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RESULTS OF NON-FINANCIAL CORPORATIONS TO 2019 Q4. PRELIMINARY YEAR-END DATA

Álvaro Menéndez and Maristela Mulino

ABSTRACT

According to the Central Balance Sheet Data Office Quarterly Survey, non-financial corporations' activity lost momentum in 2019, resulting in a slowdown in job creation. However, the high inflow of dividends contributed to an increase in ordinary profit and, as a result, average levels of return on ordinary activities also grew. In addition, financing costs continued to decline, allowing the spread between the return on investment and this indicator to widen again. Extraordinary costs and revenue had an adverse impact on net profit, triggering a notable decline. Average debt ratios, expressed as both a percentage of assets and as a percentage of ordinary profit, continued to fall in 2019. The share of profits used to service debt also continued to decline and stands at a record low. The article contains a box analysing the recent developments in trade finance and the average supplier-payment and customer-collection periods.

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

JEL classification: L25, M21, M41.

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2019 Q4. PRELIMINARY YEAR-END DATA

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Overview[1]

According to the information compiled by the Central Balance Sheet Data Office Quarterly Survey (CBQ), business activity slowed in 2019. As a result, GVA continued to increase (1.8% in nominal terms), but its growth was down 0.3 percentage points (pp) from the previous year (2.1%).

Job creation also slowed, with its growth rate falling to 0.8%, down 0.6 pp on the previous year. The increase in employment was driven mainly by the growth of permanent hires (up 1.4%).

Flagging activity resulted in moderate growth in gross operating profit (GOP) of 0.8%. However, the increase in financial revenue, driven above all by the greater dividends received, together with a new drop in financial costs, spurred by falling borrowing costs, led ordinary net profit (ONP) to rise by 10.9% in 2019. This was more than one percentage point higher than the 9.2% growth recorded in the prior year. In turn, the trend in extraordinary income and expenses had an adverse impact on net profit, which was down 20.5% on 2018, owing mainly to lower extraordinary income in 2019. As a percentage of GVA, net profit stood at 38.6%, below the 44% level recorded in 2018.

Growth in ordinary profit resulted in an increase in average corporate profitability. The downward trend in borrowing costs continued, resulting in a further widening of the spread between the return on investment and the average cost of borrowing.

Firms' financial position indicators show an improvement. The debt ratios, expressed as both a percentage of assets and as a percentage of ordinary profit were lower at end-2019 than end-2018. The share of profits used to service debt also continued to fall. This was driven by both lower borrowing costs and the growth in ordinary profit (denominator), and fell to the lowest levels of the entire CBQ series.

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1 This article is based on the 2019 data of 960 companies that had been reported to the CBQ by 16 March 2020. In terms of gross value added (GVA), the sample represents 12.4% of the total non-financial corporations sector (according to National Accounts information).

In sum, this economic and financial information reveals that, last year, the productive activity and job creation of the firms reporting to the CBQ slowed, which is consistent with the reduced momentum of the wider economy. This was compatible with a rise in aggregate returns, driven mainly by the higher dividends received by some large firms in this survey, and with an improvement in their financial position. This puts these firms in a position of relative strength to tackle the foreseeable macroeconomic deterioration over the coming months.

Activity

GVA grew by 1.8% in 2019, as compared with 2.1% in 2018 (see Table 1 and Chart 1). This downward trend is also observed when the sectors in the CBQ survey are weighted using their weights in the National Accounts (1.6%, just under one percentage point less than the 2018 figure). By contrast, the median GVA growth rate performed somewhat more positively, standing at 2.7% in 2019, slightly higher than in 2018 (2.4%) (see Chart 2). This would suggest that the negative performance of certain large firms with a high weight within the survey played a role in the slowdown in the aggregate GVA growth rate in 2019.

This growth took place against the background of a moderate decline in business activity, as reflected in the 1.5% drop in turnover. The decrease in sales was greater in the case of domestic sales, so that the relative weight of exports grew (see Table 2). Purchases also contracted in 2019, by 2.2%. This decline was sharper in the case of imports, which fell from 33.1% of total purchases in 2018 to 30.9% in 2019. In line with these developments, customer and supplier balances decreased. These balances were also influenced by a further reduction in the average collection periods, while the average payment periods rose slightly (see Box 1).

Increases in GVA were observed in all sectors except for the industrial sector, in which GVA fell by 5.5%. This decrease was, moreover, far greater than that recorded in 2018 (1.7%) (see Table 3). The decline in the industrial sector was particularly sharp in the oil refining, mineral and metal products, computer and electronic products, and other manufacturing sub-sectors, in which GVA fell by 19.3%, 16.7%, 7.7% and 7.6%, respectively. Noteworthy among the other sectors are the energy sector and the wholesale and retail trade and accommodation and food service activities sector, whose GVA grew more strongly, 5.3% and 3.3% respectively; however, in both cases, the increases were a few tenths of a percentage point below the growth reported in 2018. GVA in the information and communications sector grew by 2.2% (0.6% in 2018), while in the sector combining the other activities it grew by 3%, up more than half a percentage point on 2018.

Table 1

SLOWDOWN IN PRODUCTIVE ACTIVITY IN 2019, ALTHOUGH AGGREGATE RETURNS GREW, DRIVEN BY STRONG INFLOW OF DIVIDENDS

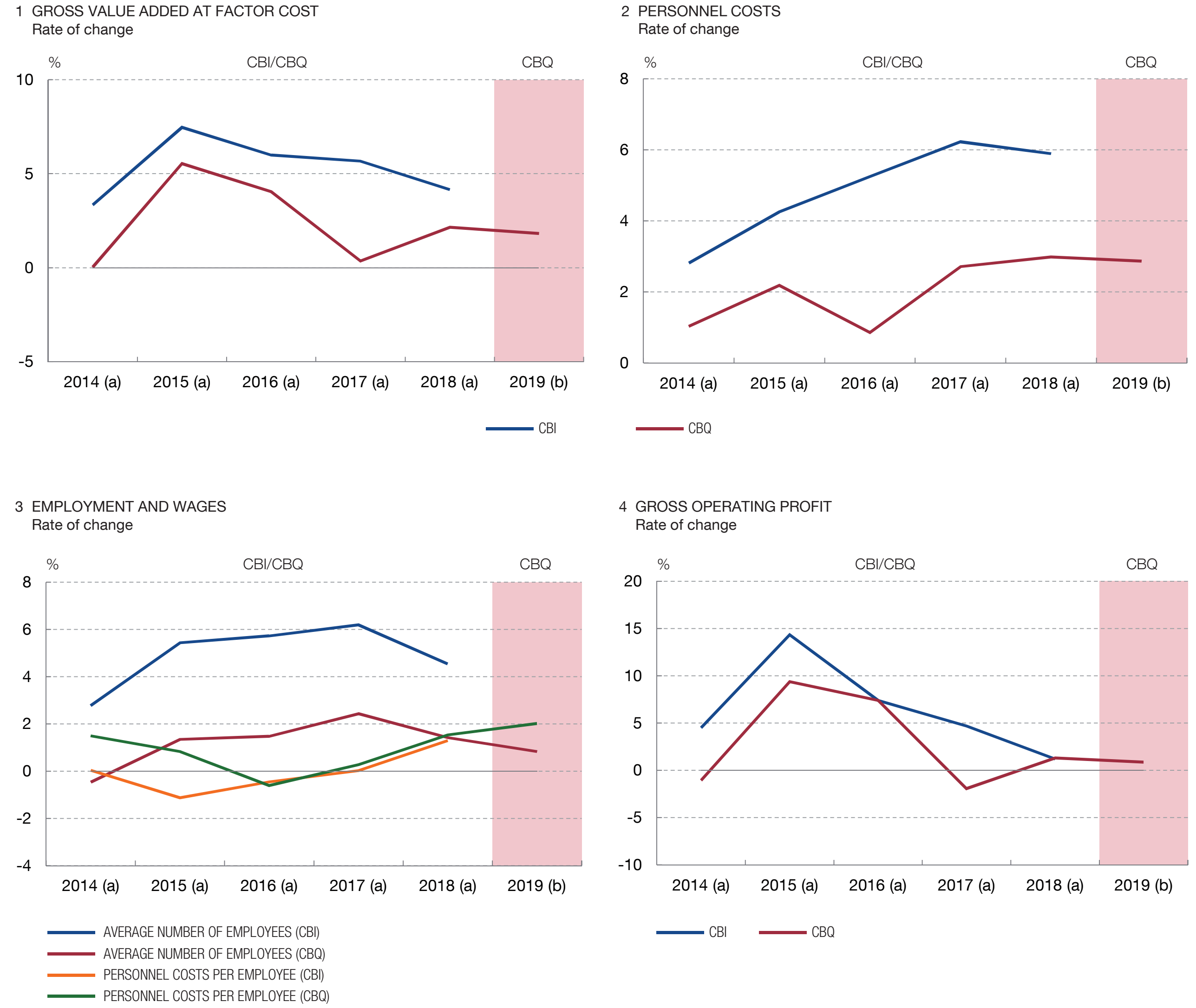
	CBI structure	CBI		CBQ (a)		
Databases	2018	2017	2018	2017 Q1-Q4 / 2016 Q1-Q4	2018 Q1-Q4 / 2017 Q1-Q4	2019 Q1-Q4 / 2018 Q1-Q4
Number of corporations		757,098	640,655	993	1,030	960
Total national coverage (% of GVA)		53.4	48.9	14.0	13.9	12.4
Profit and loss account						
1 VALUE OF OUTPUT (including subsidies)	100.0	6.6	5.3	5.7	4.7	0.0
Of which:						
Net amount of turnover and other operating income	*151.2*	*6.9*	*6.5*	*7.3*	*6.4*	*-1.5*
2 INPUTS (including taxes)	63.9	7.2	5.9	8.4	5.9	-0.8
Of which:						
Net purchases	*39.8*	*8.0*	*3.4*	*10.8*	*5.8*	*-2.2*
Other operating costs	*23.4*	*5.3*	*5.9*	*4.0*	*5.1*	*0.1*
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	36.1	5.7	4.2	0.4	2.1	1.8
3 Personnel costs	23.2	6.2	5.9	2.7	3.0	2.9
S.2 GROSS OPERATING PROFIT [S.1 – 3]	12.9	4.7	1.2	-1.9	1.3	0.8
4 Financial revenue	4.1	11.5	6.6	14.0	16.0	21.2
5 Financial costs	2.1	-9.7	-5.1	-9.6	-4.8	-4.9
6 Depreciation, impairment and operating provisions	5.4	1.3	1.7	0.7	1.2	1.6
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.6	14.2	4.7	5.2	9.2	10.9
7 Gains (losses) from disposals and impairment	2.0	—	—	—	—	-69.5
7' As a percentage of GVA (7 / S.1)		-1.9	5.6	-3.2	14.7	5.5
8 Changes in fair value and other gains (losses)	-0.7	38.8	-23.6	60.6	-68.5	-26.3
8' As a percentage of GVA (8 / S.1)		-1.1	-2.0	-1.6	-3.2	-5.7
9 Corporate income tax	1.5	-23.1	3.1	-49.8	-11.5	10.8
S.4 NET PROFIT [S.3 + 7 + 8 – 9]	9.4	1.3	52.7	-16.4	89.6	-20.5
S.4' As a percentage of GVA (S.4 / S.1)		16.7	25.9	24.5	44.0	38.6
RATES OF RETURN	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / NA	5.4	5.5	5.9	6.5	7.2
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / IBB	2.5	2.3	2.3	2.2	2.0
R.3 Ordinary return on equity (before taxes)	S.3 / E	7.3	7.3	8.8	9.8	11.0
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	2.9	3.1	3.6	4.3	5.1
MEMORANDUM ITEM: TOTAL SAMPLE RE-WEIGHTED						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]		5.8	4.3	2.2	2.4	1.6
S.2 GROSS OPERATING PROFIT [S.1 – 3]		5.4	1.5	1.6	1.1	-0.9

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
SLOWDOWN IN ACTIVITY, EMPLOYMENT AND SOME ORDINARY SURPLUSES IN 2019

Business activity slowed in 2019, posting more moderate increases in GVA and GOP. Employment continued to grow, albeit at a lesser pace than in previous years, in a setting in which compensation per employee rose somewhat.



Reporting non-financial corporations		2014	2015	2016	2017	2018	2019
Number of corporations	CBI	838,497	843,457	844,923	757,098	640,655	—
	CBQ	885	984	983	993	1,030	960
% of GVA of the non-financial corporations sector	CBI	53.5	55.8	56.1	53.4	48.9	—
	CBQ	14.1	14.6	14.7	14.0	13.0	12.4

SOURCE: Banco de España.

a The 2014, 2015, 2016, 2017 and 2018 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 2019 relative to the same period in 2018.

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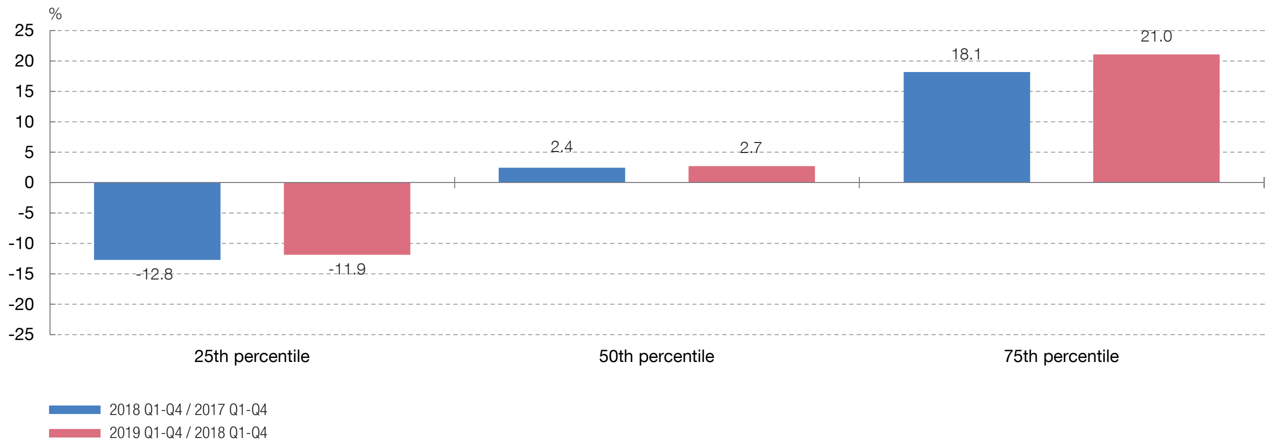
Chart 2
THE MEDIAN RATE OF GVA TRENDED MORE FAVOURABLY IN 2019 THAN THE AGGREGATE RATE

Median GVA rates evidenced somewhat higher growth in 2019 than the previous year. That suggests aggregate figures, pointing to a slowdown, were influenced by the more negative performance of certain large corporations in the sample.



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SOURCE: Banco de España.

Employment and personnel costs

CBQ personnel costs rose 2.9%. This is explained by both the growth in staff levels and in average compensation. Specifically, the average number of employees of the firms reporting to the survey increased by 0.8%, a lower rate than in 2018 (1.4%) (see Table 3). For the second consecutive year, the growth in employment was driven by the increase in permanent staff (1.4%) (see Table 4), while temporary employment decreased by 1.7%.

The percentage of firms that created employment in 2019 was 51.4%, down slightly from the previous year (51.7%) (see Table 5), but still well above the proportion of firms destroying employment (33.4 %).

The sectoral breakdown evidences that job creation was concentrated in the services sector, with growth of 2% in the wholesale and retail trade and accommodation and food service sector, of 0.9% in the information and communications sector, and of 0.8% in the other activities sector. By contrast, the energy sector recorded a 1.9% decrease in its average number of employees, while employment fell by 0.3% in the industrial sector.

Average compensation rose again in 2019, increasing by 2%, half a percentage point more than in 2018 (see Table 3). This growth can be observed across practically all sectors, except for the wholesale and retail trade and accommodation and food service sector, the only sector in which average wages grew less than in the previous year (1.6%, compared with 2.9% in 2018). Wage increases were higher in the other

Table 2

THE WEIGHT OF IMPORTS EDGED DOWN IN 2019, WHILE THAT OF EXPORTS GREW SLIGHTLY

		CBA		CBQ (a)	
		2017	2018	2018 Q1-Q4	2019 Q1-Q4
Total corporations		10,155	10,155	960	960
Corporations reporting source/destination		10,155	10,155	905	905
Percentage of net purchases according to source	Spain	66.0	65.0	66.9	69.1
	Total abroad	34.0	35.0	33.1	30.9
	EU countries	19.7	19.2	20.0	19.6
	Third countries	14.2	15.7	13.1	11.3
Percentage of net turnover according to destination	Spain	76.3	76.6	79.5	78.9
	Total abroad	23.7	23.4	20.5	21.1
	EU countries	15.6	15.2	13.2	13.4
	Third countries	8.1	8.3	7.4	7.6
Change in net external demand (exports less imports), rate of change	Industry	-2.0	-4.2	4.1	7.3
	Other corporations	-5.7	-44.8	-173.8	—

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, GROSS VALUE ADDED AND EMPLOYMENT TRENDED LESS FAVOURABLY THAN IN 2018 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)	
	2017	2018	2018 Q1-Q4	2019 Q1-Q4	2017	2018	2018 Q1-Q4	2019 Q1-Q4	2017	2018	2018 Q1-Q4	2019 Q1-Q4	2017	2018	2018 Q1-Q4	2019 Q1-Q4
TOTAL	**5.7**	**4.2**	**2.1**	**1.8**	**6.2**	**4.5**	**1.4**	**0.8**	**6.2**	**5.9**	**3.0**	**2.9**	**0.0**	**1.3**	**1.5**	**2.0**
SIZE																
Small	9.8	7.4	—	—	8.4	6.7	—	—	9.6	8.5	—	—	1.1	1.7	—	—
Medium	6.0	5.2	7.5	2.4	5.8	5.0	3.6	4.0	6.9	6.4	6.2	4.9	1.1	1.3	2.5	0.9
Large	3.8	2.7	2.1	1.8	4.7	3.0	1.4	0.8	4.3	4.5	2.9	2.8	-0.4	1.5	1.5	2.0
BREAKDOWN BY ACTIVITY																
Energy	-3.6	4.0	5.6	5.3	3.3	1.0	0.7	-1.9	3.3	1.9	0.8	1.0	0.0	0.9	0.1	2.9
Industry	4.7	2.3	-1.7	-5.5	4.0	3.2	0.9	-0.3	4.8	4.4	2.9	2.0	0.7	1.2	2.1	2.2
Wholesale and retail trade and accommodation & food service activities	6.2	4.2	3.8	3.3	6.2	4.0	1.4	2.0	7.0	5.9	4.3	3.6	0.7	1.8	2.9	1.6
Information and communications	4.3	1.9	0.6	2.2	4.1	5.3	2.1	0.9	3.6	5.0	1.9	2.9	-0.5	-0.3	-0.2	1.9
Other activities	8.3	5.9	2.4	3.0	7.5	5.6	1.8	0.8	7.3	7.3	3.2	3.4	-0.2	1.5	1.4	2.5

SOURCE: Banco de España.

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

Table 4
THE SLIGHT GROWTH IN EMPLOYMENT IN 2019 WAS BASED ON THE INCREASE IN PERMANENT STAFF

		Total CBQ corporations 2019 Q1-Q4	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations		960	640	320
NUMBER OF EMPLOYEES				
Initial situation 2018 Q1-Q4 (000s)		864	486	378
Rate 2019 Q1-Q4 / 2018 Q1-Q4		0.8	5.4	-5.0
Permanent	Initial situation 2018 Q1-Q4 (000s)	711	407	303
	Rate 2019 Q1-Q4 / 2018 Q1-Q4	1.4	4.5	-2.8
Non-permanent	Initial situation 2018 Q1-Q4 (000s)	154	79	75
	Rate 2019 Q1-Q4 / 2018 Q1-Q4	-1.7	9.9	-13.9

SOURCE: Banco de España.

Table 5
IN 2019 THE PROPORTION OF FIRMS CREATING EMPLOYMENT SLID SOMEWHAT, THOUGH IT STILL EXCEEDS THAT OF FIRMS DESTROYING EMPLOYMENT

	CBI (a)			CBQ (b)		
	2016	2017	2018	2017 Q1-Q4	2018 Q1-Q4	2019 Q1-Q4
Number of corporations	578,090	521,954	460,467	993	1,030	960
Personnel cost	100	100	100	100	100	100
Falling	33.2	31.0	32.2	32.6	32.3	33.0
Constant or rising	66.8	69.0	67.8	67.4	67.7	67.0
Average number of employees	100	100	100	100	100	100
Falling	27.5	27.4	29.0	34.1	33.4	33.4
Constant	26.5	26.5	26.4	15.1	15.0	15.2
Rising	46.0	46.1	44.6	50.8	51.7	51.4

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.

sectors, ranging from 1.9% in the information and communications sector to 2.9% in the energy sector. These increases were higher than those recorded in the previous year.

Profit, rates of return and debt

In line with the slower momentum of activity, gross operating profit (GOP) decelerated in 2019, growing by 0.8%, as against 1.3% in 2018 (see Table 1 and Chart 1). The

Table 6
FINANCIAL COSTS CONTINUED FALLING, DRIVEN BY LOWER FINANCING COSTS

	CBI	CBQ	
	2018 / 2017	2018 Q1-Q4 / 2017 Q1-Q4	2019 Q1-Q4 / 2018 Q1-Q4
Change in financial costs	-5.1	-4.8	-4.9
A Interest on borrowed funds	-5.4	-5.2	-4.9
1 Due to the cost (interest rate)	-6.3	-6.0	-9.6
2 Due to the amount of interest-bearing debt	0.9	0.8	4.6
B Other financial costs	0.3	0.5	0.1

SOURCE: Banco de España.

rates calculated by weighting the sectors according to their relative weight in the economy as a whole show a somewhat less favourable trend, with GOP declining by 0.9% in 2019, having risen by 1.1% in 2018.

Financial revenue grew strongly in 2019 (21.2%) driven mainly by the increase in dividends received (24%). While interest income also rose, it did so to a lesser extent (5.1%). In turn, financial costs continued to fall (4.9%), owing above all to lower average borrowing costs. This impact was partially offset by the higher volume of debt of the corporations in the survey in the year as a whole (see Table 6).

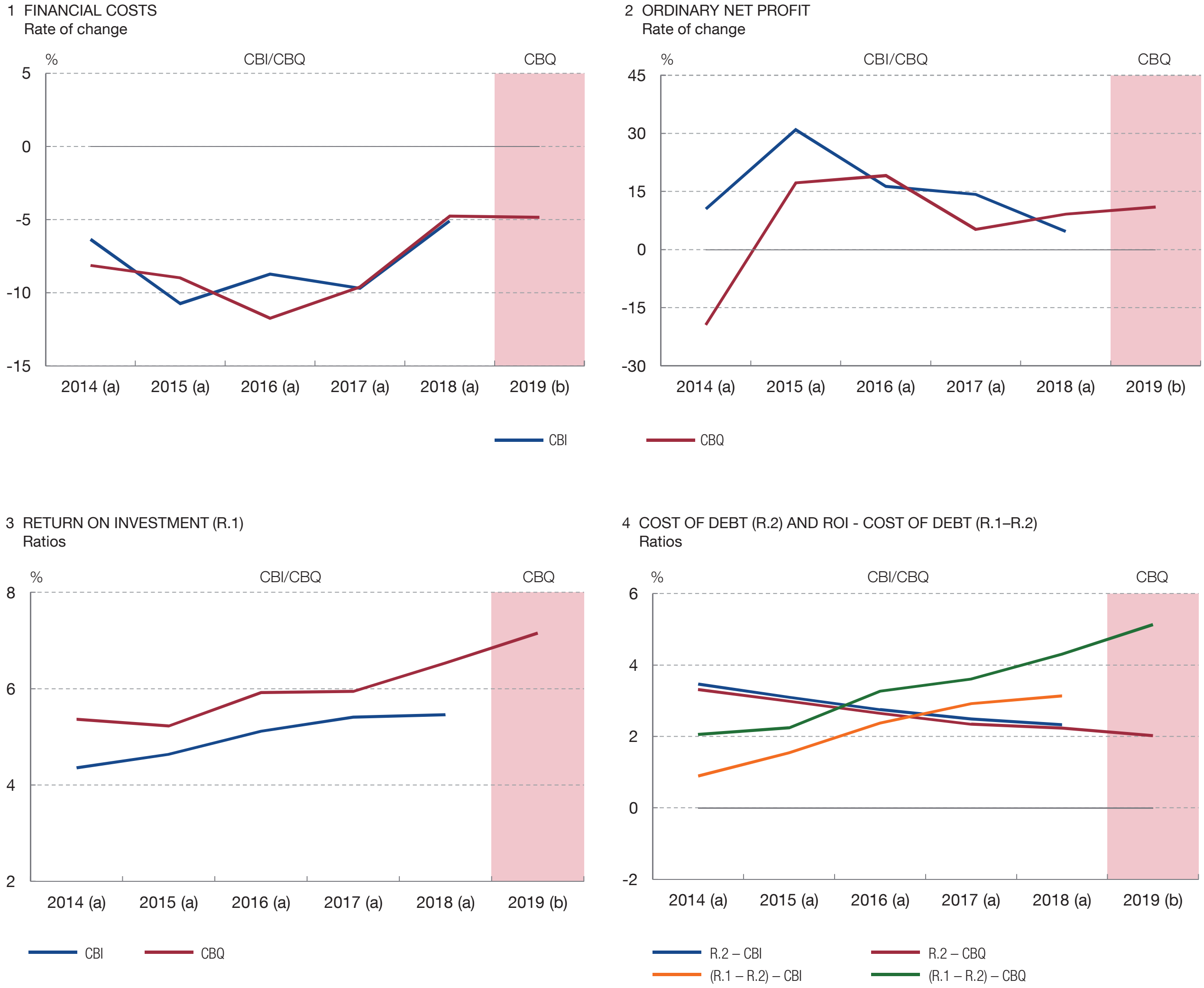
ONP rose by 10.9% in 2019, exceeding the growth of 9.2% recorded in 2018 (see Chart 3). Extraordinary costs and revenue had an adverse impact on net profit, owing mainly to the gains on sales of financial assets in 2019 being far lower than those recorded in 2018. Consequently, net profit was down 20.5% on 2018. As a percentage of GVA, in 2019 net profit stood at 38.6%, well below the 44% level recorded in 2018.

The growth in ordinary profit drove up the aggregate rates of return in 2019: by 0.7 pp in the return on investment and 1.2 pp in the return on equity, to 7.2% and 11%, respectively. However, the median values for these indicators reflect a decline, both in the return on investment, which fell by 0.3 pp to 5.6%, and in the return on equity, which decreased from 8.3% to 8% (see Table 7). This table also shows the wide dispersion in the quarterly sample, as evidenced by the high percentage of firms that continued to present negative values for these indicators in 2019 (almost 26% in the case of the return on investment, and 28% in the return on equity), exceeding the data posted a year earlier. The different behaviour in the aggregate and median data is explained by the heavy influence on the aggregate data exerted by certain large corporations, which have a significant weight in the overall sample and whose returns, on this occasion, performed more favourably than those of the rest of the CBQ firms.

Chart 3

AGGREGATE LEVELS OF PROFITABILITY ROSE IN 2019, WIDENING THE SPREAD OVER THE COST OF BORROWING

Ordinary net profit, bolstered by the higher dividends received, led to higher profitability levels than those of the previous year. Along with lower average borrowing costs, this led the difference between profitability and this indicator to widen.



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Number of corporations	CBI	838,497	843,457	844,923	757,098	640,655	—
	CBQ	885	984	983	993	1,030	960
% of GVA of the non-financial corporations sector	CBI	53.5	55.8	56.1	53.4	48.9	—
	CBQ	14.1	14.6	14.7	14.0	13.0	12.4

SOURCE: Banco de España.

a The 2014, 2015, 2016, 2017 and 2018 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 2019. The rates are calculated relative to the same period of 2018.

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Table 7
IN 2019, MEDIAN RETURNS DECLINED AND THE PERCENTAGE OF FIRMS WITH NEGATIVE RETURNS INCREASED

		CBQ			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		2018 Q1-Q4	2019 Q1-Q4	2018 Q1-Q4	2019 Q1-Q4
Number of corporations		1030	960	1030	960
Percentage of corporations by profitability bracket	R ≤ 0%	24.3	25.8	26.9	28.0
	0% < R ≤ 5%	23.0	22.1	16.3	15.1
	5% < R ≤ 10%	14.0	13.8	10.4	10.9
	10% < R ≤ 15%	10.5	9.2	9.0	8.3
	15% < R	28.2	29.1	37.3	37.7
MEMORANDUM ITEM: Median return (%)		5.9	5.6	8.3	8.0

SOURCE: Banco de España.

Table 8
AGGREGATE RETURNS GREW IN 2019, 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)	
	2017	2018	2018 Q1-Q4	2019 Q1-Q4	2017	2018	2018 Q1-Q4	2019 Q1-Q4	2017	2018	2018 Q1-Q4	2019 Q1-Q4	2017	2018	2018 Q1-Q4	2019 Q1-Q4
Total	**4.7**	**1.2**	**1.3**	**0.8**	**14.2**	**4.7**	**9.2**	**10.9**	**5.4**	**5.5**	**6.5**	**7.2**	**2.9**	**3.1**	**4.3**	**5.1**
Size																
Small	10.5	4.5	—	—	16.7	4.3	—	—	3.5	3.5	—	—	1.2	1.3	—	—
Medium	4.0	2.4	10.4	-2.8	4.4	1.5	13.2	-5.4	7.3	6.9	8.4	7.3	4.7	4.5	6.2	5.6
Large	3.2	0.3	1.2	0.9	14.5	5.0	9.1	11.0	5.9	6.0	6.5	7.2	3.3	3.6	4.3	5.1
Breakdown by activity																
Energy	-6.6	5.0	7.8	6.8	-3.8	5.9	4.4	42.4	5.2	5.2	5.0	6.8	2.4	2.2	2.6	4.8
Industry	4.5	-0.8	-6.6	-13.9	6.0	-1.6	-0.7	-13.0	8.9	8.4	9.8	8.6	6.3	5.9	7.3	5.9
Wholesale & retail trade and accommodation & food service activities	4.6	0.5	3.1	2.8	4.6	9.1	22.6	-11.7	8.7	8.9	16.3	12.6	6.2	6.7	14.4	10.9
Information and communications	5.0	-1.2	-0.1	1.9	9.6	-2.7	0.1	0.2	12.4	11.4	16.0	17.2	10.0	9.6	14.7	16.1
Other activities	10.9	2.6	1.1	2.5	34.1	11.4	21.6	26.4	3.7	3.9	4.9	5.7	1.4	1.7	2.7	3.7

SOURCE: Banco de España.

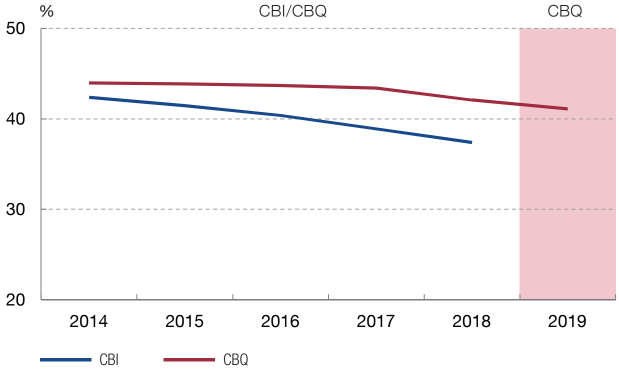
a All the data in these columns have been calculated as the weighted average of the quarterly data.

Chart 4

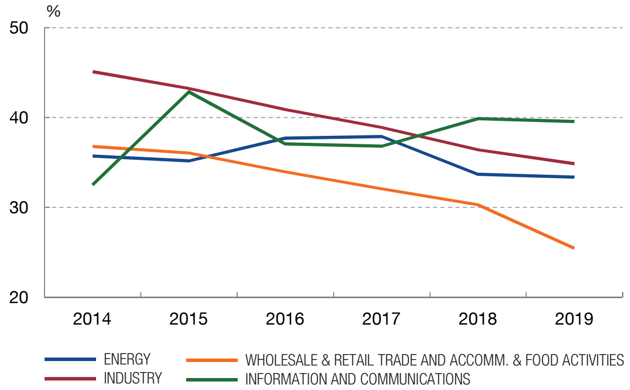
FINANCIAL POSITION RATIOS CONTINUED DECLINING IN 2019

The lower levels of end-2019 debt, along with the increase in ordinary profit, were conducive to a decline in debt ratios. The debt burden also continued falling, in a setting in which average borrowing costs also continued to decline.

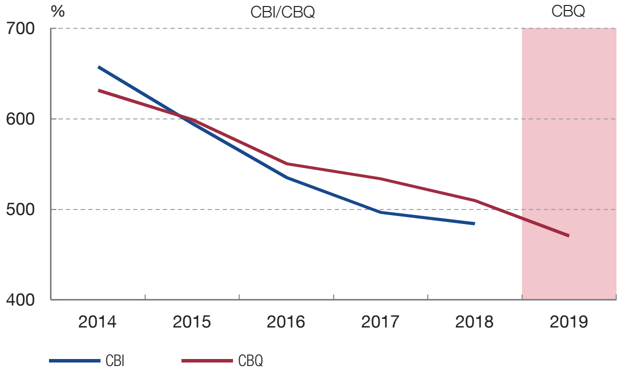
1 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
TOTAL CORPORATIONS
Ratios



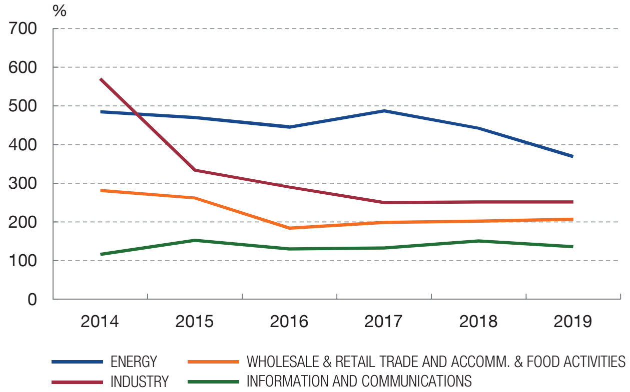
2 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
BREAKDOWN BY SECTOR. CBQ
Ratios



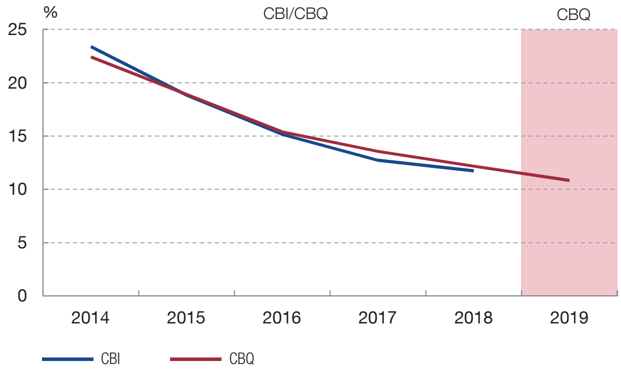
3 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)
TOTAL CORPORATIONS
Ratios



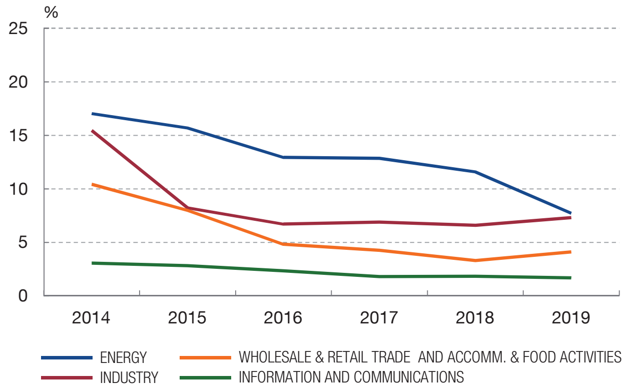
4 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)
BREAKDOWN BY SECTOR. CBQ
Ratios



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.

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The sectoral breakdown of the return on investment reveals a mixed performance. Decreases were recorded in wholesale and retail trade and accommodation and food service activities (slightly more than 3.5 pp, to 12.6%) and in industry (more than 1 pp, to 8.6%), while increases were seen in the energy sector (close to 2 pp, to 6.8%), in the information and communications sector (more than 1 pp, to 17.2%) and in the other activities category (0.8 pp, to 5.7%) (see Table 8).

The average cost of borrowing continued to head down, decreasing by 0.2 pp to 2% in 2019. The rise in the return on investment, coupled with the decline in borrowing costs, prompted further widening between these two ratios, to 5.1 pp, an increase of 0.8 pp on the previous year.

Lastly, the E1 ratio, which measures debt as a proportion of net assets, stood at 41.1% at end-2019, 1 pp down on the prior year's figure. The sectoral breakdown shows that this was the result of the declines recorded in industry and, above all, in wholesale and retail trade and accommodation and food service activities, with the energy sector and the information and communications sector remaining flat (see Chart 4). The E2 ratio, which measures debt as a proportion of ordinary revenue (obtained as the sum of GOP and financial revenue) also decreased to 471% (from 510% in 2018), owing both to the reduction in debt and the growth in profit. By sector, this indicator declined primarily in the energy sector, with the other sectors remaining broadly stable. Lastly, the interest burden ratio fell once again in 2019, by slightly more than 1 pp to 10.8%, its lowest point in the quarterly series (which began in 1994), as a result of both the decrease in financial costs and the rise in ordinary profit (the ratio's denominator). The sector breakdown shows a downward pattern in energy and slight increases in industry and in wholesale and retail trade and accommodation and food service activities, while it remained flat in information and communications.

23.3.2020.

Box 1

RECENT DEVELOPMENTS IN TRADE FINANCE RECEIVED AND GRANTED BY NON-FINANCIAL CORPORATIONS

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, in net terms, raise funds from other firms and sectors 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 and to collect payment from their customers).[1] This information can help identify the degree of financial pressure to which firms may be subject, deriving, for example, from possible liquidity problems (if supplier payment periods are extended) or from tensions associated with extensions in customer collection periods (if 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 CBSO's integrated annual (CBI) and quarterly (CBQ) databases.

Charts 1 and 2 show how, according to the CBI data, after a period of increasing buoyancy up to 2017, customer and supplier balances rose more moderately in 2018, with the supplier balance even decreasing slightly in the case of SMEs. This is in line with the slowdown in productive activity of non-financial corporations. Thus, for example, although sales continued to rise in 2018, the growth rate achieved of 6.5% was almost half a point down on the prior year. The most recent data from the CBQ, in which large corporations have a significant weight, show that in 2019 this pattern persisted and indeed intensified, with slight decreases both in customer and supplier balances.

From 2011 to 2018 there was a notable reduction both in average payment periods (of around 15 days for SMEs and 11 days for large corporations) and average collection periods (of around 12-13 days in both segments; see Chart 3). However, while the decline persisted throughout this period for SMEs, for large corporations there was an interval between 2014 and 2017 in which the average collection period flattened and the average payment period even increased slightly by around three days. Both indicators began to decline once again in 2018, reaching their respective lows in the period analysed. On the most recent information from the quarterly sample, in 2019 the average collection period continued to decrease for large corporations, while the average payment period increased slightly.

With respect to the average net trade finance period (which indicates the number of days that a 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 period of 18 days in 2018 (see Chart 4). At large corporations the figures are much lower and declining, down to an average of barely one day in 2018. According to the CBQ data, in 2019 this indicator fell once again, to close to zero (see Chart 4).

In any event, a calculation of net trade finance at the aggregate level may conceal heterogeneity and, therefore, an analysis of its distribution is useful. Chart 5 shows that although, on aggregate, non-financial corporations grant finance, a significant portion of them obtained funds, in net terms, as a result of their trading transactions. Thus, around 34% of SMEs obtained finance in 2018 (a figure very similar to that recorded throughout the period analysed), while at large corporations this proportion is comparatively higher, at 53% in 2018 and 48%, according to the CBQ, in 2019. Lastly, Chart 6 shows that from 2011 to 2018, regardless of firm size, the net trade finance period declined, gradually in the group of firms that raise funds in this way (25th percentile) and somewhat more markedly in those that grant finance over lengthier periods (75th percentile), thus reducing the heterogeneity of the sample. The CBQ suggests a slight decrease in this indicator in 2019, both in the 75th percentile (the level above which 25% of firms with the highest net trade finance are found) and the 25th percentile.

To conclude, the evidence presented in this box shows that, following the high level of buoyancy in prior periods, trade finance showed a slight slowdown in 2018, which persisted and intensified in 2019, according to the CBQ data for large corporations. This was in part linked to the

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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 firms and VAT borne by suppliers for domestic transactions), multiplied by 365. The average customer collection period is calculated in an equivalent fashion (customers, net of advances, to 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.

Box 1

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

Chart 1
GROWTH OF CUSTOMER BALANCE

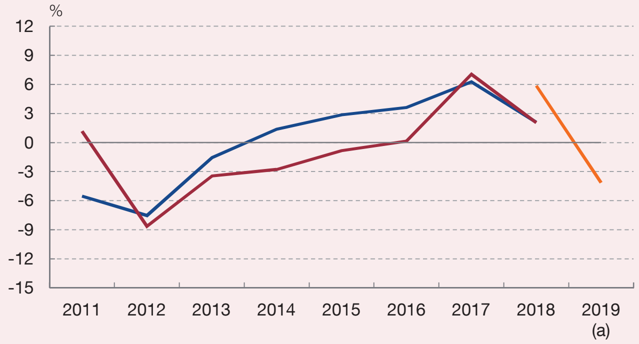


Chart 2
GROWTH OF SUPPLIER BALANCE

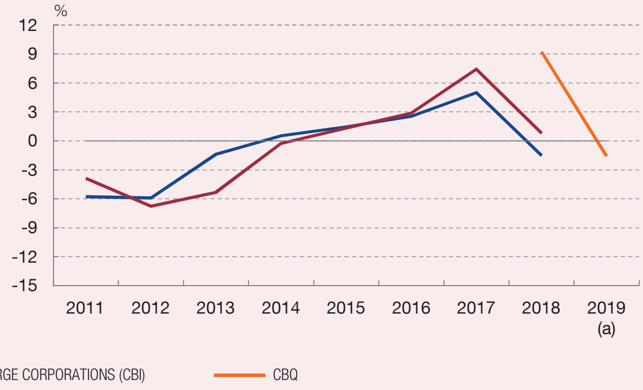


Chart 3
AVERAGE SUPPLIER PAYMENT AND CUSTOMER COLLECTION PERIODS. WEIGHTED AVERAGE (b)

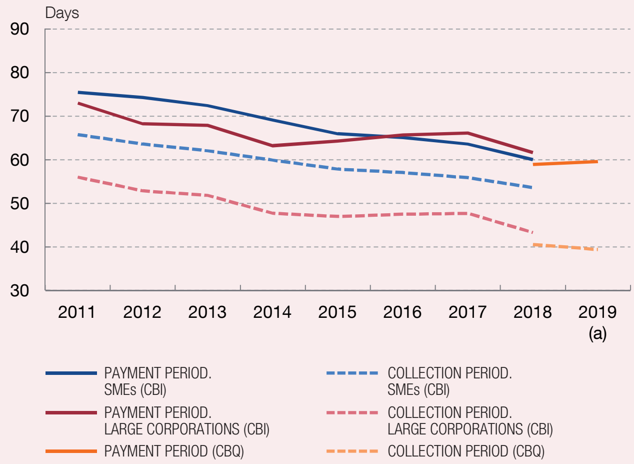


Chart 4
NET TRADE FINANCE. WEIGHTED AVERAGE (c)

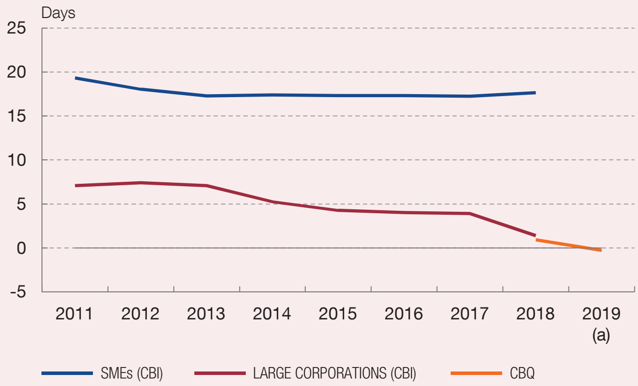


Chart 5
WEIGHT IN SALES ACCORDING TO SIGN OF NET TRADE FINANCE (c)

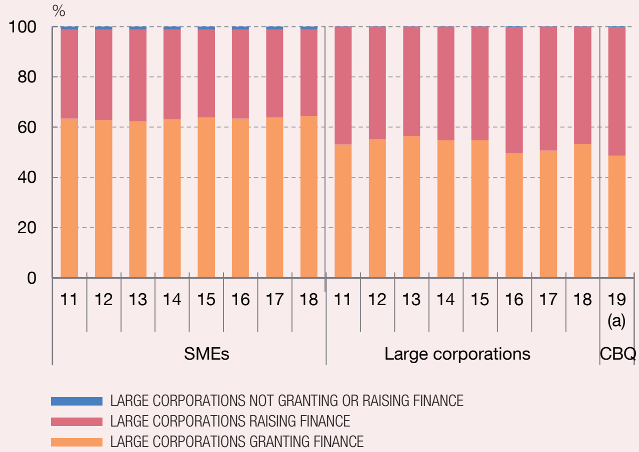
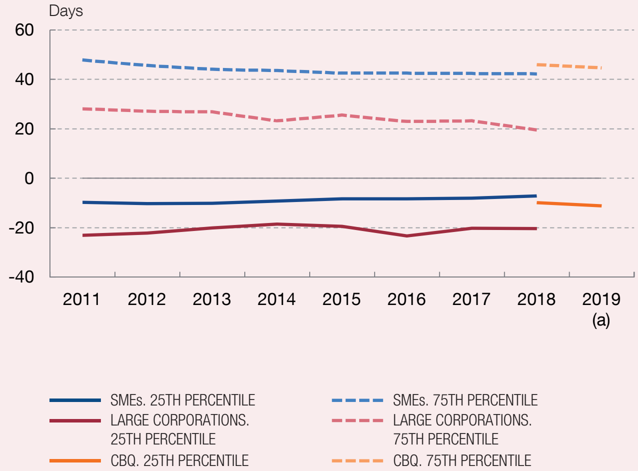


Chart 6
NET TRADE FINANCE. DISTRIBUTION (c)



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.

weaker economic momentum. Collection and payment periods declined across the board in 2018, reaching their lowest ever levels in the CBI (available since 1994). In 2019, average collection periods continued to decrease, while average payment periods increased slightly. Against this backdrop, in 2018 net trade finance was flat in the case of SMEs but decreased to very low levels in the case of large corporations and continued to decline in 2019. All this suggests that, in general, firms have not experienced significant liquidity stress in recent quarters.