As at the cut-off date for this article, the CBI data for 2018 are considered a preliminary estimate, since more data are still to be included, so that the final number of firms in the sample will be around 800,000.

Box 1

TRENDS IN SPANISH SMES' ACTIVITY AND EARNINGS IN 2018 (cont'd)

Chart 1
GROSS VALUE ADDED AT FACTOR COST
Rate of change

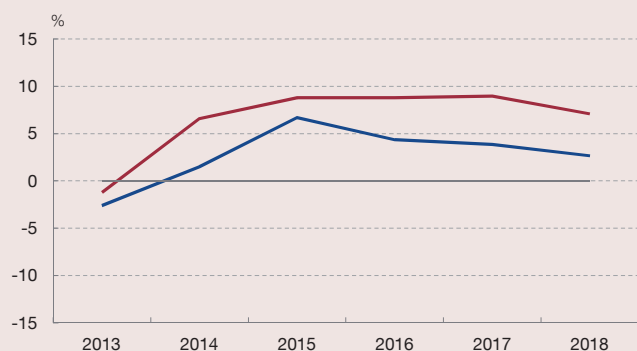


Chart 2
EMPLOYMENT
Rate of change

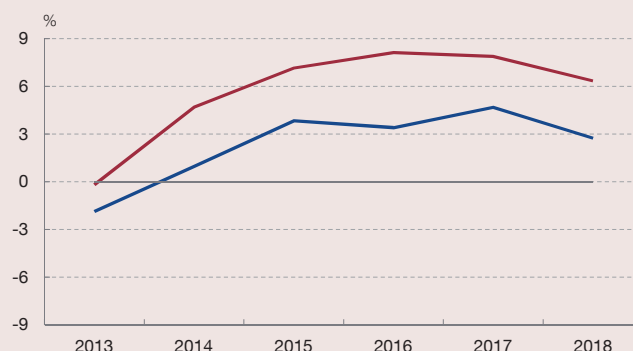


Chart 3
ORDINARY NET PROFIT
Rate of change

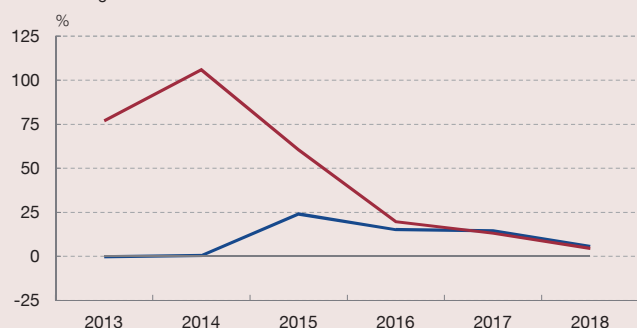
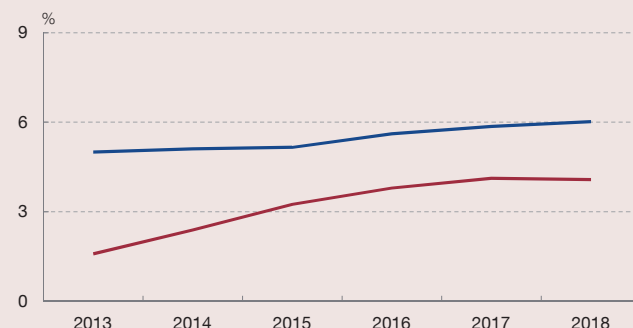


Chart 4
RETURN ON INVESTMENT
Ratio



— LARGE

— SMEs

		2013	2014	2015	2016	2017	2018
Number of corporations	Large (a)	25,604	26,802	27,574	28,204	26,108	18,249
	SMEs	783,904	811,695	815,883	816,719	730,990	519,674
% of GVA of the sector non-financial corporations	Large (a)	33.9	34.1	35.5	35.0	34.1	27.9
	SMEs	18.6	19.4	20.3	21.1	19.3	14.2

SOURCE: Banco de España.

a Following Commission Recommendation 2003/361/EC, state-owned enterprises and those belonging to a large group are included in this segment.

FINANCIAL VULNERABILITY OF SPANISH FIRMS: RECENT DEVELOPMENTS AND RISK SCENARIOS

The interest coverage ratio (ICR) is calculated by dividing ordinary profit (i.e. gross operating profit (GOP) plus financial revenue) by financial costs, and tends to be used as an indicator of the degree of financial pressure firms face.¹ In particular, when the value of this ratio remains below one over a sustained period this is considered to be a sign of vulnerability, since it implies that the firm is not capable of paying the interest on its debt out of ordinary profit in a sustained fashion.²

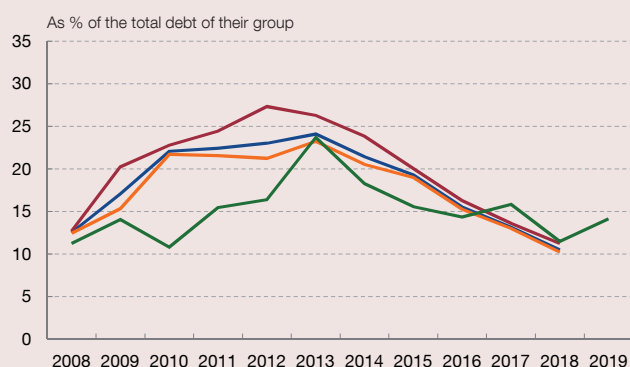
This box analyses how the proportion of debt and employment associated with Spanish firms that are subject to high financial pressure has evolved and offers an estimate of how such proportions would respond to a hypothetical deterioration in the macrofinancial scenario.

For this purpose, vulnerable firms are defined as those whose ICR remains below one for two consecutive years. From the viewpoint of financial stability it is especially important to quantify the volume of debt associated with vulnerable firms. Also, from the macroeconomic standpoint, to analyse the behaviour of aggregate consumption, for example, it is also important to quantify the volume of employment linked to the financially most vulnerable firms.

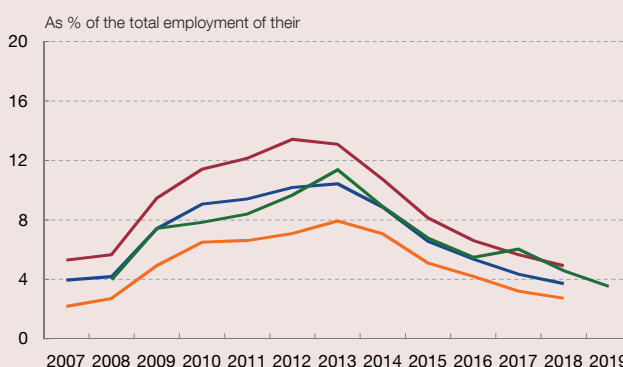
Charts 1.1 and 1.2 show that the proportions of debt and employment corresponding to the most vulnerable firms have declined continuously since 2013, to stand in 2018 (the latest year for which CBI data are available) very close to their pre-crisis levels.³ This improvement appears to

Chart 1
THE WEIGHT OF DEBT AND EMPLOYMENT OF VULNERABLE FIRMS (a)

1 THE WEIGHT OF THE DEBT OF VULNERABLE FIRMS.
BREAKDOWN BY SIZE (b)



2 THE WEIGHT OF EMPLOYMENT OF VULNERABLE FIRMS.
BREAKDOWN BY SIZE (b)



— TOTAL — SMEs — LARGE FIRMS — CBO

SOURCE: Banco de España.

- a Vulnerable firms are defined as those having an interest coverage ratio of less than one for two consecutive years. The interest coverage ratio is defined as (gross operating profit + financial revenue) / financial costs. Newly created companies and holding companies are excluded from the sample. Firms without any financial costs are not considered vulnerable.
- b The sizes are defined in line with European Commission Recommendation 2003/361/EC.

- 1 See, for example, “Global Financial Stability Report”, ch. 2: *Global corporate vulnerabilities*, IMF, October 2019, or *Confronting the zombies: policies for productivity revival*, OECD Economic Policy Paper, December 2017.
- 2 For a more detailed analysis of the persistence of the vulnerability of firms, see the economic note *Changes in the degree of financial pressure borne by Spanish non-financial corporations: 2007-2016*, Banco de España, March 2017, and the article “La evolución de la fragilidad financiera de las empresas no financieras españolas entre 2007 y 2015», *Revista de Estabilidad Financiera*, No. 33, November 2017.
- 3 It is not possible to calculate, firm by firm, the financial debt bearing explicit interest in the CBI for 2007 and prior years, since the shortened format of the annual accounts used by most of the SMEs in those years did not include this information.

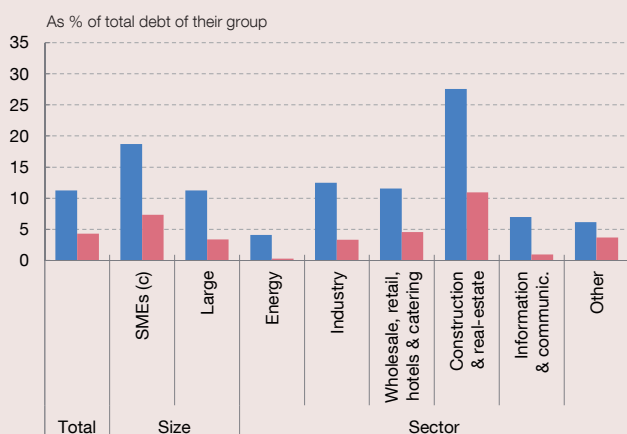
FINANCIAL VULNERABILITY OF SPANISH FIRMS: RECENT DEVELOPMENTS AND RISK SCENARIOS (cont'd)

stem, basically, from the economic growth of the Spanish economy in this period, the reduction in the cost of borrowing and the intense deleveraging that firms have undertaken. Also notable is the fact that SMEs typically have higher levels of vulnerability than large firms (except in terms of debt, in the most recent period).

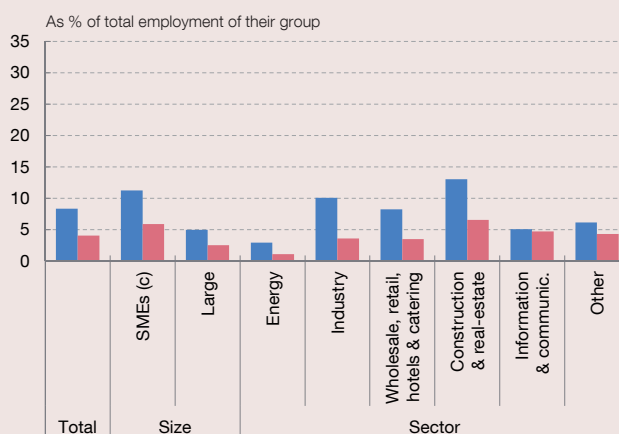
The information provided by the CBQ reveals that, in the first nine months of 2019, against a background of slowing activity, the proportion of debt associated with firms under high financial pressure rose slightly, although the relative weight of the employment of these firms continued to decline.

Chart 2
FIRMS UNDER HIGH FINANCIAL PRESSURE IN AN ADVERSE SCENARIO (a)

1 INCREASE IN WEIGHT OF DEBT OF VULNERABLE FIRMS IN THE EVENT OF A FALL IN OPERATING PROFIT (b)



2 INCREASE IN WEIGHT OF EMPLOYMENT OF VULNERABLE FIRMS IN THE EVENT OF A FALL IN OPERATING PROFIT (b)



3 INCREASE IN WEIGHT OF DEBT OF VULNERABLE FIRMS IN THE EVENT OF AN INCREASE IN INTEREST RATES (d)



4 INCREASE IN WEIGHT OF EMPLOYMENT OF VULNERABLE FIRMS IN THE EVENT OF AN INCREASE IN INTEREST RATES (d)



■ IMPACT ON 2008 FIRMS ■ IMPACT ON 2018 FIRMS

SOURCE: Banco de España.

- a Vulnerable firms are defined as those having an interest coverage ratio of less than one for two consecutive years. The interest coverage ratio is defined as (gross operating profit + financial revenue) / financial costs. Newly created companies and holding companies are excluded from the sample. Firms without any financial costs are not considered vulnerable.
- b An annual fall in the gross operating profit equal to half of the average annual decline observed between 2008 and 2012 is considered, by sector. The cumulative impact in the third year is analysed.
- c The sizes are defined in line with European Commission Recommendation 2003/361/EC.
- d An interest rate rise of 25 bp in two consecutive years is considered. The cumulative impact in the third year is analysed.

FINANCIAL VULNERABILITY OF SPANISH FIRMS: RECENT DEVELOPMENTS AND RISK SCENARIOS (cont'd)

Apart from establishing the evolution of corporate vulnerability over the last few years, it is also important to analyse how the latter would be affected by a hypothetical deterioration in the financial outlook. For this purpose, two possible scenarios have been designed, one in which profits decline and another in which interest rates rise. These are both applied for two consecutive years, and the cumulative impact is observed at the end of the third year.⁴

In the first scenario GOP falls at an annual rate equal to half of the average annual rate of decline in this variable over the period 2008-2012, so that the hypothetical scenario incorporates a reduction in profit of approximately half that observed during the last recession. The second scenario considers a tightening of financial conditions as a consequence of a rise in interest rates of 25 basis points in each of the next two years. These two adverse scenarios are applied to the 2018 sample (the latest year for which CBI data are available) and to the 2008 one, so that it is possible to assess whether, despite the vulnerability indicators being similar in these two periods, Spanish

firms are currently more or less resilient to negative shocks than at the beginning of the crisis.

Charts 2.1 and 2.2 show that, when an ongoing decline in profit is applied to the 2018 sample, the percentages of debt and employment of vulnerable firms increase, especially in the SME segment and in construction. Despite being significant, the 2018 deterioration is always significantly smaller (both for the total and the size and sector breakdowns) than the one that occurs when the same adverse scenario is applied to the 2008 sample. This would be consistent with the fact that, mainly thanks to the intense deleveraging undertaken by Spanish firms in recent years, the latter would currently be less sensitive than in 2008 to a deterioration in the macrofinancial environment. Currently, however, the margin to mitigate the negative effects of a possible adverse shock by reducing interest rates may be more limited than during the last recession, given that interest rates are already at such low levels. Finally, in the rising interest rates scenario, the results obtained for the 2018 and 2008 samples are qualitatively similar to those obtained with a fall in GOP like the one considered in the previous scenario (see Charts 2.3 and 2.4).

4 Adding a third year is necessary, since, for a firm to be vulnerable, its ICR must remain below one for two consecutive years, so that it is not until the third year that the impact associated with the adverse shock applied in the second year can be observed.