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RESULTS OF NON-FINANCIAL CORPORATIONS  
IN 2020 Q1

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## ABSTRACT

The data from the Central Balance Sheet Data Office Quarterly Survey (CBQ) for 2020 Q1 show that the lockdown measures introduced in the context of the COVID-19 health crisis had a sharp adverse impact on the activity of the sample firms in the first quarter of the year. This led to a sharp contraction in ordinary profit and profitability levels, even reducing final net profit to a negative aggregate value, something that had not happened in the CBQ since 2002. In addition, the need to cover operating deficits contributed to a rise in these firms' debt, and the share of ordinary profit (gross operating profit plus financial revenue) used for interest payments also rose slightly, reversing the downward trend of this ratio in recent years. The article includes a box that analyses firms' liquidity needs in 2020 Q1 (as a result of the fall in activity, investment in real assets, and debt repayments) and the financial deterioration recorded by these firms.

**Keywords:** coronavirus, activity, earnings, financial position, non-financial corporations, liquidity needs.

**JEL classification:** L25, M21, M41.

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### Overview<sup>1</sup>

The results of the Central Balance Sheet Data Office Quarterly Survey (CBQ) for 2020 Q1 are highly influenced by the state of alert declared on 13 March in response to the COVID-19 pandemic; this has triggered an abrupt fall in activity for most firms from that date onwards, affecting the last two weeks of the period analysed. Thus, the CBQ data for 2020 Q1 show a sharp contraction in activity with respect to the same period a year earlier. This was reflected in the gross value added (GVA) of the sample firms, which declined almost 15% in nominal terms, in contrast to the 4.4% rise posted in 2019 Q1. GVA decreased across all sectors, with the only exception being the manufacture of food products, beverages and tobacco (a sub-sector of the industry sector), which maintained positive growth rates. As a result, a high proportion of firms posted operating deficits which, together with fixed asset investments and debt repayments, led to more than half of CBQ firms reporting liquidity needs in Q1; these liquidity needs represented 109% of the GVA of the sample (see Box 1).

Personnel costs also slipped, albeit very slightly (0.3%), owing to the slowdown in average compensation and the fall in employment, which decreased 0.5% on average in Q1.

The adverse performance of activity and the broadly stable labour costs resulted in a marked decline of 29.4% in gross operating profit (GOP). Financial revenue also decreased significantly (36.5%), greatly affected by the sharp decline of 44.3% in dividends received. Financial costs continued to fall (17.5%), spurred mainly by the decrease in borrowing costs. As a result of all this, ordinary net profit (ONP) plummeted by 63% in 2020 Q1, compared with an increase of 9.7% a year earlier. The behaviour of extraordinary costs and revenue together with the corporate income tax expense reduced the final net profit for the quarter of the CBQ firms as a whole to slightly negative territory, something which had not happened in the quarterly sample since 2002. As a percentage of GVA, net profit stood at -0.4%, compared with 15% in 2019 Q1.

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<sup>1</sup> This article was prepared based on information on the 837 firms that had sent their 2020 Q1 data to the CBQ by 17 June. The sample represents 10.6% of the gross value added (GVA) of the entire non-financial corporations sector (according to the information furnished by National Accounts).

The decline in ordinary profit resulted in a sharp drop in firms' average profitability levels, as well as a marked rise in firms reporting negative values of this indicator. Furthermore, the cost of borrowing fell slightly in 2020 Q1, continuing the downward trend of recent years. As the decline in the return on assets was much greater than that seen in the cost of borrowing, the spread between the two ratios narrowed by more than 1 pp to a negative value of -0.2 pp, something which had not occurred since 2014 Q1.

Firms' financial position indicators also deteriorated. The need faced by some firms to cover operating deficits contributed to a rise in the sample firms' debt. Thus, debt ratios, expressed as a percentage of assets and, to a greater extent, as a percentage of ordinary profit, increased. Despite the lower borrowing costs, the share of profits used to pay interest also rose owing to the adverse performance of ordinary profit (denominator), reversing the downward trend seen in this ratio in recent years.

In short, the CBQ data for 2020 Q1 show that firms' activity and results were very adversely affected by the lockdown measures introduced in response to the outbreak of the COVID-19 pandemic, triggering an abrupt fall in invoicing for a high proportion of firms during the last two weeks of the period analysed. This led to a sharp decline across the board in ordinary profit and profitability levels.

## Activity

The state of alert declared on 13 March triggered an abrupt decline in business activity in the last two weeks of that month. This resulted in a significant fall of 14.9% in GVA in 2020 Q1, compared with the 4.4% increase posted a year earlier (see Table 1 and Chart 1). This sharp contraction can also be seen when weighting the sectors of the CBQ sample using the weights of the National Accounts (drop of 14.5%) and when observing the distribution of GVA growth rates; the latter reveals a pronounced worsening in the different percentiles, especially so in the 25th percentile, which groups together the firms whose activity has performed more negatively (see Chart 2).

Against this backdrop, turnover fell almost 12.5%, affecting both sales in Spain and, to a lesser extent, exports, whose weight increased, particularly in the case of those to non-EU countries (see Table 2). Purchases also saw a marked drop of 15.4%, with similar movement both in imports and in domestic purchases. However, the latter declined somewhat less markedly and, as a percentage of total purchases, increased from 72.4% to 72.9% in 2020 Q1.

Sectorally, decreases in GVA were observed across the board (see Table 3). The 40.5% decline in the industrial sector was especially fierce. Nearly all sub-sectors contributed to this fall-off, although the decreases in the refining sub-sector and in

Table 1

**ABRUPT DECLINE IN ORDINARY PROFIT AND PROFITABILITY OF FIRMS IN 2020 Q1, OWING TO THE IMPACT OF THE COVID-19 CRISIS**

Databases	CBI structure (%)	CBI		CBQ		
	2018	2017	2018	2019 Q1-Q4/ 2018 Q1-Q4 (a)	2019 Q1/ 2018 Q1	2020 Q1/ 2019 Q1
Number of corporations		757,098	640,655	998	1,057	837
Total national coverage (% of GVA)		53.4	48.9	12.7	13.0	10.6
Profit and loss account (rate of change with respect to the same corporations in the prior year, %)						
1 VALUE OF OUTPUT (including subsidies)	100.0	6.6	5.3	-0.1	3.5	-11.0
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	151.2	6.9	6.5	-1.5	3.3	-12.5
2 INPUTS (including taxes)	63.9	7.2	5.9	-0.8	3.1	-9.3
<i>Of which:</i>						
<i>Net purchases</i>	39.8	8.0	3.4	-2.2	1.1	-15.4
<i>Other operating costs</i>	23.4	5.3	5.9	0.3	4.2	-0.6
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	36.1	5.7	4.2	1.5	4.4	-14.9
3 Personnel costs	23.2	6.2	5.9	2.8	3.0	-0.3
S.2 GROSS OPERATING PROFIT [S.1 – 3]	12.9	4.7	1.2	0.3	5.9	-29.4
4 Financial revenue	4.1	11.5	6.6	18.7	-6.6	-36.5
5 Financial costs	2.1	-9.7	-5.1	-5.3	-9.6	-17.5
6 Depreciation, impairment and operating provisions	5.4	1.3	1.7	0.8	3.7	5.3
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.6	14.2	4.7	9.6	9.7	-63.0
7 Gains (losses) from disposals and impairment	2.0	–	–	-69.3		
7' As a percentage of GVA (7 / S.1)		-1.9	5.6	5.2	-1.0	-5.2
8 Changes in fair value and other gains (losses)	-0.7	38.8	-23.6	-53.3		44.7
8' As a percentage of GVA (8 / S.1)		-1.1	-2.0	-5.6	-5.9	-4.1
9 Corporate income tax	1.5	-23.1	3.1	2.4	13.1	-41.1
S.4 NET PROFIT [S.3 + 7 + 8 – 9]	9.4	1.3	52.7	-21.7	-77.4	
S. 4' As a percentage of VAB (S.4 / S.1)		16.7	25.9	36.9	15.0	-0.4
RATES OF RETURN						
	Formulas (b)					
R.1 Return on assets (before taxes)	(S.3 + 5.1) / NA	5.4	5.5	7.2	3.1	1.5
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / IBB	2.5	2.3	2.0	2.0	1.7
R.3 Ordinary return on equity (before taxes)	S.3 / E	7.3	7.3	11.0	3.8	1.4
R.4 ROA – cost of debt (R.1 – R.2)	R.1 – R.2	2.9	3.1	5.2	1.0	-0.2
MEMORANDUM ITEM: TOTAL SAMPLE RE-WEIGHTED						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]		5.8	4.3	1.1	3.3	-14.5
S.2 GROSS OPERATING PROFIT [S.1 – 3]		5.4	1.5	-2.4	3.0	-37.7

**SOURCE:** Banco de España.

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

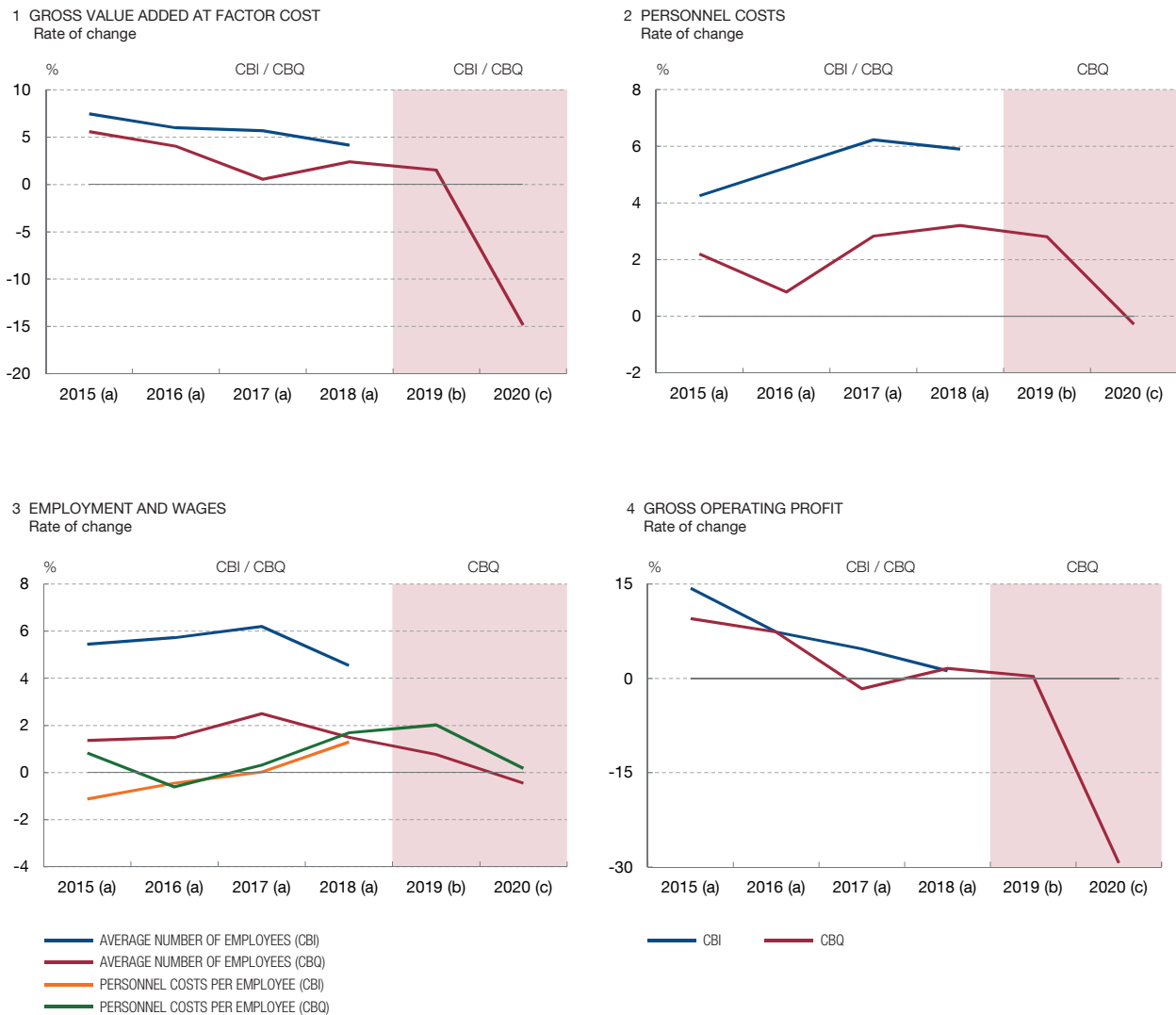
**a** All the data in this column have been calculated as the weighted average of the quarterly data.

**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

**SHARP DECLINE IN BUSINESS ACTIVITY AND RESULTS AS A RESULT OF THE COVID-19 CRISIS**

The lockdown measures introduced in the context of the COVID-19 pandemic triggered an abrupt fall in the activity of firms in the last two weeks of March. Together with the downward rigidity of personnel costs, this led to a sharp decline in results in 2020 Q1.



SOURCE: Banco de España.

- a The 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.
- c Data for 2020 Q1 compared with the same period in 2019.

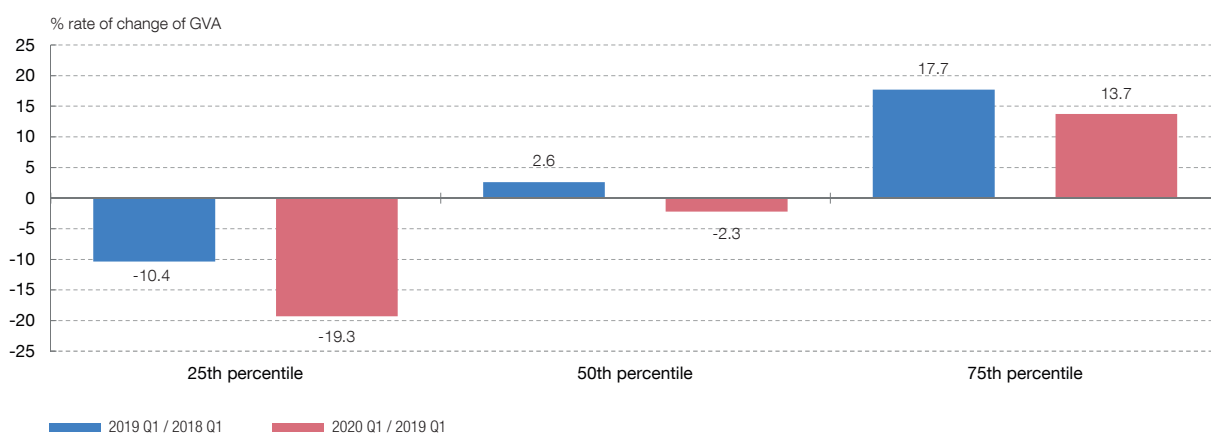


the manufacture of chemicals and chemical products were notable. Indeed, the only sub-sector maintaining a positive growth rate was the manufacture of food products, beverages and tobacco, with 5.8%. After industry, the second most affected sector was the wholesale and retail trade and accommodation and food service activities sector, where the GVA declined by 16.1%. Energy posted a more moderate contraction of 2.2%. Lastly, the information and communication sector and the other activities sector saw decreases of 6.4% and 12.1%, respectively.

Chart 2

### THE DISTRIBUTION OF THE RATE OF GVA WORSENE IN ALL THE QUANTILES

The distribution of firms based on the rate of change of GVA worsened across the board in 2020 Q1, albeit more markedly in the case of the 25th percentile (where the firms with the greatest drops in GVA are concentrated).



SOURCE: Banco de España.



## Employment and personnel costs

Personnel costs fell 0.3% in 2020 Q1, explained by the slowdown in compensation and the decrease in the average workforce numbers.

On a quarterly average basis, employment declined by 0.5%. However, the contraction in employment was much sharper in quarter-end terms, as the labour force adjustments were made during the last two weeks of the quarter. Temporary workers mainly bore the brunt of the drop in employment, falling 9.4% on a quarterly average basis (see Table 4). By contrast, permanent staff rose 1.3% in the quarter as a whole, nearly half a point up on the 0.9% increase of the previous year. On a quarterly average basis, the percentage of firms destroying employment rose by more than 4.5 pp on the prior year, to stand at nearly 41% (see Table 5).

The sectoral breakdown shows that the decline in employment was concentrated in information and communication, industry and energy, with decreases of 3.4%, 2.7% and 1.7%, respectively. Conversely, the wholesale and retail trade and accommodation and food service activities sector and the other activities sector managed to maintain positive, albeit reduced, growth rates of 0.9% and 0.1%, respectively, on a quarterly average basis.

Average compensation presented a very slight increase of 0.2% between January and March 2020, compared with the 2.5% rise a year earlier (see Table 3). This restraint in wages was the result of very moderate increases and decreases in nearly

Table 2

**THE SHARP DECLINE IN PURCHASES AND SALES AFFECTED TRANSACTIONS CARRIED OUT BOTH IN SPAIN AND ABROAD**

Structure and rate of change, percentages		CBA	CBQ		
		2018	2019 Q1-Q4 (a)	2019 Q1	2020 Q1
Total corporations		10,155	998	837	837
Corporations reporting source/destination		10,155	940	797	797
Percentage of net purchases according to source	Spain	65.0	69.4	72.4	72.9
	Total abroad	35.0	30.6	27.6	27.1
	EU countries	19.2	19.4	18.4	18.0
	Third countries	15.7	11.2	9.2	9.1
Percentage of net turnover according to destination	Spain	76.6	79.0	79.7	79.0
	Total abroad	23.4	21.0	20.3	21.0
	EU countries	15.2	13.4	13.8	13.4
	Third countries	8.3	7.6	6.5	7.6
Change in net external demand (exports less imports), rate of change	Industry	-4.2	6.7	4.1	-8.0
	Other corporations	-44.8	—	—	—

SOURCE: Banco de España.

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

all sectors of activity. For instance, such costs rose most in the other activities sector (1.5%), whereas other sectors saw changes ranging from a decrease of 0.9% (energy) to an increase of 0.5% (information and communication).

## Profit, rates of return and debt

In line with the negative behaviour of activity and the downward rigidity of personnel costs, GOP saw a sharp fall of 29.4% in 2020 Q1, compared with the 5.9% increase recorded in the same period a year earlier (see Table 1 and Chart 1). The rates calculated by weighting the sectors according to their relative weight in the economy as a whole also show a strong contraction of 37.7% in GOP in 2020 to date, compared with a 3% increase 12 months earlier.

Financial revenue also fell sharply, by 36.5%, up to March as a consequence of the decline in interest income (20.4%) and, especially, in dividends received (44.3%). Financial costs continued to fall, by 17.5%, owing above all to the lower average cost of borrowing borne by firms, and also to the lower volume of debt in comparison with a year earlier (see Table 6).

Against this backdrop, ONP decreased sharply, by 63%, in 2020 Q1, compared with an increase of 9.7% in the same period in 2019 (see Chart 3). Extraordinary costs



Table 3

**THE DECLINE IN GVA WAS SHARP AND WIDESPREAD AMONG SECTORS. CONVERSELY, THE DROP IN PERSONNEL COSTS WAS VERY MODERATE**

Rate of change with respect to the same corporations in the prior year, %	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBI		CBQ		CBI		CBQ		CBI		CBQ		CBI		CBQ	
	2018	2019 Q1-Q4 (a)	2019 Q1	2020 Q1	2018	2019 Q1-Q4 (a)	2019 Q1	2020 Q1	2018	2019 Q1-Q4 (a)	2019 Q1	2020 Q1	2018	2019 Q1-Q4 (a)	2019 Q1	2020 Q1
<b>Total</b>	<b>4.2</b>	<b>1.5</b>	<b>4.4</b>	<b>-14.9</b>	<b>4.5</b>	<b>0.8</b>	<b>0.5</b>	<b>-0.5</b>	<b>5.9</b>	<b>2.8</b>	<b>3.0</b>	<b>-0.3</b>	<b>1.3</b>	<b>2.0</b>	<b>2.5</b>	<b>0.2</b>
Size																
Small	7.4	—	—	—	6.7	—	—	—	8.5	—	—	—	1.7	—	—	—
Medium	5.2	2.2	0.7	-2.2	5.0	4.0	2.0	3.5	6.4	4.8	3.0	4.1	1.3	0.8	1.0	0.6
Large	2.7	1.5	4.4	-15.0	3.0	0.7	0.5	-0.5	4.5	2.8	3.0	-0.3	1.5	2.0	2.5	0.2
Breakdown by activity																
Energy	4.0	5.9	8.6	-2.2	1.0	-1.9	-1.5	-1.7	1.9	0.9	0.2	-2.6	0.9	2.8	1.7	-0.9
Industry	2.3	-7.0	7.4	-40.5	3.2	-0.2	-0.6	-2.7	4.4	2.3	2.6	-2.5	1.2	2.5	3.3	0.2
Wholesale & retail trade and accommodation & food service activities	4.2	4.5	2.1	-16.1	4.0	1.7	0.9	0.9	5.9	3.2	2.4	0.7	1.8	1.4	1.5	-0.2
Information and communication	1.9	1.8	0.6	-6.4	5.3	0.9	1.9	-3.4	5.0	2.2	1.9	-2.9	-0.3	1.2	0.0	0.5
Other activities	5.9	2.3	3.2	-12.1	5.6	0.9	0.9	0.1	7.3	3.5	5.0	1.6	1.5	2.6	4.1	1.5

SOURCE: Banco de España.

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

Table 4

**TEMPORARY EMPLOYMENT FELL SHARPLY, WHILE PERMANENT EMPLOYMENT MAINTAINED POSITIVE GROWTH RATES**

	Total CBQ corporations 2020 Q1	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations	837	495	342
NUMBER OF EMPLOYEES			
Initial situation 2019 Q1 (000s)	826	442	384
Rate 2020 Q1 / 2019 Q1	-0.5	4.7	-6.4
Permanent			
Initial situation 2019 Q1 (000s)	689	387	301
Rate 2020 Q1 / 2019 Q1	1.3	5.1	-3.5
Non-permanent			
Initial situation 2019 Q1 (000s)	138	55	83
Rate 2020 Q1 / 2019 Q1	-9.4	2.1	-17.0

SOURCE: Banco de España.

Table 5

**MARKED RISE IN THE PROPORTION OF FIRMS DESTROYING EMPLOYMENT**

Percentage of corporations in certain situations	CBI (a)		CBQ (b)			
	2017	2018	2018 Q1-Q4 (a)	2019 Q1-Q4 (a)	2019 Q1	2020 Q1
Number of corporations	521,954	460,467	103	998	1,057	837
Personnel costs	100	100	100	100	100	100
Falling	31.0	32.2	32.3	33.0	33.1	40.3
Constant or rising	69.0	67.8	67.7	67.0	66.9	59.7
Average number of employees	100	100	100	100	100	100
Falling	27.4	29.0	33.4	36.6	36.4	40.9
Constant	26.5	26.4	14.8	14.2	14.1	15.1
Rising	46.1	44.6	51.8	49.2	49.4	44.1

**SOURCE:** Banco de España.

**a** To calculate these percentages, corporations that did not have staff in either of these years were excluded.

**b** Weighted average of the relevant quarters for each column.

Table 6

**FINANCIAL COSTS CONTINUED FALLING UP TO MARCH, CHIEFLY OWING TO LOWER BORROWING COSTS**

Percentages	CBI	CBQ	
	2017 / 2018	2019 Q1-Q4 / 2018 Q1-Q4	2020 Q1 / 2019 Q1
<b>Change in financial costs</b>	<b>-5.1</b>	<b>-5.3</b>	<b>-17.5</b>
A Interest on borrowed funds	-5.4	-5.6	-18.5
1 Due to the cost (interest rate)	-6.3	-10.0	-15.9
2 Due to the amount of interest-bearing debt	0.9	4.4	-2.6
B Other financial costs	0.3	0.3	1.0

**SOURCE:** Banco de España.

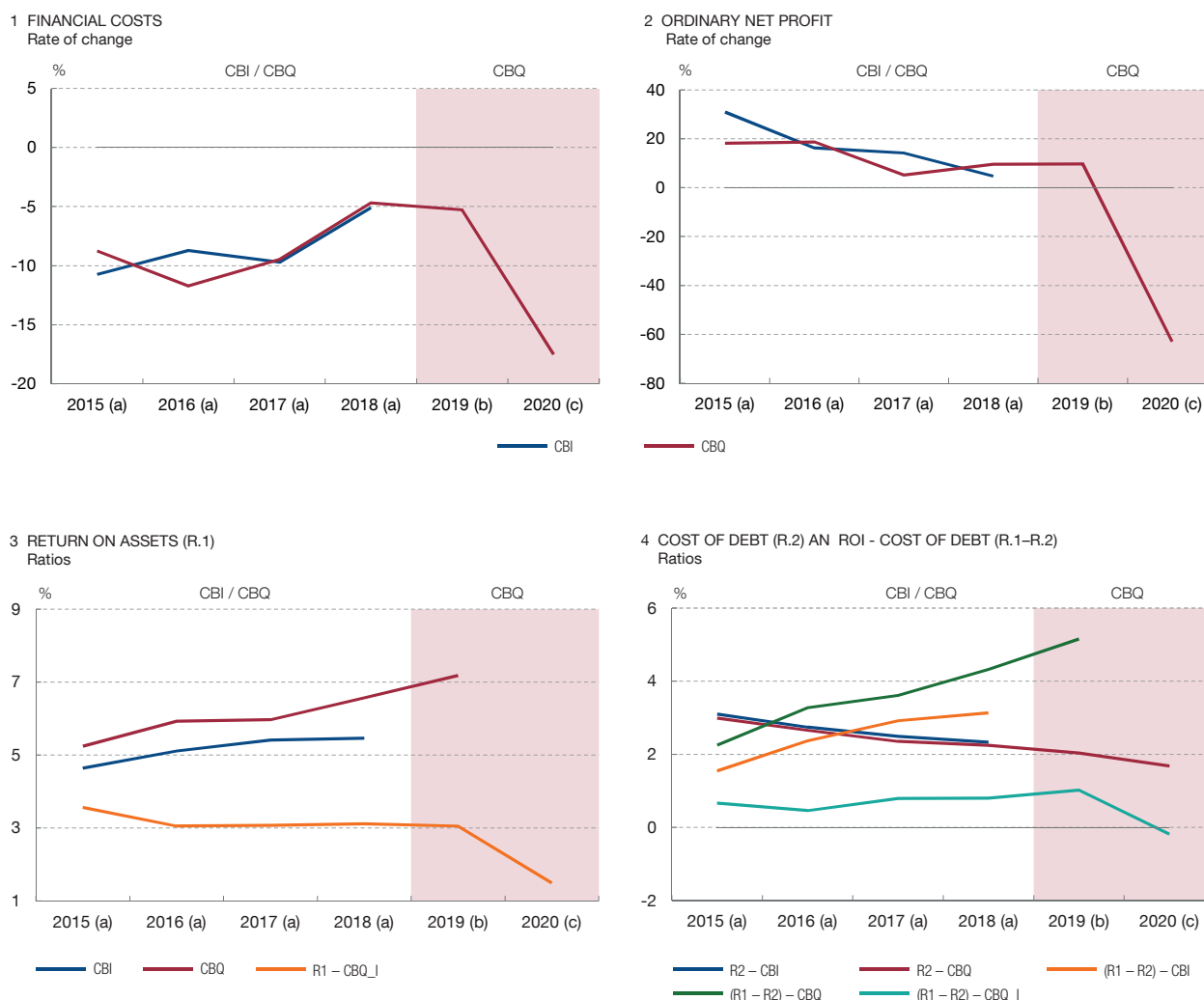
and revenue, together with corporate income tax payments, had an additional negative impact on net profit, driving it into slightly negative territory. As a percentage of GVA, net profit for the quarter stood at -0.4%, compared with 15% recorded in the same period of the previous year.

The decline in ordinary profit led to drastic drops in the aggregate rates of return: the return on assets fell by slightly more than 1.5 pp to 1.5%, and the return on equity decreased by almost 2.5 pp to 1.4%. Similarly, the median values for these indicators reflect a marked declining trend, both in the return on assets, which fell 1.7 pp to 2.2%,

Chart 3

### SHARP FALL IN PROFIT AND IN ORDINARY PROFITABILITY LEVELS

Although financial costs continued to fall, the strong contraction in activity triggered a sharp decline in ordinary net profit (of more than 60%), which led to a very pronounced decrease in the return on assets. As a result, the spread between this indicator and the cost of borrowing was slightly negative.



SOURCE: Banco de España.

- a The 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.
- c Data for 2020 Q1. The rates are calculated relative to the same period in 2019.



and in the return on equity, which decreased from 5.7% to 2.3% (see Table 7). This table also evidences the high percentage of firms reporting negative values of these indicators (35.1% in the case of the return on assets, and 38.7% in the case of the return on equity), up nearly 7 pp on the data posted a year earlier.

The breakdown of the return on assets by sector reveals that the deterioration was widespread. The steepest decreases were recorded in industry, where the indicator

Table 7

**SHARP DECLINE IN RETURN ON ORDINARY ACTIVITIES AND RISE IN THE PERCENTAGE OF CORPORATIONS WITH NEGATIVE RETURNS**

		CBQ			
		Return on assets (R.1)		Ordinary return on equity (R.3)	
		2019 Q1	2020 Q1	2019 Q1	2020 Q1
Number of corporations		1,057	837	1,057	837
Percentage of corporations by profitability bracket	R ≤ 0%	28.3	35.1	31.8	38.7
	0% < R ≤ 5%	25.7	25.6	16.7	17.1
	5% < R ≤ 10%	13.7	12.4	10.9	10.5
	10% < R ≤ 15%	7.7	7.4	7.6	6.7
	15% < R	24.6	19.5	33.0	27.0
MEMORANDUM ITEM: Median return (%)		3.9	2.2	5.7	2.3

SOURCE: Banco de España.

Table 8

**THE DECLINE IN RETURNS WAS WIDESPREAD AMONG SECTORS, ALTHOUGH IT AFFECTED INDUSTRY AND WHOLESALE & RETAIL TRADE AND ACCOMMODATION & FOOD SERVICE ACTIVITIES MORE STRONGLY**

Rate of change with respect to the same corporations on the prior year and ratios, % and pp	Gross operating profit				Ordinary net profit				Return on assets (R.1)				ROA-cost of debt (R.1-R.2)			
	CBI		CBQ		CBI		CBQ		CBI		CBQ		CBI		CBQ	
	2018	2019 Q1-Q4 (a)	2019 Q1	2020 Q1	2018	2019 Q1-Q4 (a)	2019 Q1	2020 Q1	2018	2019 Q1-Q4 (a)	2019 Q1	2020 Q1	2018	2019 Q1-Q4 (a)	2019 Q1	2020 Q1
<b>Total</b>	<b>1.2</b>	<b>0.3</b>	<b>5.9</b>	<b>-29.4</b>	<b>4.7</b>	<b>9.6</b>	<b>9.7</b>	<b>-63.0</b>	<b>5.5</b>	<b>7.2</b>	<b>3.1</b>	<b>1.5</b>	<b>3.1</b>	<b>5.2</b>	<b>1.0</b>	<b>-0.2</b>
Size																
Small	4.5	—	—	—	4.3	—	—	—	3.5	—	—	—	1.3	—	—	—
Medium	2.4	-3.1	-5.7	-18.8	1.5	-5.1	-9.9	-36.5	6.9	7.4	4.0	3.0	4.5	5.6	2.4	1.7
Large	0.3	0.3	5.9	-29.4	5.0	9.8	9.9	-63.1	6.0	7.2	3.1	1.5	3.6	5.2	1.0	-0.2
Breakdown by activity																
Energy	5.0	7.6	11.6	-2.1	5.9	43.3	37.8	0.4	5.2	6.7	4.2	4.0	2.2	4.7	2.1	2.4
Industry	-0.8	-17.3	14.2	-83.0	-1.6	-18.6	15.5		8.4	8.3	5.8	-4.7	5.9	5.6	3.5	-7.0
Wholesale & retail trade and accommodation & food service activities	0.5	6.6	1.5	-42.8	9.1	-8.5	-3.4	-73.1	8.9	12.5	6.9	2.1	6.7	10.9	4.9	0.3
Information and communication	-1.2	1.6	-0.1	-8.3	-2.7	-0.2	-3.2	-26.5	11.4	17.4	13.8	11.3	9.6	16.3	12.8	10.1
Other activities	2.6	0.3	-0.6	-42.6	11.4	27.6	-39.6		3.9	5.9	1.0	0.3	1.7	3.8	-1.0	-1.3

SOURCE: Banco de España.

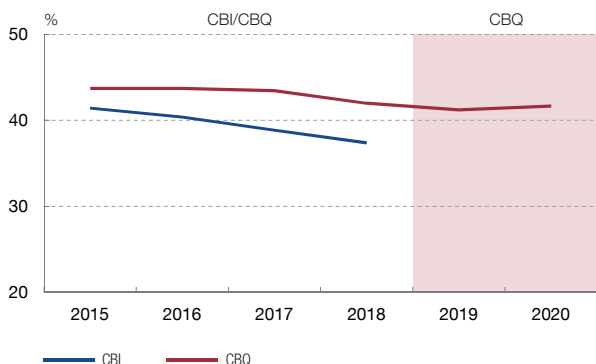
a All the data in these columns have been calculated as the weighted average of the quarterly data.

Chart 4

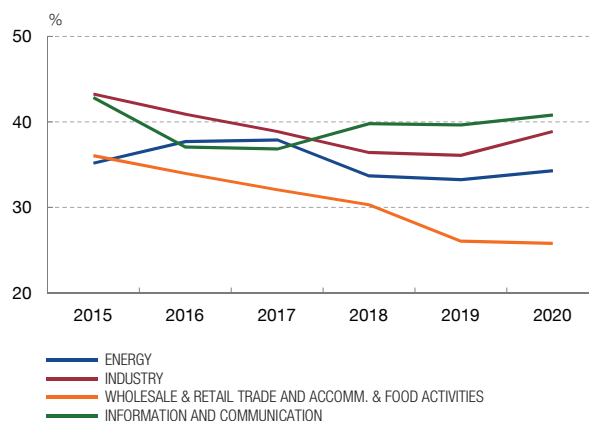
**DETERIORATION OF THE FINANCIAL POSITION OF FIRMS, WITH INCREASES IN INDEBTEDNESS AND IN THE DEBT BURDEN**

Firms increased their indebtedness in 2020 Q1, both relative to assets and, particularly, to ordinary profit (GOP + financial revenue). The debt burden also rose, albeit slightly, ending the downward trend in this ratio since 2015.

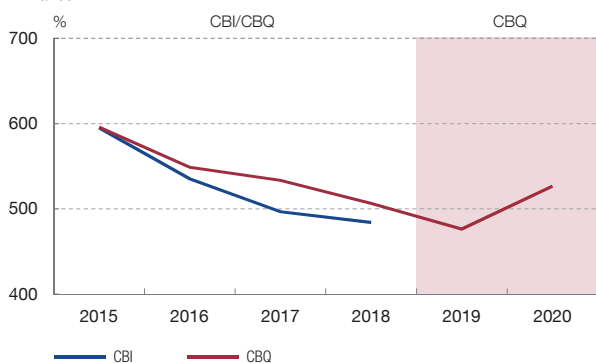
1 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)  
TOTAL CORPORATIONS  
Ratios



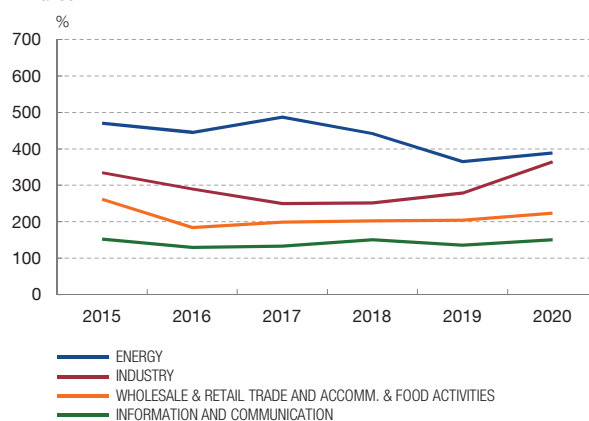
2 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)  
BREAKDOWN BY SECTOR. CBQ



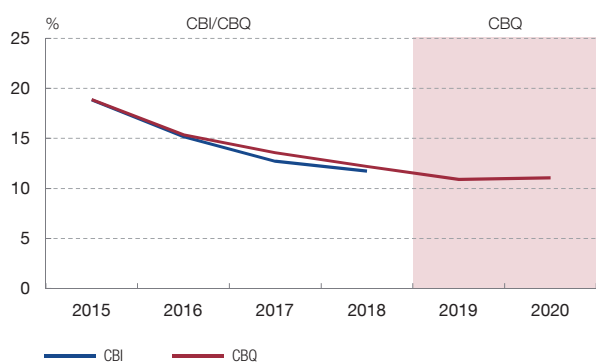
3 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)  
TOTAL CORPORATIONS  
Ratios



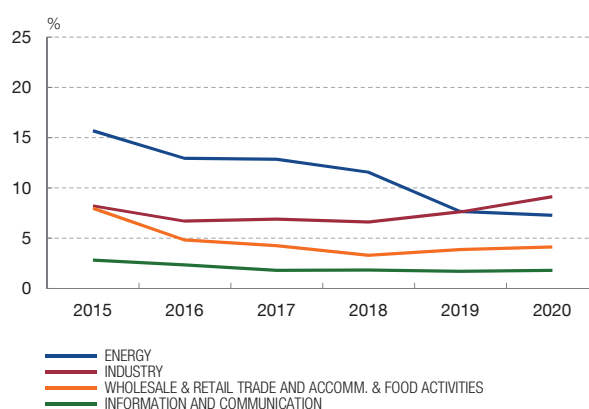
4 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)  
BREAKDOWN BY SECTOR. CBQ



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. 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.



declined into negative territory (-4.7%), and in the wholesale and retail trade and accommodation and food service activities sector, where it fell from 6.9% to 2.1%. In the other sectors, the decreases ranged between 0.2 pp (in energy, to 4%) and 2.5 pp (in information and communication, to 11.3%) (see Table 8).

The average cost of debt continued the downward trend of recent years, decreasing by 0.3 pp to 1.7%. However, the return on assets fell sharply, dropping to 0.2 pp below the cost of debt, something which had not happened since 2014.

Lastly, the debt-to-net assets ratio stood at 41.6% at the end of the first quarter of 2020, almost half a point up on the data recorded at the close of the previous year. The ratio of debt as a proportion of ordinary profit (obtained as the sum of GOP and financial revenue) also rose to 527% (476% in 2019), driven by the increase in financial debt and, especially, the sharp decline of profit. The sectoral breakdown shows increases in both indicators in practically all sectors of activity (see Chart 4). Lastly, the interest burden ratio also rose, albeit slightly, by 0.1 pp in 2020 Q1, to stand at 11%, reversing the downward trend posted in this indicator since 2015. This was because ordinary profit fell more than financial costs. The sectoral breakdown shows a strong rise in industry, while the changes in the other sectors were negligible.

9.7.2020.

**ANALYSIS OF CBQ FIRMS' LIQUIDITY NEEDS IN 2020 Q1**

The entry into force of the state of alert on 13 March gave rise to an abrupt fall in activity for a substantial number of firms from that date onwards. Although this situation only affected the last two weeks of Q1, the data from the Central Balance Sheet Data Office Quarterly Survey (CBQ) evidence a decline of nearly 12.5% in the turnover of the firms in this sample during the first quarter of the year. This translated into a significant drop in collections, while the decline in payments relating to the operating activity was more moderate given the existence of fixed overheads, such as rent, interest on debt or a sizeable portion of staff-related payments. Also, firms need to cover their debt repayments. This box analyses the impact of this situation on the liquidity needs and financial position of a sample of 750 CBQ firms for which there is information relating to 2019 Q4 and 2020 Q1.<sup>1</sup>

The data in Chart 1 show that in 2020 Q1 somewhat more than half of the firms in the sample (55%) posted a liquidity deficit; in other words, payments associated with their operating activity, investment in fixed assets and debt repayments exceeded collections. The industrial sector and, in particular, the wholesale and retail trade and accommodation and food service activities sector recorded the highest percentages (59% and 63%, respectively), while the lowest proportion of firms in this situation were in the energy and information and communication sectors (42% and 47%, respectively). Companies with a liquidity deficit accounted for slightly more than 70% of total employment in the sample, a similar percentage to that recorded by most sectors, except that which encompasses all other activities, where it was higher (81%), and information and communication, where such firms only accounted for 39% of employment.

Chart 2 shows that the amount of liquidity needs generated up to March accounted for 109% of the sample firms' GVA. Of these liquidity needs, 62.5% related to bank and non-bank debt repayments (involving group companies, debt securities and others), while around 6.5% arose from investments in tangible and intangible fixed assets and the remaining 40% derived from operating activity deficits.

Notably, the latter amount, which was calculated on a cash basis (i.e. taking into account the dates when amounts are actually collected and paid), is almost five times higher than the figure obtained on an accrual basis (i.e. taking into account the dates when sales and purchases take place). This is because the sample firms, as is common in the case of larger firms, tend to have much longer supplier payment periods than customer collection periods. Specifically, in 2019 the average supplier payment period was around 60 days, compared with 40 days for collections.<sup>2</sup> Against a backdrop of a sharp fall in sales and purchases, as has occurred in 2020 Q1, the decline in turnover would impact collections more rapidly, while it would take longer to perceive the decrease in payments owing to the drop in purchases. This may also possibly be explained by delays in collections from customers, which is likely considering the liquidity tensions which many firms could have experienced during the last two weeks of Q1.

The breakdown by sector evidences that the energy, industrial, and wholesale and retail trade and accommodation and food service activities sectors posted higher liquidity needs in terms of GVA (with a weight of around 140% of GVA in each sector), while the information and communication sector recorded the lowest (total liquidity needs accounted for 32% of the GVA of this aggregate).

In order to analyse how firms covered their liquidity needs in 2020 Q1, Chart 3 shows the asset and liability flows of firms with a liquidity deficit in that period.<sup>3</sup> Noteworthy, first, both for the total sample and for each of the sectors analysed, is the high value of both new bank<sup>4</sup> borrowing operations and other types of external financing (mainly loans from group companies), making this the main source of funds available to these firms. These funds include both the refinancing of debts maturing in the quarter and the taking on of new liabilities to finance their operating deficit and the acquisition of financial and real assets. By sector of activity, there are also high values in other items mainly including one-off transactions. Thus, in the

1 The analysis was based on a sample of 750 firms which cooperated with the CBQ and had provided information relating to both 2020 Q1 and 2019 Q4. The 2019 data are necessary to calculate asset and liability flows, which are approximated by using the difference between the balance sheet balances in the two periods as a starting point.

2 See Box 1, "Recent developments in trade finance received and granted by non-financial corporations" in the article "Results of non-financial corporations to 2019 Q4. Preliminary year-end data", Economic Bulletin, 1/2020, Banco de España.

3 Excluding flows already included in the calculation of liquidity needs; i.e. investment in fixed assets, operating activity deficit recorded on an accrual basis, and customer and supplier flows.

4 See Box 4.3 of the Annual Report, "Developments in bank finance for productive activities in the context of the COVID-19 crisis".

**ANALYSIS OF CBQ FIRMS' LIQUIDITY NEEDS IN 2020 Q1 (cont'd)**

wholesale and retail trade and accommodation and food service activities sector there was a significant decrease in liquid assets which appears to be largely linked to the increase in financial investment. The industrial sector recorded a significant decline in other liability flows, owing

to a strong fall in short-term payables (other than to suppliers), a reduction in short-term financial investments (probably owing to a sale of this type of asset) and an increase in equity (possibly as a result of a contribution by shareholders or members).

Chart 1  
FIRMS WITH LIQUIDITY NEEDS IN 2020 Q1

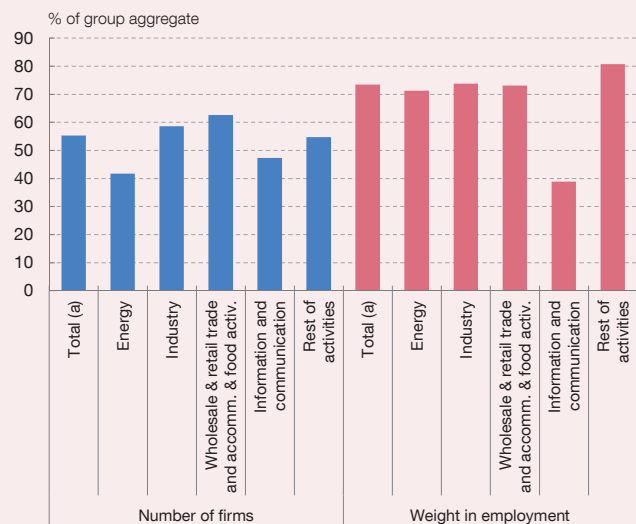


Chart 2  
LIQUIDITY NEEDS IN 2020 Q1

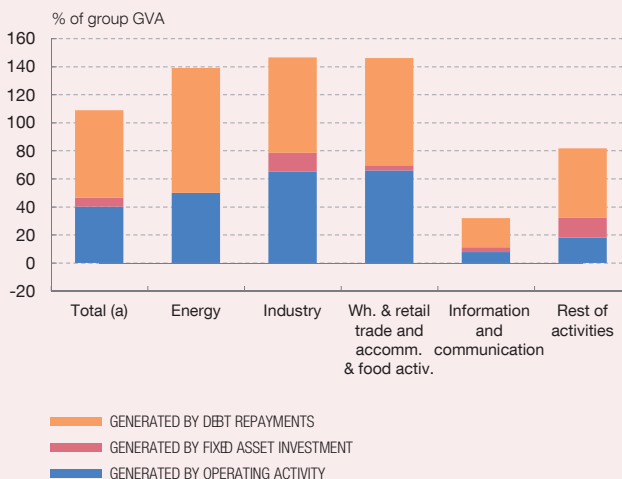


Chart 3  
RESOURCES AND USES IN FIRMS WITH LIQUIDITY NEEDS

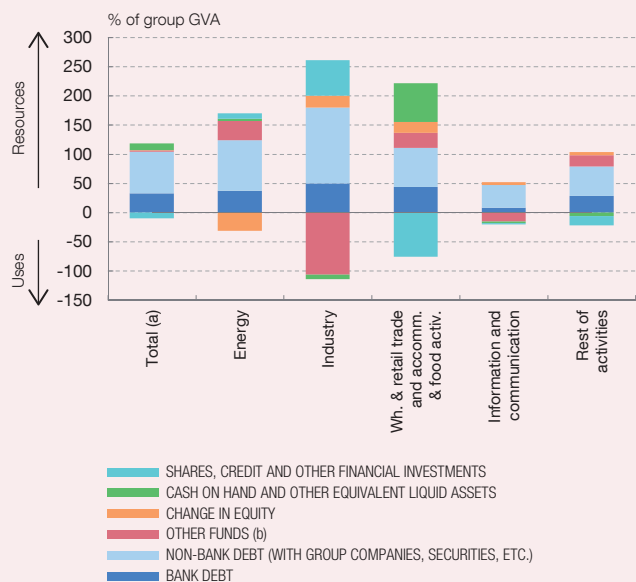


Chart 4  
DISTRIBUTION OF NET DEBT/EQUITY RATIO (c)



SOURCE: Banco de España.

- a Excluding holdings and firms in the financial services sector.
- b Including other accounts receivable other than customer receivables, other trade accounts payable other than payables to suppliers and other assets and liabilities (net).
- c Net debt defined as interest-bearing debt - Cash on hand and other equivalent liquid assets.



**ANALYSIS OF CBQ FIRMS' LIQUIDITY NEEDS IN 2020 Q1 (cont'd)**

Finally, in order to assess the impact of firms' operating deficits on their financial position, Chart 4 shows the distribution, at the beginning and end of the quarter, of the ratio of net debt (financial debt less cash on hand and liquid assets) to net equity, both for the total sample and for the aggregate of companies with liquidity needs. The results evidence a slight deterioration of the financial position of firms, mainly explained by the change in this indicator in those posting a liquidity deficit in Q1, where levels were already higher at the start of the year. Thus,

an increase is observed in the distribution percentiles of the ratio analysed; however, this increase is stronger in the 75th percentile, where the firms with higher levels of net indebtedness as a percentage of own funds are concentrated. In any event, the deterioration of the financial position can be considered moderate, since the percentage of companies with a net level of indebtedness exceeding twice their equity stood at 13.9% in March, which is virtually equal to that posted at the beginning of Q1.