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RESULTS OF NON-FINANCIAL CORPORATIONS
TO 2020 Q2

Álvaro Menéndez Pujadas and Maristela Mulino

ABSTRACT

The Central Balance Sheet Data Office Quarterly Survey (CBQ) data for 2020 H1 show that the lockdown measures introduced in the context of the COVID-19 health crisis had a sharp adverse impact on activity, albeit with notable differences across the sample firms. This led to a sharp contraction in ordinary profit and profitability levels, resulting in a net loss in aggregate terms, something not seen in the CBQ since 2002. In addition, firms increased their indebtedness to fund larger operating deficits. 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 H1 as a result of the fall in activity, investment in real assets and debt repayments, and the financial deterioration recorded by these firms.

Keywords: COVID-19, activity, earnings, financial position, non-financial corporations, liquidity needs.

JEL classification: L25, M21, M41.

The authors of this article are Álvaro Menéndez Pujadas and Maristela Mulino, of the Directorate General Economics, Statistics and Research.

Overview¹

The results of the Central Balance Sheet Data Office Quarterly Survey (CBQ) for 2020 H1 show that the COVID-19 pandemic and the measures introduced to contain it had a sharp adverse impact on the sample firms' activity and economic and financial position. Thus, in 2020 H1 gross value added (GVA) contracted sharply, by 22% in nominal and year-on-year terms. This contrasts with the 0.5% increase recorded in 2019 H1. As a result, a high proportion of firms posted operating deficits and this, together with fixed asset investments and debt repayments, led to close to 60% of CBQ firms presenting liquidity needs in an amount equal to more than 120% of the GVA of the sample (see Box 1).

Personnel costs also fell, by 4.8%, as a result of both the deceleration in the rate of growth of average compensation and, particularly, the decline in employment, which decreased by 5.4% in half-year average terms.

The adverse performance of activity passed through to gross operating profit (GOP, obtained by deducting personnel costs from GVA), which fell by 39.1%. Financial revenue also decreased significantly, by almost 31%, greatly affected by the sharp decline of 38.1% in dividends received. Financial costs continued to fall (by 11%), essentially as a result of the decrease in average borrowing costs. In consequence, ordinary net profit (ONP)² plummeted by 69.6% in 2020 H1, compared with an increase of 1.8% a year earlier. As a result of the performance of extraordinary costs and revenue, and of the corporate income tax expense,³ the CBQ firms as a whole reported a final net loss in 2020 H1, something not seen in the quarterly sample since 2002.⁴ As a percentage of GVA, the final net loss stood at -21.2%, compared with net profit of 23.9% in 2019 H1.

1 This article draws on information on the 876 firms that had sent their 2020 H1 data to the CBQ by 16 September. The sample represents 11.5% of the gross value added (GVA) of the entire non-financial corporations sector (according to the information furnished by National Accounts).

2 Ordinary net profit (ONP) equals GOP less financial costs and operating depreciation, plus financial revenue.

3 Although in 2020 H1 the aggregate total was a loss, an expense continues to be recognised under corporate income tax, albeit much less than the previous year, on account of the firms within this sample that have generated profit.

4 Final net profit/loss for 2002 was influenced by heavy extraordinary losses associated with the bursting of the dot.com bubble in those years.

The decline in ordinary profit resulted in a sharp fall in firms' average profitability levels and also led to a marked rise (of more than 11 pp) in the percentage of firms with negative values in these indicators (37.1% of firms reported negative ROA and close to 40% negative ROE). Furthermore, the cost of borrowing fell slightly in 2020 H1, continuing in the downward path of recent years. As the decline in the return on assets was much greater than the fall in the cost of borrowing, the average spread between the two ratios narrowed by almost 2 pp to a positive, albeit very low, value of 0.2 pp.

Firms' financial position indicators also deteriorated. A high percentage of firms found themselves having to fund operating deficits and this drove up indebtedness. Thus, both debt-to-asset and debt-to-ordinary income ratios increased (the latter more so, due to the sharp reduction in ordinary income). Despite the lower borrowing costs, the share of profits used to service debt also rose owing to the adverse performance of ordinary profit (denominator), reversing the downward trend seen in this ratio in recent years.

Activity

In 2020 H1, the GVA of the CBQ sample firms fell by 22%. This contrasts with the 0.5% increase recorded a year earlier (see Table 1 and Chart 1). If calculated by weighting the sectors of this sample using the weights in the National Accounts the decline is somewhat steeper (23.8%). Furthermore, as Chart 2 shows, GVA worsened across the board, although notably more acutely in the 25th percentile, in which the firms whose activity fared the worst are to be found. The chart also shows that the dispersion of this indicator, approximated by the distance between the 75th and 25th percentiles, has increased. This indicates that the deterioration was very uneven.

Against this backdrop, sales fell by almost 22.5%, affecting both sales made in Spain and, to a greater extent, exports, which decreased slightly as a percentage of total sales (see Table 2). Purchases also diminished markedly (by almost 30%). The drop was slightly steeper in imports than in domestic purchases, with the share of the latter increasing from 69.8% in 2019 H1 to 71.9% in 2020 H1.

By sector, decreases in GVA were observed across the board (see Table 3). The decline in industry was particularly sharp (37.6%), with all the sub-sectors making a negative contribution, although the decreases in the manufacture of refined petroleum products, of transport equipment and of chemicals and chemical products stand out. Second only to industry, the most affected sector was that dubbed "all other activities", with a decline in GVA of 29.4%. Of particular note within this group was the especially adverse behaviour of transport sector firms, recording a drop of 40%. In the wholesale and retail trade and accommodation and food service activities sector the decline was also very steep (20.7%), since it was particularly affected by

Table 1

ABRUPT DECLINE IN ORDINARY PROFIT AND PROFITABILITY OF FIRMS IN 2020 H1, OWING TO THE IMPACT OF THE COVID-19 CRISIS

Databases	CBI Structure	CBI		CBQ (a)		
	2018	2017	2018	2019 Q1-Q4 / 2018 Q1-Q4	2019 Q1-Q2 / 2018 Q1-Q2	2020 Q1-Q2 / 2019 Q1-Q2
Number of corporations		757,098	640,655	1,010	1,046	876
Total national coverage (% of GVA)		53.4	48.9	12.0	12.9	11.5
Profit and loss account (rate of change with respect to same firms in previous year, %)						
1 VALUE OF OUTPUT (including subsidies)	100.0	6.6	5.3	-0.3	1.3	-21.6
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	<i>151.2</i>	<i>6.9</i>	<i>6.5</i>	<i>-1.5</i>	<i>1.0</i>	<i>-22.5</i>
2 INPUTS (including taxes)	63.9	7.2	5.9	-1.1	1.7	-21.4
<i>Of which:</i>						
<i>Net purchases</i>	<i>39.8</i>	<i>8.0</i>	<i>3.4</i>	<i>-2.7</i>	<i>-1.4</i>	<i>-29.7</i>
<i>Other operating costs</i>	<i>23.4</i>	<i>5.3</i>	<i>5.9</i>	<i>0.3</i>	<i>2.9</i>	<i>-8.7</i>
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	36.1	5.7	4.2	1.7	0.5	-22.0
3 Personnel costs	23.2	6.2	5.9	3.0	3.1	-4.8
S.2 GROSS OPERATING PROFIT [S.1 – 3]	12.9	4.7	1.2	0.5	-2.2	-39.1
4 Financial revenue	4.1	11.5	6.6	22.3	14.2	-30.9
5 Financial costs	2.1	-9.7	-5.1	-4.3	-4.5	-11.0
6 Net depreciation, impairment and operating provisions	5.4	1.3	1.7	0.3	1.7	3.4
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.6	14.2	4.7	11.5	1.8	-69.6
7 Gains (losses) from disposals and impairment	2.0	–	–	-70.3	–	–
7' As a percentage of GVA (7 / S.1)		-1.9	5.6	4.5	-1.3	-28.2
8 Changes in fair value and other gains (losses)	-0.7	38.8	-23.6	-13.7	2.2	24.1
8' As a percentage of GVA (8 / S.1)		-1.1	-2.0	-4.2	-3.4	-3.9
9 Corporate income tax	1.5	-23.1	3.1	-12.8	54.8	-61.5
S.4 NET PROFIT (LOSS) [S.3 + 7 + 8 – 9]	9.4	1.3	52.7	-14.1	-44.6	–
S. 4' As a percentage of GVA (S.4 / S.1)		16.7	25.9	38.2	23.9	-21.2
RATES OF RETURN						
	Formulas (b)					
R.1 Return on assets (before tax)	(S.3 + 5.1) / NA	5.4	5.5	7.2	4.0	2.0
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / IBB	2.5	2.3	2.0	2.0	1.8
R.3 Return on equity (before tax)	S.3 / E	7.3	7.3	11.1	5.5	2.1
R.4 ROA – cost of debt (R.1 – R.2)	R.1 – R.2	2.9	3.1	5.2	2.0	0.2
MEMORANDUM ITEM: TOTAL SAMPLE REWEIGHTED						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]		5.8	4.3	1.2	-0.1	-23.8
S.2 GROSS OPERATING PROFIT [S.1 – 3]		5.4	1.5	-2.5	-5.2	-51.3

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 EARNINGS 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 firms' activity, especially in Q2, although the impact was also felt in the last two weeks of March. Despite the decline in personnel costs, earnings fell sharply in 2020 H1.



Reporting non-financial corporations		2015	2016	2017	2018	2019	2020
Number of corporations	CBI	843,457	844,923	757,098	640,655	—	—
	CBQ	984	982	994	1,030	1,010	876
% of GVA of the sector non-financial corporations	CBI	55.8	56.1	53.4	48.9	—	—
	CBQ	14.6	14.7	14.0	13.0	12.8	11.5

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 with respect to the previous year (CBQ).

b Average of the four quarters of 2019 with respect to the same period of 2018.

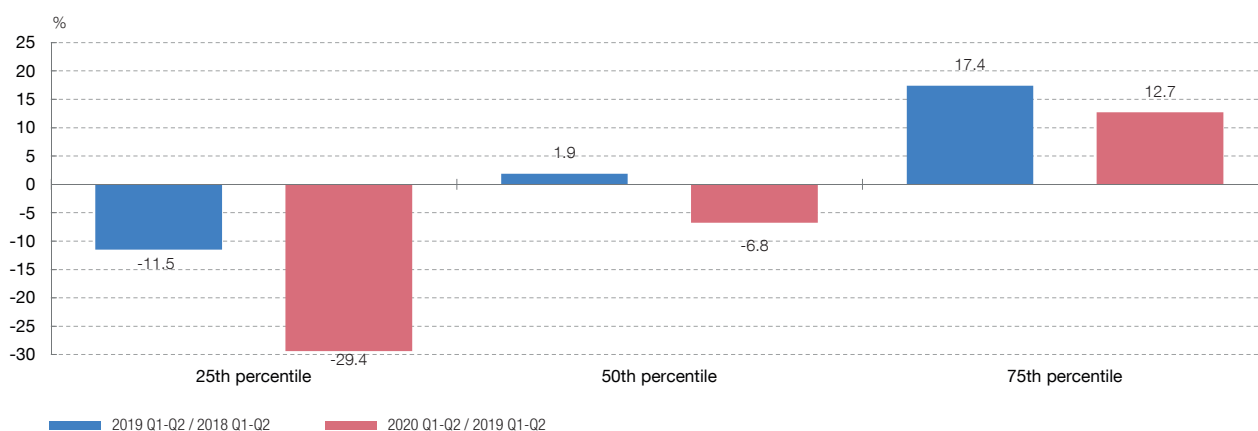
c Data to 2020 Q2 with respect to the same period in 2019.



Chart 2

WIDESPREAD DETERIORATION IN THE RATE OF CHANGE OF GVA, BUT ESPECIALLY IN THE 25th PERCENTILE

The distribution of firms according to the rate of change of GVA worsened across the board in 2020 H1, albeit more acutely in the 25th percentile (where the firms with the largest declines in GVA are concentrated).



SOURCE: Banco de España.



the lockdown measures. At the other end of the scale, GVA contracted more moderately in the energy (5.5%) and the information and communication (13.5%) sectors.

Employment and personnel costs

Personnel costs fell by 4.8% in 2020 H1, explained by the slowdown in compensation and, particularly, by the decrease in the average workforce.

In half-year average terms, average employment declined by 5.4%. This decrease reflects the impact of the workers affected by temporary layoffs or short-time work arrangements, as they are not included in the average employment figures for 2020 H1. The drop was mainly concentrated on temporary employment, with staff levels decreasing by 17.7%, while permanent staff levels also declined, but more moderately (by 2.9%) (see Table 4). Also in half-year average terms, the percentage of firms destroying employment rose by almost 12 pp on the previous year, to stand at 48.4% (see Table 5).

The breakdown by sector shows that the decrease in employment was broad-based, affecting all sectors, albeit with varying intensity. The sharpest declines were recorded in the wholesale and retail trade and accommodation and food service activities sector and in industry (7.3% and 6.5%, respectively). In the other sectors, the decreases in average number of employees were slightly more moderate, ranging from 2.4% in the energy sector to 4.3% in the “all other activities” sector.

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-Q2	2020 Q1-Q2
Total corporations		10,155	1,010	876	876
Corporations reporting source/destination		10,155	954	830	830
Percentage of net purchases according to source	Spain	65.0	69.6	69.8	71.9
	Total abroad	35.0	30.4	30.2	28.1
	EU countries	19.2	19.2	18.1	16.9
	Third countries	15.7	11.1	12.0	11.1
Percentage of net turnover according to destination	Spain	76.6	79.1	77.6	78.9
	Total abroad	23.4	20.9	22.4	21.1
	EU countries	15.2	13.4	13.4	12.6
	Third countries	8.3	7.5	9.0	8.5
Change in net external demand (exports less imports), rate of change	Industry	-4.2	6.7	-0.5	-18.3
	Other firms	-44.8	—	—	11.2

SOURCE: Banco de España.

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

Average compensation presented a moderate increase of 0.6% in 2020 H1, compared with the 2.4% rise in the same period a year earlier (see Table 3). The breakdown by sector evidences small changes across practically all sectors. Compensation costs rose the most in the wholesale and retail trade and accommodation and food service activities sector (1.9%), while the other sectors saw changes ranging from a decrease of 0.4% (in industry) to an increase of 0.3% (in information and communication).

Profit, rates of return and debt

In keeping with the adverse performance of activity, and despite the drop in personnel costs, GOP fell sharply (by 39.1%) in 2020 H1 (see Table 1 and Chart 1). The rates calculated by weighting the sectors according to their relative weight in the economy as a whole show a more pronounced downturn in GOP in 2020 to date (51.3%), as the sectors most affected are underrepresented in the CBQ sample.

Financial revenue to June also fell sharply (by 30.9%) as a result of lower dividends received (a contraction of 38.1%), while interest income rose slightly. Financial costs continued to fall, by 11%, owing above all to the lower average cost of borrowing borne by firms, and also to the lower average volume of debt in comparison with a year earlier⁵ (see Table 6).

⁵ Although the level of indebtedness was higher at June 2020 than at the 2019 close, in half-year average terms it was slightly lower in 2020 H1 than in 2019 H1.

Table 3

THE DECLINE IN GVA WAS SHARP AND WIDESPREAD ACROSS SECTORS. CONVERSELY, THE DROP IN PERSONNEL COSTS WAS MORE MODERATE

Rate of change with respect to same corporations in previous year, %	GVA at factor cost				Employees (average for period)				Personnel costs				Average compensation			
	CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)	
	2018	2019 Q1-Q4	2019 Q1-Q2	2020 Q1-Q2	2018	2019 Q1-Q4	2019 Q1-Q2	2020 Q1-Q2	2018	2019 Q1-Q4	2019 Q1-Q2	2020 Q1-Q2	2018	2019 Q1-Q4	2019 Q1-Q2	2020 Q1-Q2
TOTAL	4.2	1.7	0.5	-22.0	4.5	0.8	0.7	-5.4	5.9	3.0	3.1	-4.8	1.3	2.1	2.4	0.6
Size																
Small	7.4	—	—	—	6.7	—	—	—	8.5	—	—	—	1.7	—	—	—
Medium	5.2	3.3	-1.8	-16.4	5.0	3.5	2.7	-4.6	6.4	4.5	3.5	-5.8	1.3	0.9	0.8	-1.3
Large	2.7	1.7	0.5	-22.0	3.0	0.8	0.6	-5.4	4.5	2.9	3.1	-4.8	1.5	2.1	2.5	0.7
Breakdown by activity																
Energy	4.0	6.4	7.5	-5.5	1.0	-1.9	-1.5	-2.4	1.9	0.9	1.4	-2.5	0.9	2.8	3.0	-0.1
Industry	2.3	-7.2	-7.0	-37.6	3.2	-0.2	-0.8	-6.5	4.4	2.3	2.0	-6.8	1.2	2.5	2.8	-0.4
Wholesale & retail trade, accomm. & food service activities	4.2	5.3	0.6	-20.7	4.0	1.7	1.4	-7.3	5.9	3.2	2.9	-5.6	1.8	1.5	1.4	1.9
Information and communication	1.9	1.8	0.2	-13.5	5.3	0.9	1.7	-3.7	5.0	2.2	2.5	-3.4	-0.3	1.2	0.8	0.3
All other activities	5.9	2.3	1.5	-29.4	5.6	1.1	0.9	-4.3	7.3	3.9	4.7	-4.3	1.5	2.8	3.7	0.0

SOURCE: Banco de España.

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

Table 4

EMPLOYMENT IN 2020 H1

	Total CBQ corporations 2020 Q1-Q2	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations	877	452	425
NUMBER OF EMPLOYEES			
Initial situation 2019 Q1-Q2 (000s)	859	401	458
Rate 2020 Q1-Q2 / 2019 Q1-Q2	-5.4	2.3	-12.2
Permanent			
Initial situation 2019 Q1-Q2 (000s)	711	353	358
Rate 2020 Q1-Q2 / 2019 Q1-Q2	-2.9	3.0	-8.6
Non-permanent			
Initial situation 2019 Q1-Q2 (000s)	148	48	100
Rate 2020 Q1-Q2 / 2019 Q1-Q2	-17.7	-2.4	-25.0

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	2019 Q1-Q4	2019 Q1-Q2	2020 Q1-Q2
Number of corporations	521,954	460,467	103	1,010	1,046	876
Personnel costs	100	100	100	100	100	100
Falling	31.0	32.2	32.3	32.9	32.7	50.5
Constant or rising	69.0	67.8	67.7	67.1	67.3	49.5
Average number of employees	100	100	100	100	100	100
Falling	27.4	29.0	33.4	36.8	36.6	48.4
Constant	26.5	26.4	14.8	14.2	14.1	14.4
Rising	46.1	44.6	51.8	49.0	49.3	37.2

SOURCE: Banco de España.

a The calculation of these percentages do not include corporations that have no employees in either year.

b Weighted average of the relevant quarters for each column.

Table 6

FINANCIAL COSTS TO JUNE CONTINUED TO DECLINE, CHIEFLY OWING TO LOWER BORROWING COSTS

Percentages	CBI	CBQ	
	2017 / 2018	2019 Q1-Q4 / 2018 Q1-Q4	2020 Q1-Q2 / 2019 Q1-Q2
Change in financial costs	-5.1	-4.3	-11.0
A Interest on borrowed funds	-5.4	-4.1	-11.0
1 Due to cost (interest rate)	-6.3	-8.9	-10.0
2 Due to amount of interest-bearing debt	0.9	4.8	-1.0
B Other financial costs	0.3	-0.2	0.1

SOURCE: Banco de España.

Against this backdrop, ONP contracted sharply, by 69.6%, in 2020 H1, compared with an increase of 1.8% in 2019 H1 (see Chart 3). Extraordinary revenue and costs, together with corporate income tax payments, had an additional negative impact on net profit, driving it into negative territory. As a percentage of GVA, the final net loss in H1 stood at -21.2%, compared with net profit of 23.9% in 2019 H1.

The decline in ONP prompted a dramatic drop in the average rates of return: ROA fell by 2 pp to 2% and ROE by more than 3 pp to 2.1%. Similarly, the median values for these indicators reflect a very marked decline, both in ROA (down 3.3 pp to 1.9%) and ROE (down from 7.5% to 2.1%) (see Table 7). This table also evidences the high percentage of firms reporting negative values for these indicators (37.1% in the case of ROA and 39.7% in the case of ROE), up more than 11 pp on the year-earlier figures.

Chart 3

SHARP FALL IN PROFIT AND ORDINARY PROFITABILITY LEVELS

Although financial costs continued to fall, the strong contraction in activity triggered a sharp decline (of almost 70%) in ordinary net profit, which led to a very pronounced decrease in return on assets. As a result, the spread between this indicator and the cost of borrowing became almost negligible (0.2 pp).



Reporting non-financial corporations		2015	2016	2017	2018	2019	2020
Number of corporations	CBI	843,457	844,923	757,098	640,655	—	—
	CBQ	984	982	994	1,030	1,010	876
% of GVA of the sector non-financial corporations	CBI	55.8	56.1	53.4	48.9	—	—
	CBQ	14.6	14.7	14.0	13.0	12.8	11.5

SOURCE: Banco de España.

- a** The 2015, 2016, 2017 and 2018 data, for the corporations reporting to the CBI, and the average of the four quarters of each year (CBQ). The rates are calculated with respect to the previous year.
b Average of the four quarters of 2019. The rates are calculated with respect to the same period of 2018.
c Data to 2020 Q2. The rates are calculated with respect to the same period of 2019.



Table 7

SHARP DECLINE IN ORDINARY PROFITABILITY LEVELS AND RISE IN THE PERCENTAGE OF FIRMS WITH NEGATIVE RETURNS

		CBQ			
		Return on assets (R.1)		Return on equity (R.3)	
		2019 Q1-Q2	2020 Q1-Q2	2019 Q1-Q2	2020 Q1-Q2
Number of corporations		1,046	876	1,046	876
Percentage of corporations by profitability bracket	R <= 0%	25.7	37.1	28.6	39.7
	0% < R <= 5%	24.0	23.7	15.7	16.8
	5% < R <= 10%	13.7	12.4	10.5	10.4
	10% < R <= 15%	9.0	6.7	8.9	6.2
	15% < R	27.6	20.1	36.3	26.9
MEMORANDUM ITEM: Median return (%)		5.2	1.9	7.5	2.1

SOURCE: Banco de España.

Table 8

THE DECLINE IN RETURNS WAS WIDESPREAD ACROSS SECTORS, ALBEIT MOST ACUTE IN INDUSTRY, IN WHOLESALE AND RETAIL TRADE AND ACCOMMODATION AND FOOD SERVICE ACTIVITIES AND IN INFORMATION AND COMMUNICATION

Rate of change with respect to same corporations in previous 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 (a)		CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)	
	2018	2019 Q1-Q4	2019 Q1-Q2	2020 Q1-Q2	2018	2019 Q1-Q4	2019 Q1-Q2	2020 Q1-Q2	2018	2019 Q1-Q4	2019 Q1-Q2	2020 Q1-Q2	2018	2019 Q1-Q4	2019 Q1-Q2	2020 Q1-Q2
TOTAL	1.2	0.5	-2.2	-39.1	4.7	11.5	1.8	-69.6	5.5	7.2	4.0	2.0	3.1	5.2	2.0	0.2
Size																
Small	4.5	—	—	—	4.3	—	—	—	3.5	—	—	—	1.3	—	—	—
Medium	2.4	0.7	-12.1	-37.6	1.5	1.0	-18.8	-54.5	6.9	7.0	6.1	3.3	4.5	5.2	4.5	1.9
Large	0.3	0.5	-2.1	-39.2	5.0	11.6	2.0	-69.7	6.0	7.2	4.0	2.0	3.6	5.2	2.0	0.1
Breakdown by activity																
Energy	5.0	8.3	9.6	-6.6	5.9	44.4	48.2	-15.1	5.2	6.8	4.8	4.1	2.2	4.7	2.7	2.3
Industry	-0.8	-18.0	-17.2	-77.2	-1.6	-18.2	-25.4	—	8.4	8.2	6.2	-1.9	5.9	5.4	3.9	-4.1
Wholesale & retail trade, accomm. & food service activities	0.5	8.5	-2.9	-45.2	9.1	-7.5	-1.2	-77.8	8.9	12.4	7.5	1.8	6.7	10.7	5.7	0.2
Information and communication	-1.2	1.6	-1.0	-18.8	-2.7	-0.2	-1.1	-43.9	11.4	17.4	15.7	9.7	9.6	16.3	14.6	8.6
All other activities	2.6	-0.6	-3.9	-75.3	11.4	30.2	-6.0	-70.6	3.9	5.9	2.2	1.1	1.7	3.9	0.2	-0.7

SOURCE: Banco de España.

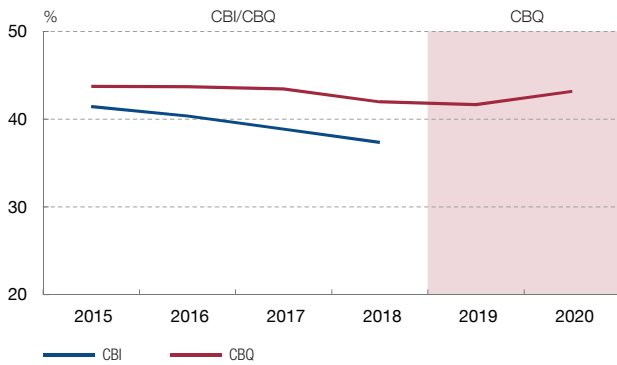
a All the data in these columns have been calculated as the weighted average of the quarterly data.

Chart 4

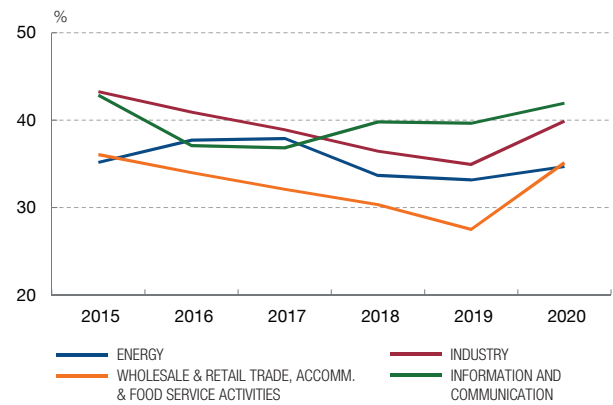
DETERIORATION OF FIRMS' FINANCIAL POSITION, WITH GROWING INDEBTEDNESS AND DEBT BURDEN

Firms' debt levels rose in 2020 H1, both in terms of the debt-to-asset ratio and, especially, the debt-to-ordinary income (GOP + financial revenue) ratio. In both cases, the breakdown by sector shows that this growth was widespread across all sectors of activity. The debt burden also rose, reversing the downward path observed in this ratio since 2015. In this case, industry was the sector that recorded the clearest increase, with only minor changes in the debt burden in all others.

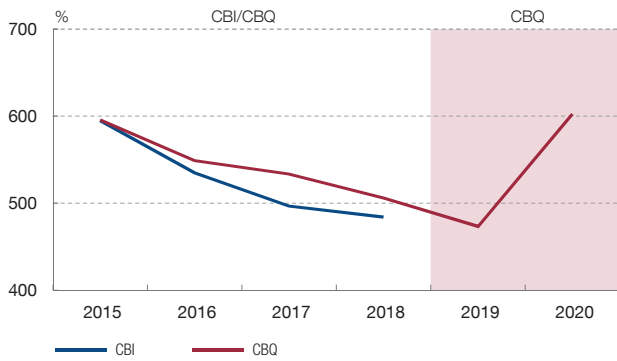
1 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
TOTAL CORPORATIONS
Ratios



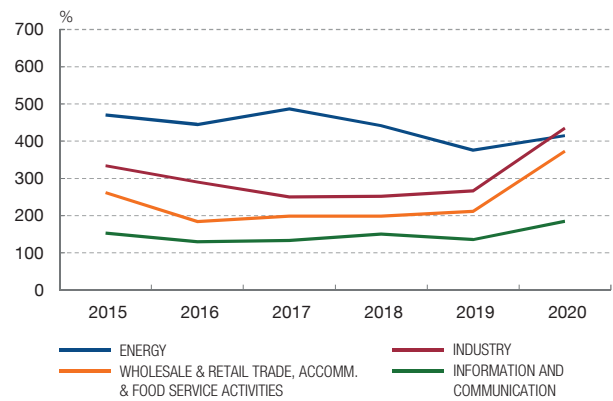
2 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
BREAKDOWN BY SECTOR. CBQ
Ratios



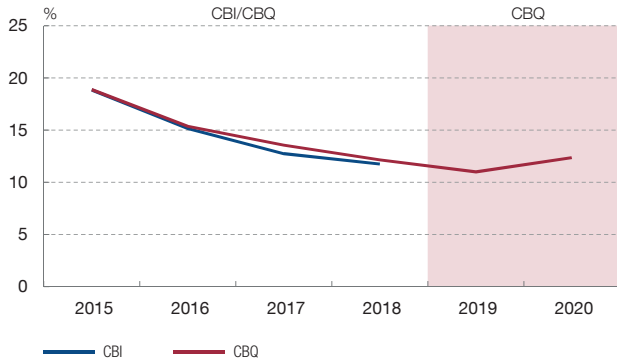
3 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)
TOTAL CORPORATIONS
Ratios



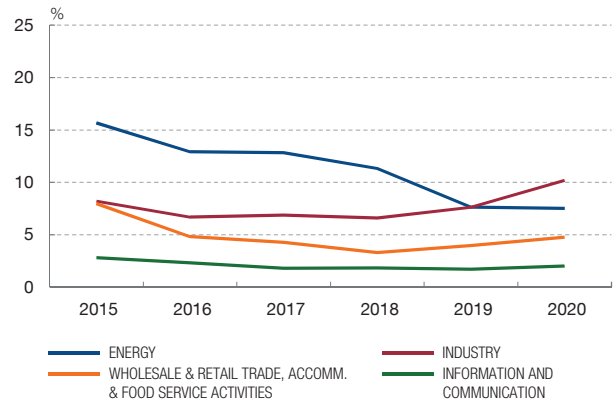
4 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)
BREAKDOWN BY SECTOR. CBQ
Ratios



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.



The breakdown of ROA by sector reveals that the deterioration was widespread, albeit uneven. The steepest declines were recorded in industry, where ROA was negative (-1.9%), in information and communication, where it fell by 6 pp to 9.7%, and in the wholesale and retail trade and accommodation and food service activities sector, where it went from 7.5% to 1.8%. In the energy sector the decline in ROA was more moderate (0.7 pp, to 4.1%). Lastly, in the sector comprising all the other activities, ROA fell by just over 1 pp to 1.1% (see Table 8).

The average cost of debt continued on the downward path of recent years, decreasing by 0.2 pp to 1.8%. Despite the sharp decline in ROA, it held above the cost of debt, albeit very slightly, with the spread between the two ratios standing at just 0.2 pp (almost 2 pp less than a year earlier).

Lastly, in the first half of the year firms increased their indebtedness, to cover their greater liquidity needs against the backdrop of the COVID-19 pandemic. In consequence, the debt-to-asset ratio rose to 43.2% at the end of 2020 H1, up 1.5 pp on the figure recorded at the 2019 close. The debt-to-ordinary income ratio (obtained as the sum of GOP and financial revenue) posted a greater increase, to 603% (compared with 473.3% in 2019), driven by the sharp decline in profit. The breakdown by sector reflects growth in both indicators across all sectors of activity (see Chart 4). The interest burden ratio also rose, by more than 1 pp to 12.3%, in 2020 H1, as ordinary profit fell much more than financial costs. The breakdown by sector shows that the ratio rose in industry and in wholesale and retail trade and accommodation and food service activities, while it remained practically flat in the other sectors.

28.9.2020.

ANALYSIS OF CBQ FIRMS' LIQUIDITY NEEDS AND SOLVENCY IN 2020 H1

The restrictions on movement introduced in the context of the COVID-19 pandemic have triggered an unprecedented decline in firms' activity and profits. The state of alert, which came into effect on 14 March, remained in force until 21 June. Accordingly, although its effects were felt in the last two weeks of Q1, the bulk of the impact is recorded in Q2. Thus, according to Central Balance Sheet Data Office Quarterly Survey (CBQ) data, the turnover of firms in this sample fell by 12.2% in Q1, and by almost triple that level – 33.3% – in Q2. For this reason it is useful to make a similar analysis to that made in the previous quarter,¹ but in this case with data to June, assessing the impact of this situation on the liquidity needs and financial position of a sample of 779 firms reporting to the CBQ.²

Chart 1 shows that in 2020 H1, 58% of the sample firms presented liquidity shortfalls, that is, the payments associated with their operating activity, investment in fixed assets and debt repayments exceeded their collections. The highest percentages of firms presenting liquidity shortfalls were recorded in wholesale and retail trade and accommodation and food service activities (65%) and in industry (64%), and the lowest percentages in the information and communication (45%) and energy (44%) sectors. Firms with liquidity shortfalls amounted to 72% of employment in the total sample, again with the highest percentages in industry (77%) and in the wholesale and retail trade and accommodation and food service activities sector (81%), while firms with liquidity shortages accounted for only 40% of employment in the information and communication sector.

Chart 2 shows that, to June, liquidity needs generated amounted to 123.5% of the sample firms' GVA. The bulk (73%) of these liquidity needs related to bank and non-bank debt repayments (involving group companies, debt securities and others), while around 5.9% related to investments in tangible and intangible fixed assets and the remaining 44.6% arose from operating activity shortfalls.³ The breakdown by sector shows that the

highest liquidity needs in terms of sectoral GVA were recorded in industry and in the wholesale and retail trade and accommodation and food service activities sector (191% and 156%, respectively), and the lowest liquidity needs in the information and communication sector (55% of sectoral GVA).

To analyse how firms covered their liquidity needs in 2020 H1, Chart 3 shows the asset and liability flows of firms with a liquidity shortfall in that period.⁴ Noteworthy, first, both for the total sample and for each of the sectors analysed, is the high amount of new financing, both bank debt and other types of external financing (mainly group company loans), which were, as in Q1, the main source of funds for these firms. As the chart shows, in the case of bank debt, the contribution of the Official Credit Institute (ICO) guarantee facilities was very low for these – mainly large – firms, although it was higher in the sectors most affected by the COVID-19 crisis (industry and wholesale and retail trade and accommodation and food service activities).⁵ The breakdown by sector also reveals high volumes in other headings which relate mainly to specific operations. Thus, in the wholesale and retail trade and accommodation and food service activities sector, financial investments rose considerably (owing to more credit extended, or purchase of shares or other financial investments). At the same time, other liability flows also increased significantly (on account of non-trade payables). In industry, liquidity expanded, associated with a reduction in short-term financial investments (probably on account of sale of these assets), current (non-supplier) payables fell sharply and equity increased, possibly as a consequence of contributions by shareholders.

Lastly, to assess the impact of firms' operating shortfalls on their financial position, Chart 4 depicts the distribution (the median and the 25th and 75th percentiles), at the beginning and end of the half-year, of the net debt (financial debt less cash on hand and liquid assets) to equity ratio. The chart shows some deterioration in firms'

1 See Box 1 in "Results of non-financial corporations in 2020 Q1", Analytical Articles, *Economic Bulletin 3/2020*, Banco de España.

2 Firms reporting data for 2019 Q4 and for 2020 Q1 and Q2. The 2019 data are necessary to calculate asset and liability flows, which are approximated by taking, as a starting point, the difference between the opening and closing balances of the period considered (in this case, 2020 H1).

3 Operating activity shortfalls are calculated as follows: "Gross Added Value - personnel costs - financial costs + financial revenue +/- change in customer and supplier balances".

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

5 For more details see Box 4.3, "Developments in bank finance for productive activities in the context of the COVID-19 crisis", in *2019 Annual Report*, Banco de España.

ANALYSIS OF CBQ FIRMS' LIQUIDITY NEEDS AND SOLVENCY IN 2020 H1 (cont'd)

financial position, evidenced by a slight increase in the median of the distribution of the ratio analysed, and a somewhat stronger increase in the 75th percentile, where the firms with higher net debt-to-equity ratios are concentrated. In any event, on this indicator, the

deterioration of the financial position in H1 could be considered quite moderate, since 16.6% of firms presented net debt more than double their equity in June, an increase of barely more than 2 pp on the figure at the start of the year.

Chart 1
FIRMS WITH LIQUIDITY NEEDS IN 2020 H1 (a)

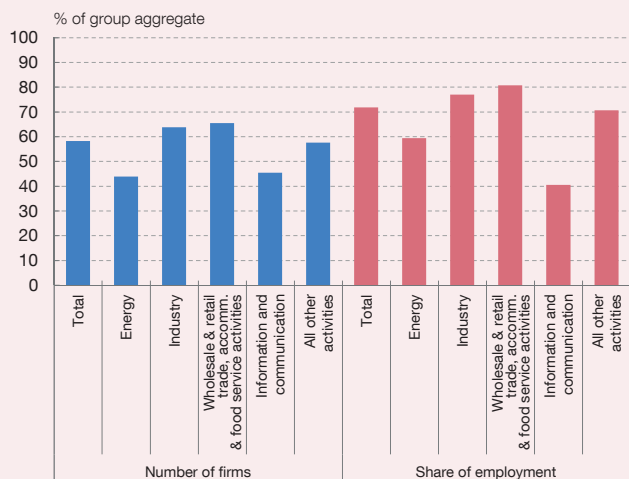


Chart 2
LIQUIDITY NEEDS IN 2020 H1 (a)

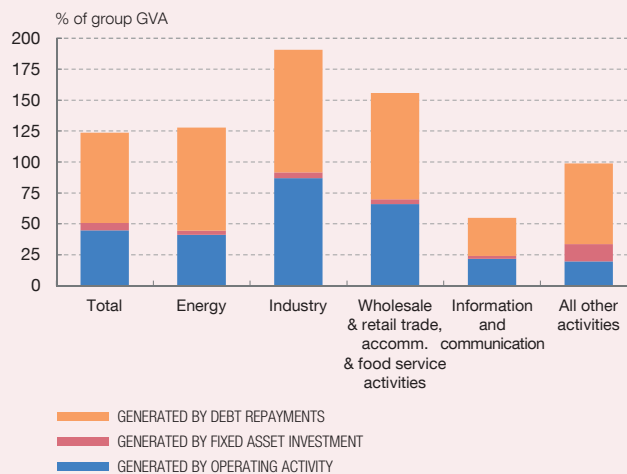


Chart 3
RESOURCES AND USES OF FIRMS WITH LIQUIDITY NEEDS (a)

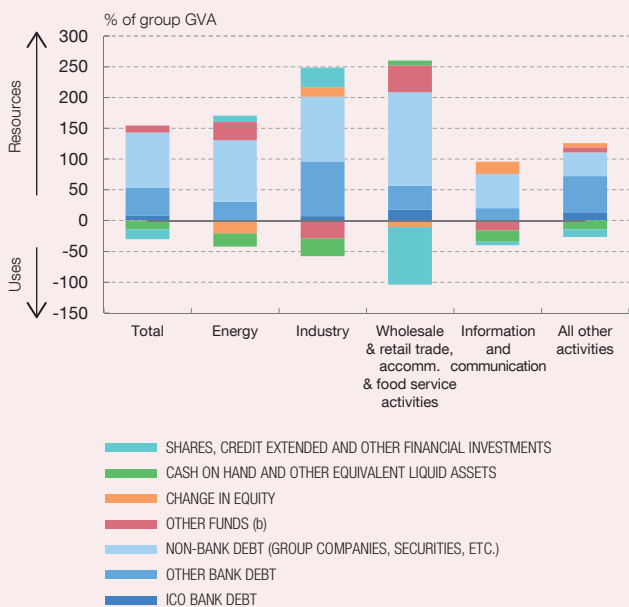


Chart 4
NET DEBT-TO-EQUITY RATIO DISTRIBUTION, ALL FIRMS (a) (c)



SOURCE: Banco de España.

- a Excludes holding companies and financial services sector firms.
- b Includes other receivables other than customer receivables, other trade payables other than supplier payables, and other assets and liabilities (net).
- c Net debt, defined as interest-bearing debt less cash on hand and other equivalent liquid assets.