

Economic and financial performance of Spanish non-financial corporations during the economic crisis and the first years of recovery. A comparative analysis with the euro area

Álvaro Menéndez, Anna Gorris and Daniel Dejuán



18 May 2017

This article reports evidence based on firm-level information of the marked deterioration in the economic and financial situation of Spanish companies between 2008 and 2012, which was comparatively sharper in SMEs and in certain sectors such as construction and real estate, and higher than that in other euro area economies.

However, from 2013 this trend began to reverse and the recovery in activity, stronger on average than in other euro area economies, and the subsequent performance of Spanish firms allowed the previous differences with respect to other euro area countries to diminish.

ECONOMIC AND FINANCIAL PERFORMANCE OF SPANISH NON-FINANCIAL CORPORATIONS DURING THE ECONOMIC CRISIS AND THE FIRST YEARS OF RECOVERY. A COMPARATIVE ANALYSIS WITH THE EURO AREA

The authors of this article are Álvaro Menéndez, Anna Gorris and Daniel Dejuán, of the Directorate General Economics, Statistics and Research

Introduction

The crisis suffered by the euro area from 2008 to 2012 caused a considerable fall-off in the activity and surpluses of non-financial corporations, eroding their profitability and prompting significant job destruction. Furthermore, at the beginning of this recession, business sector debt had reached excessive levels, particularly in certain economies. However, not all countries were equally affected by the crisis and not all countries recovered with the same vigour. Moreover, within each country, behaviour differed by activity and firm size. It is thus of interest to analyse business sector performance in Spain in these years using disaggregated information, in comparison with that of some of the main EU economies.

This article analyses over the past decade performance of various indicators of the economic and financial situation of Spanish non-financial corporations in comparison with that of other euro area economies. Specifically, a breakdown is performed by sector of activity and firm size.¹ For this purpose, information from the Central Balance Sheet Data Office (CBSO) database, which contains edited data on about 700,000 Spanish firms for each year,² was combined with the Amadeus database for euro area countries (Germany, Austria, Belgium, Finland, France, Greece, the Netherlands, Ireland, Italy and Portugal).³ To compare the selected economic and financial position indicators of Spanish firms with those of other euro area firms, we divided the other euro area into two groups. The first, denoted “central euro area”, consists of Germany, Austria, Belgium, Finland, France and the Netherlands, and the second, denoted “non-central euro area”, consists of Greece, Ireland, Italy and Portugal. The period is that extending from 2005 to 2015, which is the last year for which information is available, and the number of firms included in each ratio varies depending on the greater or lesser availability of information to calculate the various indicators.⁴ In calculating the ratios for the two groups analysed, the values obtained for each of the countries were weighted by GDP.⁵

Section 2 examines the behaviour of corporate earnings and profitability. Section 3 describes the behaviour of leverage (measured as the ratio of liabilities to the balance sheet total) and of debt burden. Finally, Section 4 analyses the distribution of the interest coverage ratio in the various geographical areas considered. Each of these sections includes breakdowns by firm size, supplemented in some cases by sectoral information.

1 To determine firm size, we applied wherever possible the European Commission criteria, which combine limits based on the average number of workers, total activity and sales. If any one of these three items was not available, the other two criteria were used to approximate firm size.

2 For 2015, the last year for which data are available, the CBSO database is still incomplete and the number of firms available is around 300,000, somewhat less than that of previous years.

3 The Amadeus database contains individual information on firms from 44 countries. This study used data from ten euro area countries. The sample designed for the period from 2009 to 2014 contains around 2 million firms each year, while for the initial years of the time series analysed (from 2005 to 2008) and 2015, the sample is somewhat smaller, varying, depending on the year, between 1 million and 1.5 million firms.

4 In particular, for the debt burden ratio, smaller samples had to be used for some countries, since not all firms had sufficiently detailed information for its calculation.

5 For 2015, owing to the scant information available in some countries, a different procedure was used. Specifically, for each of the indicators reported, to its 2014 value we applied its rate of change between 2014 and 2015. This rate was obtained from the firm sample comprising all the countries in the group in question (central euro area or non-central euro area), which is included in Amadeus in 2014 and 2015. The results obtained for 2015 must therefore be viewed with some caution.

Return on investment

The outbreak of the crisis brought a sharp deterioration in economic activity throughout Europe and notably reduced business surpluses and profitability. The deepness of the recession varied across countries and was more pronounced in some such as Spain and Ireland, where the real estate sector had enjoyed a stronger upturn in the years before the crisis and where the subsequent downturn in residential investment aggravated the effects of the crisis in terms of job losses and of contraction in activity and business profits. Thus in 2008 and 2009 Spain saw a significant decrease in the aggregate gross operating profit (GOP⁶) of the non-financial corporations sector (29% in cumulative terms), such that return on investment,⁷ which in 2005 stood at levels similar to those of the central euro area (near 6.5%), decreased to 4.2% in 2009, a value higher than that of the non-central euro area countries but nearly 2 pp lower than the average of the central euro area countries (see Charts 1.1 and 1.2). Following a slight recovery in 2010, which was more evident in the central euro area countries, there came a second recession which lasted until mid-2013 and was deeper in Spain and the non-central euro area countries, reducing their profitability and widening the gap with respect to the central euro area. With the onset of economic recovery, this trend reversed in the second half of 2013, with progressive improvements in GOP and business returns in all country groups, although somewhat more strongly in Spain than in the other geographical areas. Thus Spanish firms' return on investment rose by 1.3 pp between 2012 and 2015 to 4.5% and, although not regaining its pre-crisis levels, it came fairly near to the level of the central euro area countries, which was 6.5% in 2015.

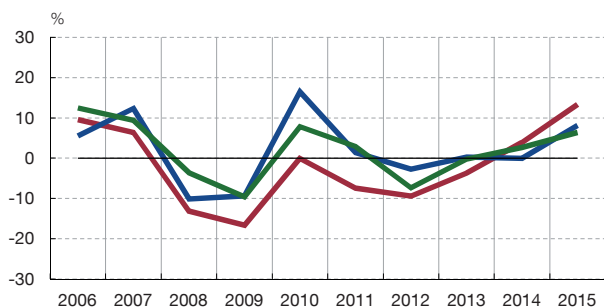
The breakdown by size shows that the double-dip recession in these years was reflected in all firms regardless of size, albeit to varying extents. Within the SME segment, Spanish firms performed notably more negatively than their European counterparts: they showed larger contractions in GOP and a sharp decrease in profitability, which reached its low in 2012 (1.3%), 4.8 pp and 0.9 pp lower than in the central and non-central euro area (see Charts 1.3 and 1.4). Despite the stronger recovery of surpluses shown by Spanish SMEs from 2013, profitability in 2015 still stood at low levels (3%), well below that of the central euro area counterparts (6.4%), although somewhat higher than that of SMEs in non-central euro area countries (2.3%). Meanwhile, larger Spanish firms started out from high profitability levels (in 2007 this indicator stood at 7.7%), and, although during the crisis they also deteriorated, they did so more moderately than SMEs (see Charts 1.5 and 1.6). Nevertheless, larger Spanish firms also progressively moved away from the profitability levels of their central euro area counterparts as a whole, standing slightly more than 1 pp below them in 2015. However, in this case they always remained at levels higher than those recorded by large firms in non-central euro area countries.

Finally, the breakdown by sector of activity shows that, as seen for aggregates constructed for the non-financial corporations sector as a whole, in the three sectors analysed (construction and real estate, wholesale and retail trade and accommodation and food services, and industry), firms in central euro area countries also recorded a more moderate decline in ordinary surpluses and were systematically more profitable than the rest of countries. Thus, the profitability gap between this aggregate and Spain widened during the crisis years and narrowed somewhat from 2012. The strong downturn in the construction and real estate services sector was most notable in Spain: specifically, the GOP fell continuously between 2007 and 2013, with aggregate negative returns recorded in 2012 and 2013 (see Charts 2.1

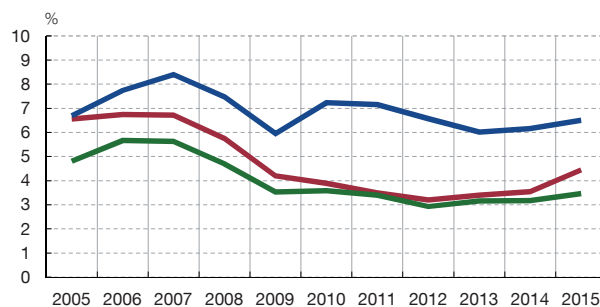
⁶ Gross operating profit is the surplus generated from income arising from firms' ordinary business activity (basically sales and other operating income), less the expenses necessary to carry out that activity (supplies, other operating costs and staff costs).

⁷ The return on investment is calculated as the ratio of ordinary profit of firms before financial costs (GOP plus financial revenue less depreciation/amortisation and operating provisions) to total assets.

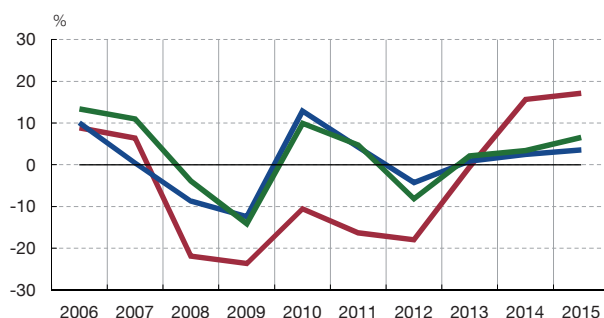
1 RATE OF CHANGE IN GROSS OPERATING PROFIT



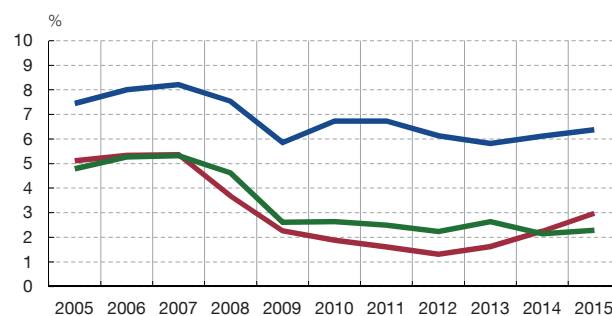
2 RETURN ON INVESTMENT



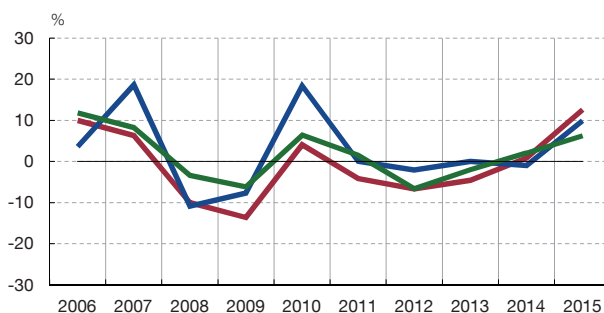
3 RATE OF CHANGE IN GROSS OPERATING PROFIT. SMEs



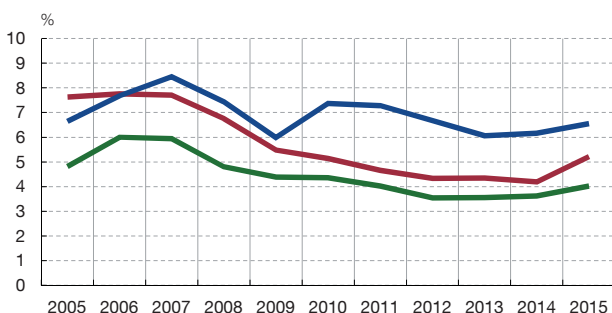
4 RETURN ON INVESTMENT. SMEs



5 RATE OF CHANGE IN GROSS OPERATING PROFIT. LARGE CORPORATIONS



6 RETURN ON INVESTMENT. LARGE CORPORATIONS



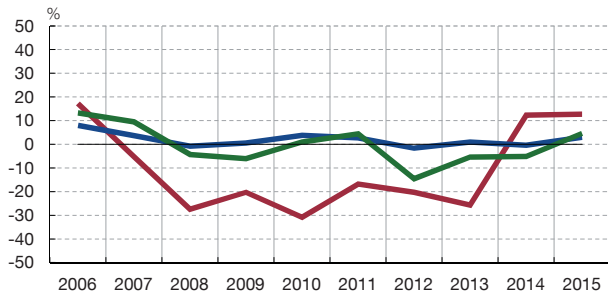
— SPAIN — CENTRAL EURO AREA (a) — NON-CENTRAL EURO AREA (a)

SOURCES: Amadeus and Banco de España.

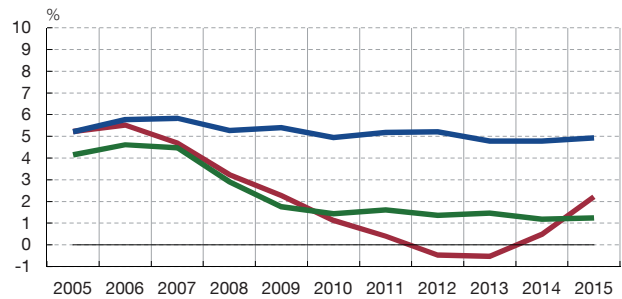
a "Central euro area" includes Germany, Austria, Belgium, Finland, France and the Netherlands. "Non-central euro area" includes Greece, Ireland, Italy and Portugal.

and 2.2). Industry, for its part, had a more volatile and markedly procyclical profile (see Charts 2.3 and 2.4). Finally, the performance of wholesale and retail trade was similar to that of industry, although variations were more moderate (see Charts 2.5 and 2.6). Noteworthy in these last two aggregates was the sharp recovery observed in Spain from the second half of 2013, driven by the greater buoyancy of activity and the recovery of consumption, resulting in strong GOP growth and a notable increase in profitability, drawing closer both to the values prior to the onset of the crisis and to those recorded by these sectors in central euro area countries. Also, the levels of profitability of Spanish companies, which during the crisis were similar in all branches of activity to those of non-central euro area countries, subsequently diverged, reaching higher levels than those of this group of economies.

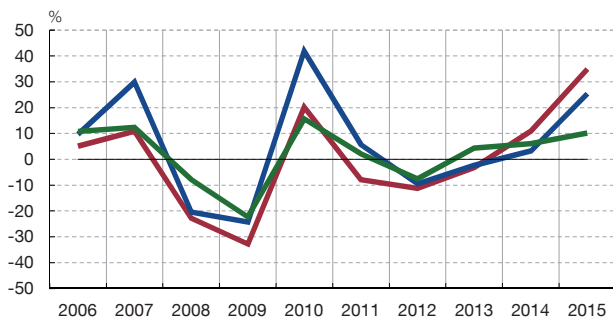
1 RATE OF CHANGE IN GROSS OPERATING PROFIT. CONSTRUCTION AND REAL ESTATE ACTIVITIES



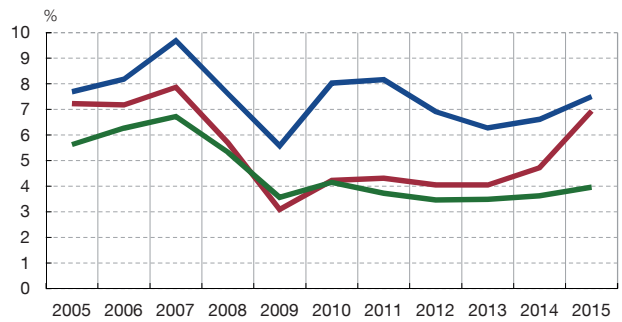
2 RETURN ON INVESTMENT. CONSTRUCTION AND REAL ESTATE ACTIVITIES



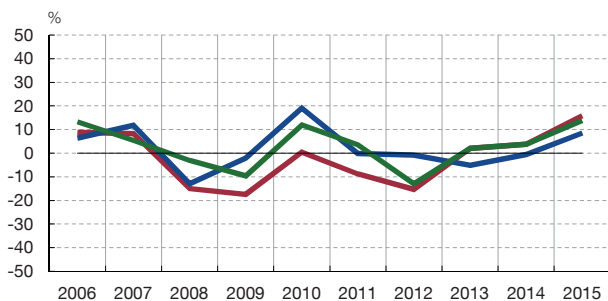
3 RATE OF CHANGE IN GROSS OPERATING PROFIT. INDUSTRY



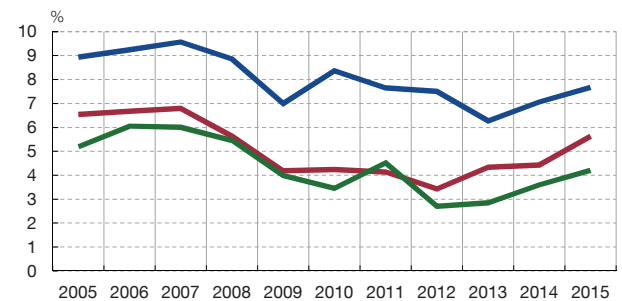
4 RETURN ON INVESTMENT. INDUSTRY



5 RATE OF CHANGE IN GROSS OPERATING PROFIT. WHOLESALE AND RETAIL TRADE AND ACCOMMODATION & FOOD SERVICE ACTIVITIES



6 RETURN ON INVESTMENT. WHOLESALE AND RETAIL TRADE AND ACCOMMODATION & FOOD SERVICE ACTIVITIES



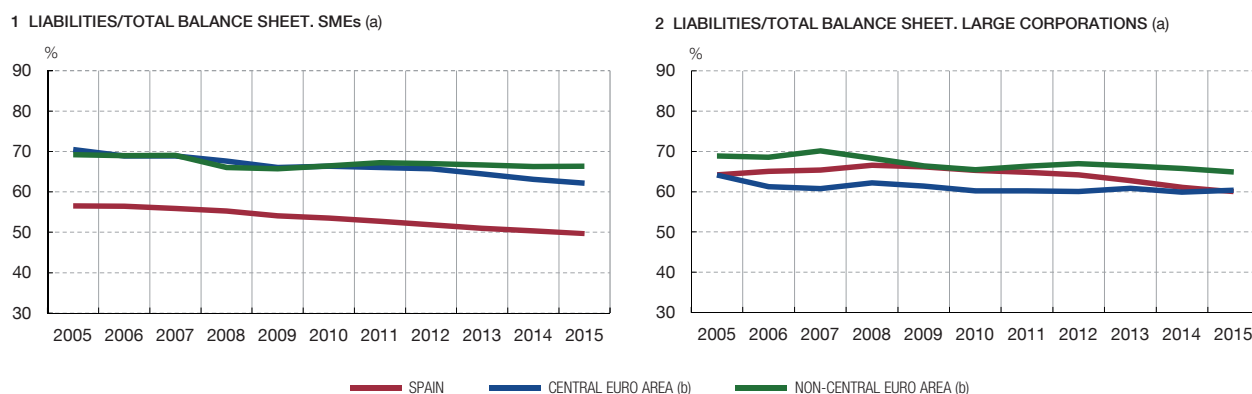
— SPAIN — CENTRAL EURO AREA (a) — NON-CENTRAL EURO AREA (a)

SOURCES: Amadeus and Banco de España.

a "Central euro area" includes Germany, Austria, Belgium, Finland, France and the Netherlands. "Non-central euro area" includes Greece, Ireland, Italy and Portugal.

Liabilities and the debt burden

During the economic boom preceding the start of the crisis there was a strong increase in the debt of non-financial corporations in Europe, which resulted in an increase in debt levels in most countries, although in differing degrees. Growth was particularly noteworthy in Spain, with firms' debt-to-GDP and debt-to-business surpluses reaching comparatively high levels; however, in terms of assets, the weight of debt was similar to and, in the case of SMEs, lower than, the average for firms in the rest of the euro area (see Chart 3). At the beginning of the recession, against a backdrop of more stringent access to funding and lower growth prospects, an increasing number of firms had to face deleveraging processes to resize their asset and liability structure in order to adjust it to their ability to generate



SOURCES: Amadeus and Banco de España.

a Ratio calculated as total liabilities/total assets.

b "Central euro area" includes Germany, Austria, Belgium, Finland, France and the Netherlands. "Non-central euro area" includes Greece, Ireland, Italy and Portugal.

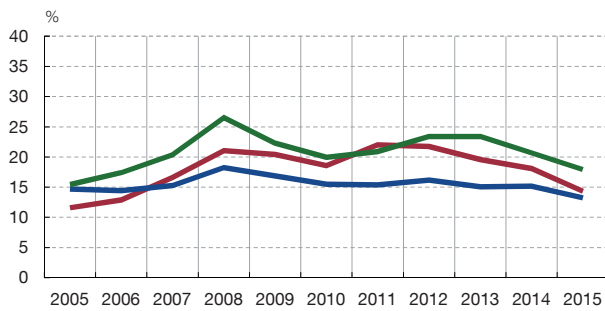
funds. As a result of these processes, since 2008 Spanish SMEs posted a gradual decline in the volume of liabilities,⁸ and, accordingly, their level in respect of the balance sheet total also decreased by 50% in 2015, to almost 7 pp less than ten years earlier and more than 10 pp below the rest of the euro area (see Chart 3.1). In the large firms segment, the weight of liabilities vis-à-vis the total balance sheet began to decrease in Spain in 2009, declining from then by more than 6 pp, to 60% in 2015 (see Chart 3.2). Likewise, the debt ratio decreased, converging to levels similar to those of the central euro area countries, moving away from the level recorded by large firms in non-central euro area countries, which in 2015 was 65%.

Despite the predominant deleveraging trend at firms during the crisis, the strong contraction of revenues recorded in the period led to a notable increase in the debt burden ratio, which measures the weight of this type of expenses in respect of ordinary profit (both that obtained from operating activities and as a return on investment). Chart 4.1 shows that both in Spain and in the non-central euro area countries this indicator increased sharply from 2006, whereas its performance was more stable in the central euro area, thus widening the distance between the values recorded in the two groups of countries. From 2013, the improvement in Spain's economic activity, in an environment of lower interest rates and indebtedness, enabled the debt burden to fall rapidly, reaching 14.3% in 2015 for corporations as a whole, closer to the figure for the central euro area (13.2%), albeit still slightly above pre-crisis levels. The debt burden recorded at non-central euro area countries continued to be higher in 2015 (around 18%).

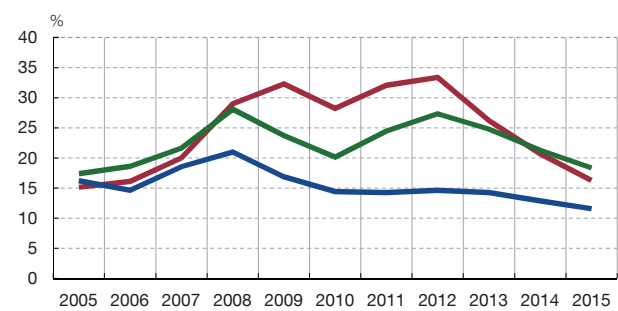
Analysis by size shows that the increase in the debt burden during the recession was sharper in the SME segment, especially in Spain, where this indicator increased by 18 pp between 2005 and 2012, exceeding 33%. As a result, despite the lower leveraging of Spanish SMEs vis-à-vis their euro area counterparts, their debt burden reached much higher values than those recorded on average by the rest of euro area SMEs in those years (see Chart 4.2). In line with the smaller contraction of their surpluses, larger corporations performed less unfavourably, recording more modest increases in this ratio.

⁸ Although using the AMADEUS data it is not possible to calculate financial debt in a uniform manner among countries, it is possible to analyse changes in total borrowing (interest-bearing and non-interest bearing).

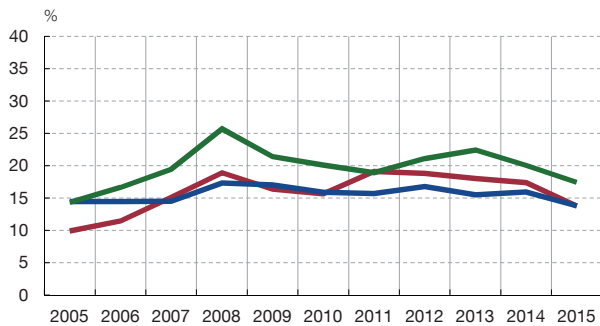
1 DEBT BURDEN (a)



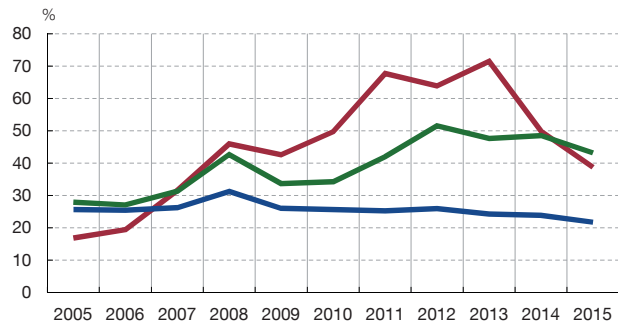
2 DEBT BURDEN. SMEs (a)



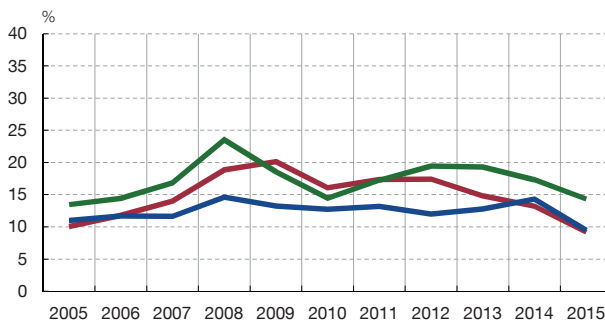
3 DEBT BURDEN. LARGE CORPORATIONS (a)



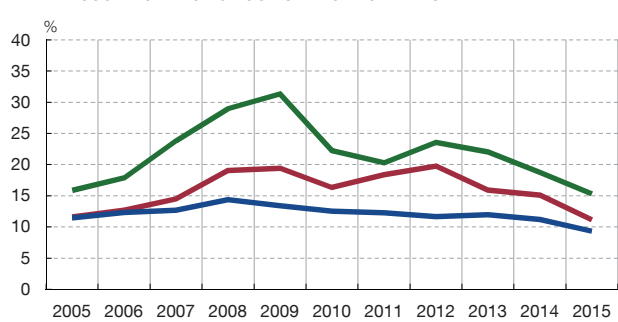
4 DEBT BURDEN. CONSTRUCTION AND REAL ESTATE ACTIVITIES (a)



5 DEBT BURDEN. INDUSTRY (a)



6 DEBT BURDEN. WHOLESALE AND RETAIL TRADE AND ACCOMMODATION & FOOD SERVICE ACTIVITIES



— SPAIN — CENTRAL EURO AREA (b) — NON-CENTRAL EURO AREA (b)

SOURCES: Amadeus and Banco de España.

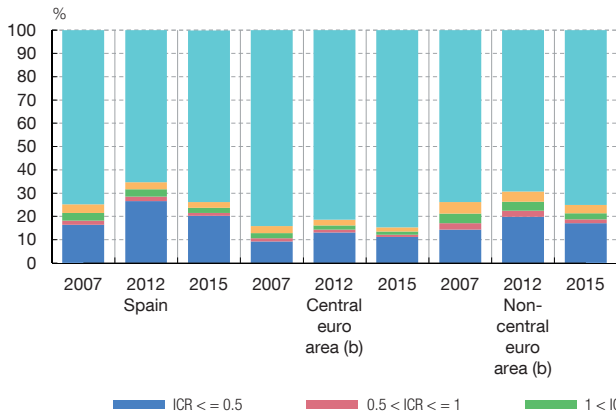
a Ratio calculated as interest payable/(gross operating profit + financial revenue). In the case of France and the Netherlands, financial costs are used because the interest payable item is not available.

b "Central euro area" includes Germany, Austria, Belgium, Finland, France and the Netherlands. "Non-central euro area" includes Greece, Ireland, Italy and Portugal.

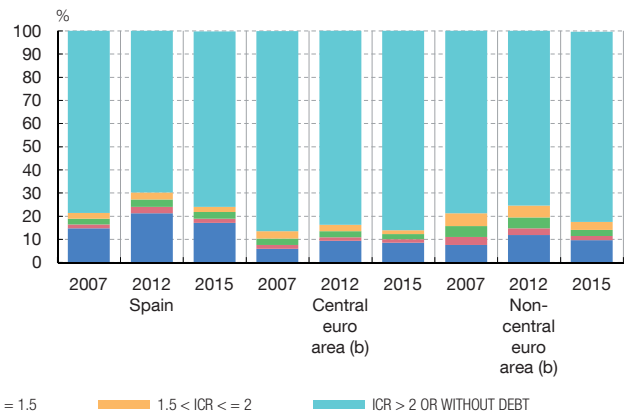
In particular, large Spanish firms recorded in almost all of these years values similar to those of their central euro area country counterparts (see Chart 4.3).

By sector, the significant increase in the debt burden in construction and real estate during the crisis should be noted first. As a result of the substantial downturn in activity, the weight of interest paid on the ordinary surplus generated by these firms grew significantly during the period, both in Spain, where this indicator stood close to 70% in 2013, and, to a lesser extent, in the non-central euro area countries, where it reached 52% in 2012 (see Chart 4.4). In contrast, the levels were lower in the central euro area

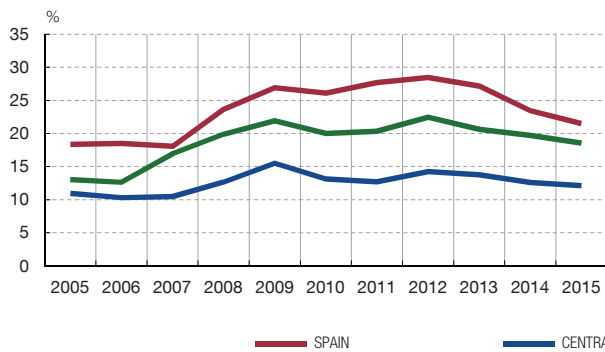
1 DISTRIBUTION OF SMEs BY ICR (a)



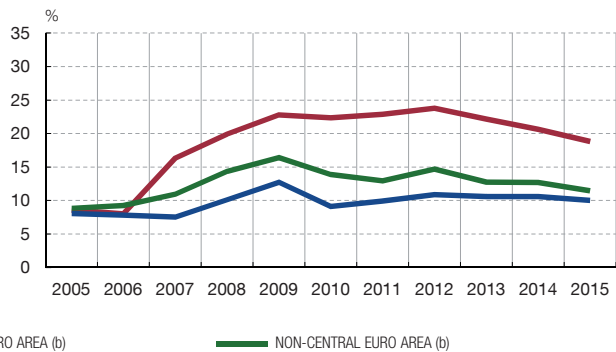
2 DISTRIBUTION OF LARGE CORPORATIONS BY ICR (a)



3 PERCENTAGE OF SMEs WITH ICR < 1 (a)



4 PERCENTAGE OF LARGE CORPORATIONS WITH ICR < 1 (a)



SOURCES: Amadeus and Banco de España.

- a Ratio calculated as (gross operating profit + financial revenue)/interest payable. In the case of France and the Netherlands, financial costs are used because the interest payable item is not available.
- b "Central euro area" includes Germany, Austria, Belgium, Finland, France and the Netherlands. "Non-central euro area" includes Greece, Ireland, Italy and Portugal.

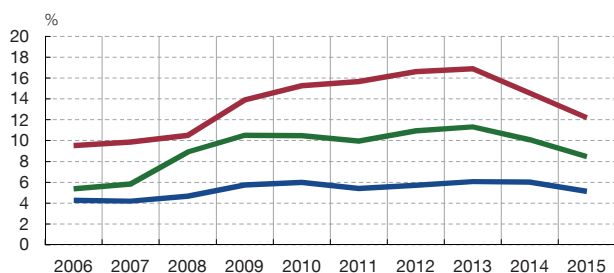
countries, almost always below 30%. In recent years, the debt burden in this sector decreased notably, reaching 38.7% in 2015, somewhat lower than the aggregate for non-central euro area countries (although still higher than that of the central euro area). Both the industrial and the wholesale and retail trade and accommodation and food services sectors displayed a pattern of performance similar to that of the total sample, with the high debt burden borne by corporations in the latter branch of activity in non-central euro area being noteworthy, especially during the period 2007-2010 (see Charts 4.5 and 4.6). Also notable in the two branches of activity is the significant decrease in the debt burden of Spanish firms in the last three years, which has enabled their records to converge to values similar to those of the central euro area countries.

Analysis of the interest coverage ratio

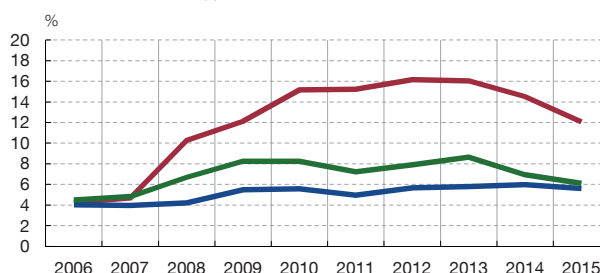
An alternative indicator to measure the degree of financial pressure borne by the non-financial corporations sector is the interest coverage ratio (ICR), which is the inverse of the debt burden ratio and analyses in what measure a firm is able to face interest payments with the sum of its operating profit and its financial revenue.⁹ A ratio of less than 1 means that

⁹ For further details on the performance of the ICR and its impact on Spanish firms in recent years, see A. Menéndez and M. Mulino (2017) "Changes in the degree of financial pressure borne by Spanish non-financial corporations: 2007-2016", *Economic Bulletin*, March, Banco de España.

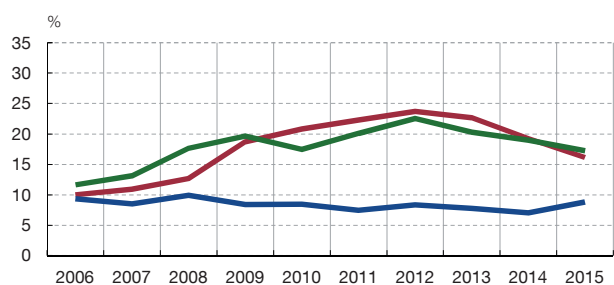
1 PERCENTAGE OF SMEs WITH ICR < 1 IN TWO CONSECUTIVE YEARS (a)



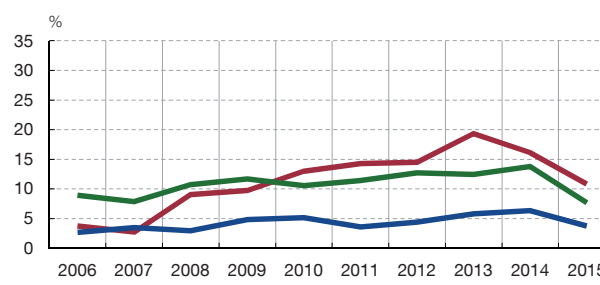
2 PERCENTAGE OF LARGE CORPORATIONS WITH ICR < 1 IN TWO CONSECUTIVE YEARS (a)



3 WEIGHT OF LIABILITIES. SMEs WITH ICR < 1 IN TWO CONSECUTIVE YEARS (a)



4 WEIGHT OF LIABILITIES. LARGE CORPORATIONS WITH ICR < 1 IN TWO CONSECUTIVE YEARS (a)



— SPAIN — CENTRAL EURO AREA (b) — NON-CENTRAL EURO AREA (b)

SOURCES: Amadeus and Banco de España.

a Ratio calculated as (gross operating profit + financial revenue)/interest payable. In the case of France and the Netherlands, financial costs are used because the interest payable item is not available.

b "Central euro area" includes Germany, Austria, Belgium, Finland, France and the Netherlands. "Non-central euro area" includes Greece, Ireland, Italy and Portugal.

the firm did not generate in the year reviewed sufficient ordinary surpluses to satisfy its debt payments and, if the situation persists, this could be an element of financial vulnerability.

Charts 5.1 and 5.2 show the distribution of SMEs and large corporations by ICR. This information shows that the majority of SMEs and large firms in all the geographical areas analysed were in the upper part of the distribution (either posting values above 2 - i.e. their ordinary profit exceeded at least twofold the amount of interest - or without debt). Additionally, this was the segment that grew the most between 2012 and 2015. Indeed, in 2015 around 85% of firms in the central euro area countries (both SMEs and large firms) belonged to it. The percentages for that year were also high in Spain (approximately 75% for both SMEs and larger corporations) and exceeded those recorded in 2012, reflecting the improvement in business income, the reduction of their debts and the drop in funding costs in these last three years. These percentages stood at 75% and 82%, respectively, in the non-central euro area countries.

A more in-depth analysis of the performance of corporations under high financial pressure (whose ICR is lower than 1) reveals that Spain recorded during the period a greater proportion of SMEs in this situation than the rest of countries in the euro area analysed (see Chart 5.3). This percentage, which in 2007 was 18.1% in Spain, increased during the crisis years, as did the distance from the other groups of countries, peaking in 2012 at 28.5%, 6 pp above the percentage recorded by the rest of non-central euro area countries as a whole and 14 pp more than that of the central euro area. From 2013, with the onset

of the recovery, the greater buoyancy of the Spanish economy also translated into a sharper decline in the proportion of firms in a less favourable position, decreasing to 21.5% in 2015 for SMEs, but remaining higher than in the rest of European countries included in this analysis. The performance in Spain of the larger corporations under high financial pressure was similar to that of the smaller firms, although the percentages were lower and, from 2007 they also systematically exceeded the averages of the two groups of European countries analysed (see Chart 5.4).

Chart 6 analyses the percentage of firms (by size) which recorded an ICR indicator below 1 during two consecutive years. This can be used to approximate the degree of persistence in situations of high financial pressure and so identify which firms are more likely to have difficulties in meeting their financial obligations, beyond a conjunctural problem in an isolated year. As can be seen, although the trends are similar, the percentages decline significantly in respect of those recorded when only results for each year taken in isolation are analysed. In the case of Spain the proportion of SMEs which remained in a situation of high pressure for two consecutive years rose between 2008 and 2013 (see Chart 6.1) from 7.4% in 2007 to 17%, dropping subsequently to 12% in 2015. Although these proportions were always higher than those recorded in euro area countries (central and non-central), the gaps with respect to the two groups are much smaller than in the previous analysis - based on a single year -, a pattern also seen for larger corporations. In this latter case, from the start of the crisis in each geographical area values similar to those of SMEs were posted both in Spain and in the central euro area, while in the non-central euro area the position of the large corporations was, according to this indicator, more favourable than for SMEs (see Chart 6.2).

In analysing the weight of liabilities of companies in a potentially more vulnerable position in those of the total sample firms, both in the SME group and in that of large corporations, the distances between Spain and the non-central euro area countries practically disappear, especially in the more recent period, but there continues to be a significant and unfavourable difference in comparison with central euro area firms (see Charts 6.3 and 6.4).

18.05.2017