

# Results of non-financial corporations for 2017 Q1-Q2

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According to the data from the Banco de España's Central Balance Sheet Data Office, employment continued to grow in non-financial firms in 2017 H1, at rates exceeding those of the previous year. The gross value added generated by these firms declined somewhat in the same period, highly conditioned by the unfavourable performance of a number of large firms which account for a substantial share of the sample. However, the favourable progress of financial costs and revenue led to a slight increase in ordinary profits, but this was not sufficient to prevent a moderate fall in the aggregate return ratios, although median returns increased in the period. Extraordinary costs and revenue also had a negative impact, as a result of which net profit contracted with respect to the level reached in the same period the preceding year. Lastly, the variations in the financial position ratios of firms were negligible. This article describes these developments and also analyses, in a separate section, the strong growth of intra-group financing in large Spanish corporate groups since 2005, in a setting in which the organisational structure of these conglomerates has become increasingly complex.

## RESULTS OF NON-FINANCIAL CORPORATIONS FOR 2017 Q1-Q2

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

In the first two quarters of 2017, the gross value added (GVA) of the overall sample of firms reporting to the Central Balance Sheet Data Office Quarterly Survey (CBQ) decreased, in nominal terms, by 0.5% relative to the same period in 2016, compared with the 2.7% increase recorded a year earlier. However, the decrease in this surplus has been influenced by the unfavourable performance of a number of very large corporations which account for a substantial share of the sample, mostly concentrated in the energy sector. Excluding this sector, GVA grew by 2.2%, a very similar increase to that posted by the same aggregate the previous year (2.1%). The median of the distribution of this variable, which rose by 3.4%, also shows a more favourable performance than that reflected by the aggregate figure.

Employment in the sample firms posted year-on-year growth of 2% in the first six months of 2017, above the 1.6% increase recorded the previous year. By type of contract, the strongest growth (8.1%) continued to be in temporary employment, while permanent employment grew by 0.8%.

Ordinary net profit (ONP) rose by 1.8% year-on-year, driven by the favourable progress of both financial revenue (resulting from the larger dividends received) and financial costs, which continued to decline as a result of the lower average cost of borrowing. In contrast, the trend in non-recurring items had a negative impact on net profit, owing mainly to the lower reversals of impairment and the decline in gains on sales, in both cases in relation to financial assets. As a result, this surplus contracted by 26.8% compared with the same period a year earlier.

Ordinary profits increased moderately, despite the unfavourable performance of income in some large corporations, but this was not sufficient to prevent the aggregate return ratios from falling slightly with respect to the previous year. The aggregate trend was also strongly influenced by the poor performance of a number of large corporations. In fact, median returns increased in the period. In any event, the decrease in the aggregate return on investment was offset by a further fall in the average cost of borrowing, which led to a widening of the spread between the two ratios, by 0.1 percentage points (pp), to 1.6 pp.

Lastly, borrowing by the firms in the sample grew slightly in the first six months of the year, as did the debt-to-assets ratio. The debt-to-operating profit ratio also rose marginally, since the increase in the numerator slightly outpaced that of ordinary profit. However, the interest burden ratio, calculated as the ratio of financial costs to operating profit, continued to decrease, mainly as a result of the lower interest payments, albeit at a slower pace than in the preceding periods. In any event, the variations in these three indicators were small, and thus the average degree of financial pressure borne by firms did not vary substantially compared with the previous year-end.

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<sup>1</sup> This article draws on the information of the 875 firms that had reported data to the CBQ by 13 September 2017. According to National Accounts data, this sample represents 13.1% of the GVA generated by the entire non-financial corporate sector.

## Activity

The information compiled by the CBQ shows that, in 2017 H1, the aggregate GVA of the firms in this sample contracted by 0.5%, relative to the same period in 2016 (see Table 1 and Chart 1), compared with the increase of 2.7% posted a year earlier. However, this development was greatly influenced by the negative performance of some large corporations, mostly in the energy sector. Excluding this sector, GVA grew by 2.2%, which better reflects the performance of most of the firms in the sample. Chart 2, which presents the distribution of firms by the rate of change of GVA, shows an improvement in the 25th and 75th percentiles with respect to the previous year, with the median standing at 3.4%, which was well above the aggregate value. Finally, the breakdown by size reveals that the medium-sized company segment continued to post substantial increases in GVA (of 8.1%), compared with a decrease of 0.6% among larger firms (see Table 2).

The performance of productive activity was achieved in a setting in which the weight of exports remained at 22.1% of total net turnover, practically the same as in 2016 H1 (see Table 3).

A sector-by-sector analysis reveals a significant degree of heterogeneity (see Table 2). In the industry sector, GVA grew by 3.1%, although a high level of dispersion was observed across the different sub-sectors. Thus, GVA rose significantly in some industrial sub-sectors such as the manufacture of mineral and metallic products or chemicals (20.2% and 9%, respectively), but fell in others, such as the manufacture of computer and electronic products (6%), food, beverages and tobacco (4.8%) and oil refining (4.1%). In the sector encompassing all other activities, GVA grew by 6.7%, on the back of the good performance of transport and other service sector firms. This surplus also grew, although less markedly, in the information and communication sector (1%). In contrast, in the energy sector, GVA decreased by 10.9%, owing mainly to the higher production costs borne by some of the main firms in this sector. Lastly, this variable declined in firms in the wholesale and retail trade and accommodation and food service sector, although somewhat more moderately (3.9%).

## Employment and personnel costs

Personnel costs increased by 1.8% year-on-year in the first two quarters of 2017 (see Table 2). The growth of this item was due mainly to the favourable performance of employment, while the rate of change of average compensation was slightly negative.

Aggregate employment grew by 2% in 2017 H1, at a rate higher than that observed in this sample a year earlier, of 1.6%. Similarly, Table 4 shows a rise in the percentage of firms which increased their staff numbers (49%, compared with 45.7% a year earlier); again this percentage of firms exceeded that which destroyed jobs (35.3 %).

Analysis by type of contract shows that the recovery in employment continues to be characterised by its greater strength among temporary jobs, which grew by 8.1% (see Table 5). In this sample, permanent jobs grew, albeit more moderately (by 0.8%), which is an improvement on a year earlier in which such growth practically stagnated.

By sector, the performance of employment was rather uneven, similar to that observed in the case of GVA. There were increases in the average number of employees in industry and in the wholesale and retail trade, accommodation and food services sector of 1.6% and 3.2%, respectively, and of 2.7% in the group that encompasses all other activities. The energy sector showed a slight decrease in the number of staff (0.2%), while employment fell by 2.3% in the information and communication sector.

The average compensation for the overall CBQ sample decreased by 0.2% in 2017 H1, compared with a year earlier, against a similar increase recorded the previous year.

**PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES AND PROFIT RATIOS**  
**Growth rates of the same corporations on the same period a year earlier, percentages**

**TABLE 1**

DATABASES	CBI structure	CBI		CBQ (a)		
	2015	2014	2015	2016 Q1-Q4 / 2015 Q1-Q4	2016 Q1-Q2 / 2015 Q1-Q2	2017 Q1-Q2 / 2016 Q1-Q2
Number of corporations		639,084	529,546	974	1.003	875
Total national coverage (% of GVA)		47.7	45.2	14.0	14.3	13.1
<b>PROFIT AND LOSS ACCOUNT</b>						
1 VALUE OF OUTPUT (including subsidies)	100.0	2.0	2.4	-2.4	-4.8	6.3
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	148.4	3.5	1.2	-3.8	-6.8	8.9
2 INPUTS (including taxes)	64.3	1.6	0.0	-5.4	-8.3	9.8
<i>Of which:</i>						
<i>Net purchases</i>	40.6	2.0	-2.0	-4.6	-10.5	12.9
<i>Other operating costs</i>	24.0	1.2	3.9	-4.7	-5.5	2.7
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	35.7	2.9	6.9	4.1	2.7	-0.5
3 Personnel costs	23.2	2.4	3.6	1.0	1.8	1.8
S.2 GROSS OPERATING PROFIT [S.1 – 3]	12.4	3.9	13.6	7.4	3.6	-2.8
4 Financial revenue	3.4	-16.3	-9.2	15.8	-5.1	5.8
5 Financial costs	3.2	-6.5	-9.0	-9.7	-9.4	-10.7
6 Depreciation, impairment and operating provisions	5.8	-6.7	1.3	-0.5	0.5	-0.4
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	6.9	8.4	25.4	24.9	7.6	1.8
7 Gains (losses) from disposals and impairment	-2.0	80.2	—	—	—	-98.9
7' As a percentage of GVA (7 / S.1)		-1.7	-5.6	12.4	12.8	0.2
8 Changes in fair value and other gains (losses)	-0.4	—	—	18.2	—	44.4
8' As a percentage of GVA (8 / S.1)		0.5	-1.1	-3.5	-2.0	-1.4
9 Corporate income tax	0.8	45.6	18.2	—	101.9	-35.2
S.4 NET PROFIT [S.3 + 7 + 8 - 9]	3.8	—	-9.2	216.6	14.6	-26.8
S.4' As a percentage of GVA (S.4 / S.1)		12.1	10.5	33.6	35.2	26.8
<b>PROFIT RATIOS</b>						
	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / NA	4.4	4.6	6.0	4.2	3.9
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / IBB	3.5	3.2	2.7	2.7	2.4
R.3 Ordinary return on equity (before taxes)	S.3 / E	5.0	5.5	8.5	5.3	5.1
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	0.9	1.4	3.3	1.5	1.6
<b>MEMORANDUM ITEM: TOTAL SAMPLE WITHOUT ENERGY SECTOR</b>						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]		3.2	7.6	4.9	2.1	2.2
S.2 GROSS OPERATING PROFIT [S.1 – 3]		4.7	17.0	9.7	2.3	2.6
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]		16.7	30.3	32.9	4.3	10.3

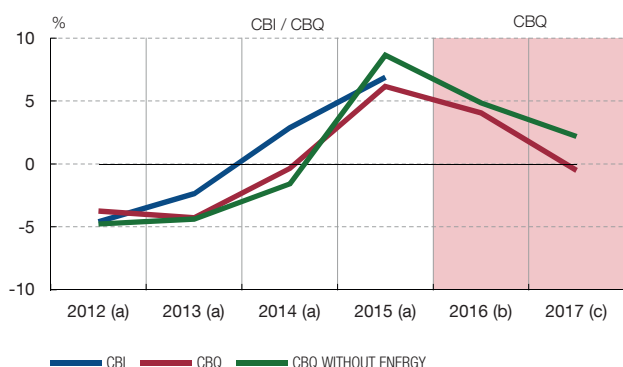
SOURCE: Banco de España.

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

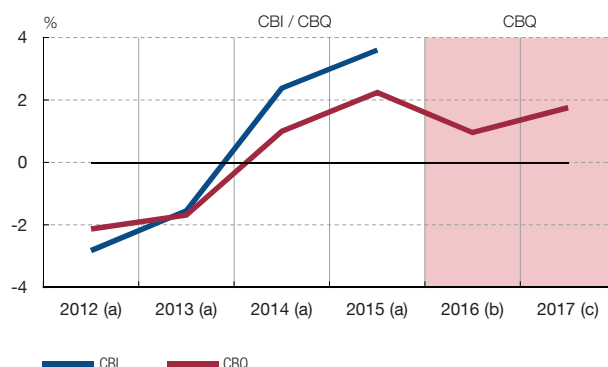
**a** All the data in these columns have been calculated as the weighted average of the quarterly data.

**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).

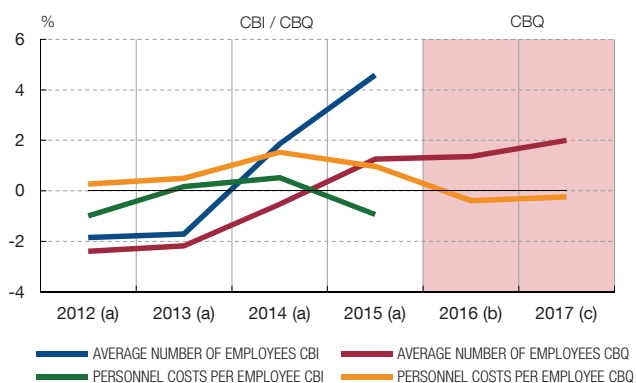
1 GROSS VALUE ADDED AT FACTOR COST  
Rate of change



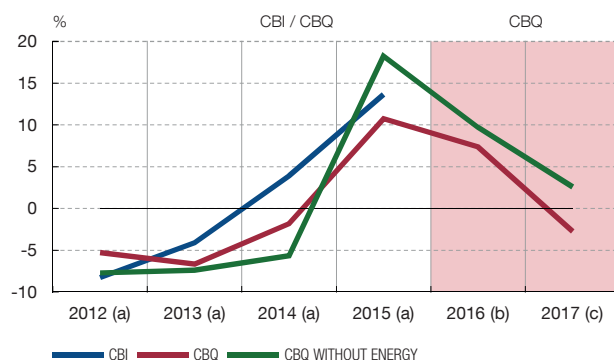
2 PERSONNEL COSTS  
Rate of change



3 EMPLOYMENT AND WAGES  
Rate of change



4 GROSS OPERATING PROFIT  
Rate of change



Reporting non-financial corporations	2012	2013	2014	2015	2016	2017
Number of corporations	CBI	629,926	627,102	639,084	529,546	—
	CBQ	840	842	888	985	974
% of GVA of the sector non-financial corporations	CBI	47.5	47.5	47.7	45.2	—
	CBQ	12.2	11.9	13.3	14.1	14.0

SOURCE: Banco de España.

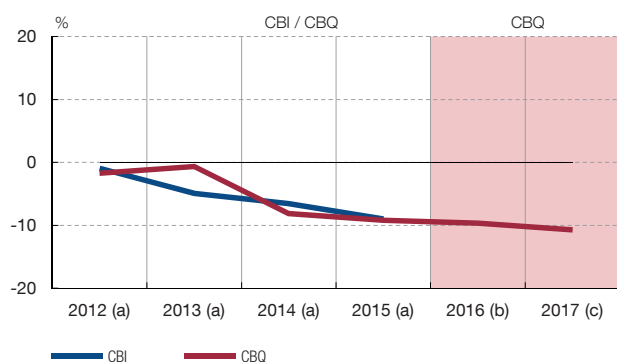
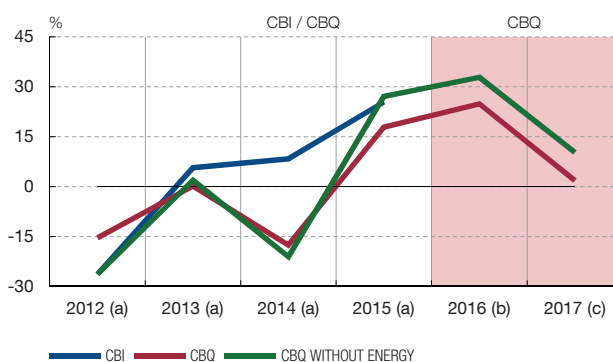
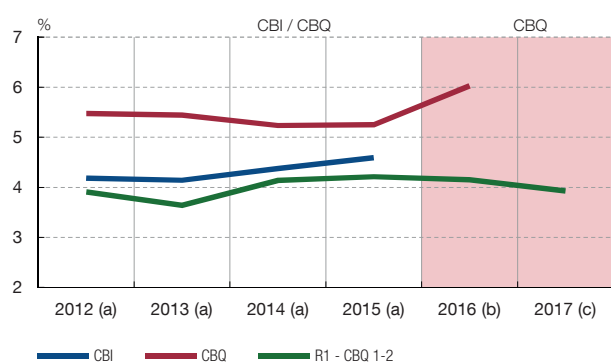
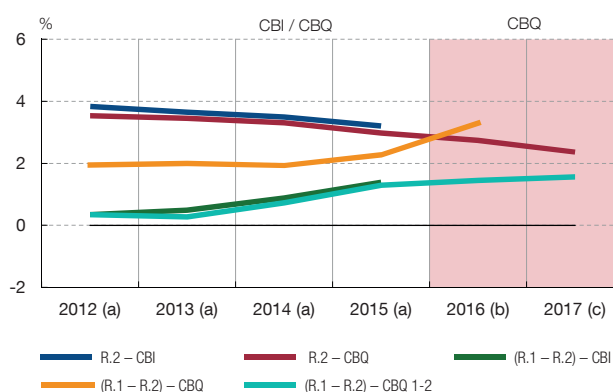
- a The 2012, 2013, 2014 and 2015 data, for the corporations reporting to the CBI, and the average data of the four quarters of each year in relation to the previous year (CBQ).
- b Average of the four quarters of 2016 relative to the same period in 2015.
- c Data for 2017 Q1-Q2 relative to the same period in 2016.

However, this aggregate figure is the result of heterogeneous sectoral developments. Thus, while the energy, industry, and wholesale and retail trade, accommodation and food services sectors recorded increases in average wages (0.7%, 0.6% and 0.6%, respectively), those in information and communication and the sector which encompasses all other activities decreased (0.3% and 0.6%, respectively).

**Profit, rates of return and debt**

The changes in GVA and personnel costs led to a slight year-on-year decrease of 2.8% in the gross operating profit (GOP) of the aggregate of the CBQ sample in 2017 H1, compared with the increase of 3.6% recorded a year earlier. As in the case of GVA, the trend in this surplus in the first half of 2017 was strongly influenced by the negative performance of some large corporations, mostly in the energy sector. Excluding this sector from the sample, GOP grew



5 FINANCIAL COSTS  
Rate of change6 ORDINARY NET PROFIT  
Rate of change7 RETURN ON INVESTMENT (R.1)  
Ratios8 COST OF DEBT (R.2) AND  
ROI - COST OF DEBT (R.1-R.2)  
Ratios

Reporting non-financial corporations	2012	2013	2014	2015	2016	2017	
Number of corporations	CBI	629,926	627,102	639,084	529,546	—	
	CBQ	840	842	888	985	974	875
% of GVA of the sector non-financial corporations	CBI	47.5	47.5	47.7	45.2	—	—
	CBQ	12.2	11.9	13.3	14.1	14.0	13.1

SOURCE: Banco de España.

- a The 2012, 2013, 2014 and 2015 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 The average of the four quarters of 2016. The rates are calculated relative to the same period in 2015.  
c Data for 2017 Q1-Q2. The rates are calculated relative to the same period in 2016.

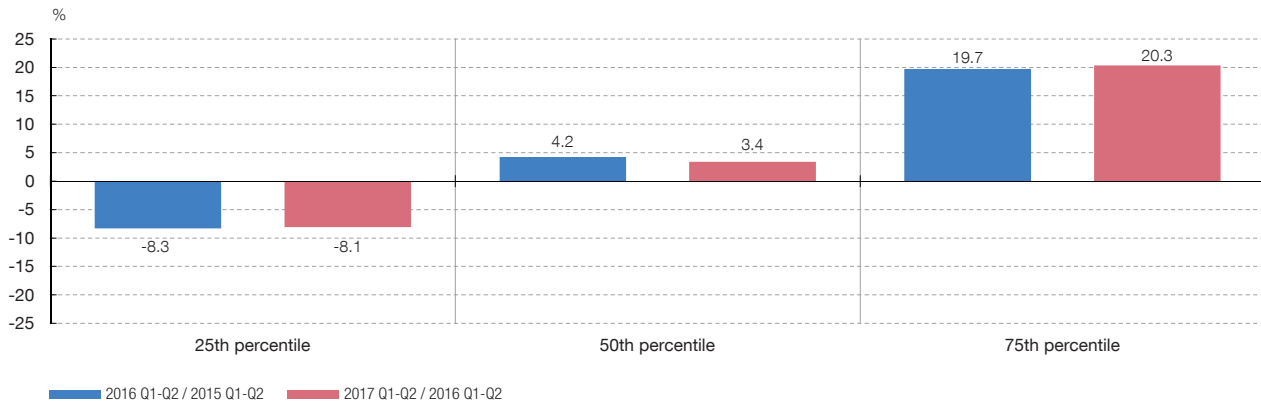
by 2.6%. The breakdown by size reveals that although the surplus of large corporations as a whole fell by 2.8%, that of medium-sized companies increased by 12.7% (see Table 6).

The breakdown by sector also reveals uneven behaviour, with GOP rising sharply in some sectors, such as that encompassing all other activities (15.4%) or industry (4.1%), while substantial decreases are recorded in others, such as energy (14.8%) or the wholesale and retail trade and accommodation and food service sector (15.3%)<sup>2</sup>.

<sup>2</sup> The decrease in GOP in this sector is strongly related to the negative performance in 2017 of some large corporations selling energy products (mainly gas and oil), whose profit margins were significantly reduced.

DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE IN GROSS VALUE ADDED

CHART 2



SOURCE: Banco de España.

VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE.  
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS

TABLE 2

Growth rate of the same corporations on the same period a year earlier, percentages

	Gross value added at factor cost				Employees (average for period)				Personnel costs			Compensation per employee				
	CBI		CBQ (a)		CBI		CBQ (a)		CBI	CBQ (a)		CBI	CBQ (a)			
	2015	2016 Q1-Q4 (a)	2016 Q1-Q2	2017 Q1-Q2	2015	2016 Q1-Q4 (a)	2016 Q1-Q2	2017 Q1-Q2	2015	2016 Q1-Q4 (a)	2016 Q1-Q2	2017 Q1-Q2	2015	2016 Q1-Q4 (a)	2016 Q1-Q2	2017 Q1-Q2
<b>TOTAL</b>	<b>6.9</b>	<b>4.1</b>	<b>2.7</b>	<b>-0.5</b>	<b>4.6</b>	<b>1.4</b>	<b>1.6</b>	<b>2.0</b>	<b>3.6</b>	<b>1.0</b>	<b>1.8</b>	<b>1.8</b>	<b>-0.9</b>	<b>-0.4</b>	<b>0.2</b>	<b>-0.2</b>
<b>SIZE</b>																
Small	8.1	—	—	—	6.0	—	—	—	4.9	—	—	—	-1.0	—	—	—
Medium	6.5	3.4	5.9	8.1	4.4	3.3	3.4	5.2	4.5	3.6	5.2	6.1	0.1	0.3	1.8	0.9
Large	6.5	4.1	2.6	-0.6	3.7	1.3	1.5	1.9	2.9	0.9	1.7	1.7	-0.8	-0.4	0.2	-0.2
<b>BREAKDOWN BY ACTIVITY</b>																
Energy	-0.2	1.0	4.9	-10.9	0.2	0.0	0.3	-0.2	0.4	-1.6	-0.4	0.5	0.2	-1.6	-0.6	0.7
Industry	11.8	6.1	-1.9	3.1	3.3	2.0	2.4	1.6	2.7	2.7	3.5	2.2	-0.6	0.7	1.1	0.6
Wholesale and retail trade & food service activities	7.6	7.4	4.0	-3.9	4.5	2.0	2.0	3.2	4.1	2.2	2.7	3.8	-0.3	0.2	0.8	0.6
Information and communications	2.4	2.5	3.9	1.0	5.1	-3.3	-1.1	-2.3	2.2	0.0	0.1	-2.7	-2.8	3.4	1.1	-0.3
Other activities	6.1	3.6	2.7	6.7	5.5	2.0	1.8	2.7	4.4	0.3	1.3	2.1	-1.0	-1.6	-0.4	-0.6

SOURCE: Banco de España.

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

**PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA  
ON PURCHASING SOURCES AND SALES DESTINATIONS**  
Structure and rate of change, percentages

TABLE 3

		CBA		CBQ (a)	
		2015	2016 Q1-Q4 (a)	2016 Q1-Q2	2017 Q1-Q2
Total corporations		8,991	974	875	875
Corporations reporting source/destination		8,991	909	812	812
Percentage of net purchases according to source	Spain	64.1	68.6	67.9	68.9
	Total abroad	35.9	31.4	32.1	31.1
	EU countries	17.8	23.0	23.0	20.6
	Third countries	18.0	8.4	9.1	10.5
Percentage of net turnover according to destination	Spain	76.9	77.0	78.0	77.9
	Total abroad	23.1	23.0	22.0	22.1
	EU countries	14.7	16.8	15.9	15.8
	Third countries	8.4	6.2	6.1	6.4
Change in net external demand (exports less imports), rate of change	Industry	103.3	3.0	10.8	8.0
	Other corporations	50.4	-45.4	-98.8	-37.9

SOURCE: Banco de España.

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

**PERSONNEL COSTS AND EMPLOYEES**  
Percentage of corporations in specific situations

TABLE 4

	CBI (a)		CBQ (b)			
	2014	2015	2015 Q1-Q4	2016 Q1-Q4	2016 Q1-Q2	2017 Q1-Q2
NUMBER OF CORPORATIONS	441,839	365,999	985	974	1,003	875
PERSONNEL COSTS	100	100	100	100	100	100
Falling	41.2	39.0	35.8	38.3	35.9	33.7
Constant or rising	58.8	61.0	64.2	61.7	64.1	66.3
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	22.2	28.7	39.0	38.7	38.7	35.3
Constant	50.3	28.7	15.7	15.0	15.5	15.7
Rising	27.5	42.6	45.3	46.3	45.8	49.0

SOURCE: Banco de España.

a To calculate these percentages, corporations that did not have any staff in 2014 and in 2015 were excluded.

b Weighted average of the relevant quarters for each column.

Financial revenue in the sample as a whole increased by 5.8% in the period to June, compared with the decline of 5.1% in the previous year. The growth recorded in 2017 H1 was driven by the rise in dividends received, up by 7.7%, while interest income declined slightly by 0.5 %.

Financial costs decreased by 10.7%, basically as a result of the lower average cost of borrowing (see Table 7). Interest-bearing debt increased somewhat with respect to 2016 H1 levels, and thus contributed to the rise in financial costs, albeit only slightly.



## EMPLOYMENT

TABLE 5

	Total CBQ corporations 2017 Q1-Q2	Corporations increasing (or not changing staff levels)	Corporations reducing staff levels
NUMBER OF CORPORATIONS	875	566	309
NUMBER OF EMPLOYEES			
Initial situation 2016 Q1-Q2 (000s)	897	510	386
Rate 2017 Q1-Q2 / 2016 Q1-Q2	2.0	7.5	-5.3
Permanent			
Initial situation 2016 Q1-Q2 (000s)	746	419	327
Rate 2017 Q1-Q2 / 2016 Q1-Q2	0.8	5.2	-4.9
Non-permanent			
Initial situation 2016 Q1-Q2 (000s)	151	91	60
Rate 2017 Q1-Q2 / 2016 Q1-Q2	8.1	18.3	-7.5

SOURCE: Banco de España.

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT  
AND ROI-COST OF DEBT (R.1 – R.2).

TABLE 6

## BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS

Ratios and growth rates of the same corporations on the same period a year earlier, percentages

	Gross operating profit				Ordinary net profit				Return on investment (R.1)				ROI-cost of debt (R.1-R.2)			
	CBI	CBQ (a)			CBI	CBQ (a)			CBI	CBQ (a)			CBI	CBQ (a)		
	2015	2016 Q1-Q4 (a)	2016 Q1-Q2	2017 Q1-Q2	2015	2016 Q1-Q4 (a)	2016 Q1-Q2	2017 Q1-Q2	2015	2016 Q1-Q4 (a)	2016 Q1-Q2	2017 Q1-Q2	2015	2016 Q1-Q4 (a)	2016 Q1-Q2	2017 Q1-Q2
<b>TOTAL</b>	<b>13.6</b>	<b>7.4</b>	<b>3.6</b>	<b>-2.8</b>	<b>25.4</b>	<b>24.9</b>	<b>7.6</b>	<b>1.8</b>	<b>4.6</b>	<b>6.0</b>	<b>4.2</b>	<b>3.9</b>	<b>1.4</b>	<b>3.3</b>	<b>1.5</b>	<b>1.6</b>
<b>SIZE</b>																
Small	19.6	—	—	—	62.9	—	—	—	2.7	—	—	—	-0.3	—	—	—
Medium	12.0	2.9	7.4	12.7	29.0	6.8	13.4	26.1	6.4	7.1	6.7	7.4	3.1	5.0	4.7	5.7
Large	12.4	7.4	3.6	-2.8	20.0	25.0	7.6	1.7	5.1	6.0	4.1	3.9	1.8	3.3	1.4	1.5
<b>BREAKDOWN BY ACTIVITY</b>																
Energy	-0.5	1.9	6.9	-14.8	3.2	3.8	16.7	-18.9	4.8	5.6	4.4	3.6	1.2	2.6	1.4	0.9
Industry	31.1	10.3	-8.1	4.1	46.6	21.6	-6.5	-7.0	7.9	9.8	7.9	7.8	4.8	7.4	5.6	5.3
Wholesale & retail trade & accommodation & food service activities	17.3	15.6	6.0	-15.3	34.9	31.7	6.7	-9.8	7.0	13.8	9.3	7.7	3.6	11.4	6.8	5.8
Information and communications	2.8	4.1	6.5	3.2	0.9	19.1	23.9	7.2	9.8	18.0	16.8	16.1	6.6	16.3	15.0	14.7
Other activities	11.5	10.3	5.7	15.4	24.8	68.2	-3.9	77.3	3.1	4.2	2.3	2.4	0.0	1.5	-0.4	0.1

SOURCE: Banco de España.

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

The favourable performance of financial revenue and costs led to moderate ONP growth (1.8%) in the firms in the sample in 2017 H1, significantly lower than that recorded the previous year (7.6%). This slowdown was strongly influenced by the negative impact associated with the energy sector. Excluding this sector, ONP grew by 10.3% in 2017 H1, outstripping the increase recorded in the previous year (4.3%).

## FINANCIAL COSTS

TABLE 7

Percentages	CBI		CBQ	
	2014 / 2015	2016 Q1-Q4 / 2015 Q1-Q4	2016 Q1-Q2 / 2015 Q1-Q2	2017 Q1-Q2 / 2016 Q1-Q2
Change in financial costs	-9.0	-9.7	-10.7	
A Interest on borrowed funds	-9.1	-7.7	-11.5	
1 Due to the cost (interest rate)	-8.4	-6.8	-11.9	
2 Due to the amount of interest-bearing debt	-0.7	-0.9	0.4	
B Other financial costs	0.1	-2.0	0.8	

SOURCE: Banco de España.

## STRUCTURE OF REPORTING CORPORATIONS' RETURN ON INVESTMENT AND ORDINARY RETURN ON EQUITY

TABLE 8

		CBQ			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		2016 Q1-Q2	2017 Q1-Q2	2016 Q1-Q2	2017 Q1-Q2
Number of corporations		1,003	875	1,003	875
Percentage of corporations by profitability bracket	R <= 0%	23.8	22.2	28.3	25.5
	0% < R <= 5%	25.4	25.2	16.8	17.5
	5% < R <= 10%	15.8	17.1	12.4	12.2
	10% < R <= 15%	8.9	9.8	8.1	9.0
	15% < R	26.3	25.7	34.5	35.8
Memorandum item: Average return		5.2	5.7	7.2	8.0

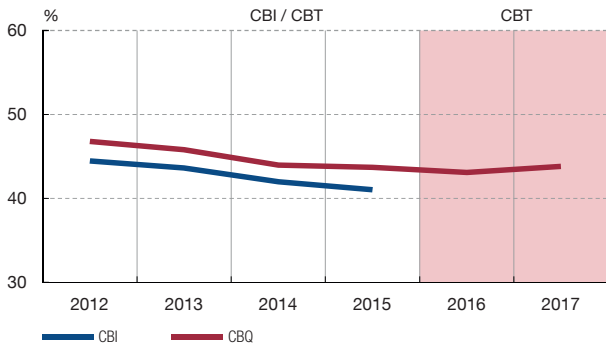
SOURCE: Banco de España.

Extraordinary costs and revenue had a negative impact on the final surplus, owing mainly to the lower reversals of impairment of the value of financial assets, which had been very high in 2016 H1, and the decline in gains on the sale of shares recorded in 2017. As a result of this, profit for the year in the sample was reduced by 26.8%. Expressed as a percentage of GVA, this surplus also stood at 26.8%, compared with 35.2% recorded in the same period in 2016.

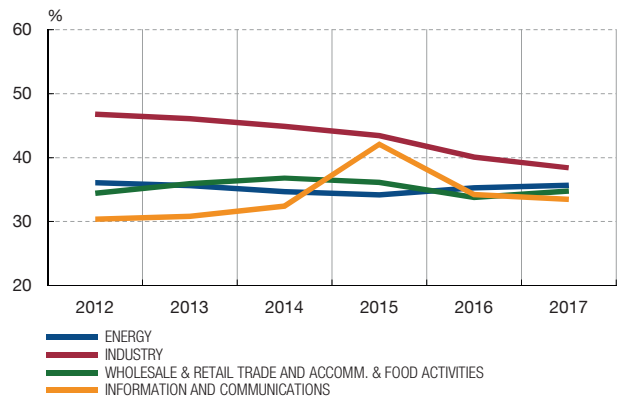
The moderate increase in the ordinary profits of the sample as a whole in 2017 H1 was not sufficient to prevent a decline in the aggregate return ratios. Specifically, the return on investment was 0.3 pp lower than a year earlier, standing at 3.9%, and the return on equity contracted by 0.2 pp, to 5.1%. However, as mentioned earlier, the aggregate trend was strongly influenced by the poor performance of a number of large corporations. The distribution of this variable, which is shown in Table 8, shows an increase of 0.5 pp in the median return on investment and of 0.8 pp in the median return on equity. This information also reflects a decrease in the percentage of firms posting negative returns in 2017 H1 and a shift in the distribution of this variable towards higher values.

The breakdown of the return on investments by sector of activity also evidences a degree of heterogeneity, similar to that mentioned earlier when analysing GOP and ONP (see Table 6). This indicator barely changed in industry and all other activities, with values of 7.8%

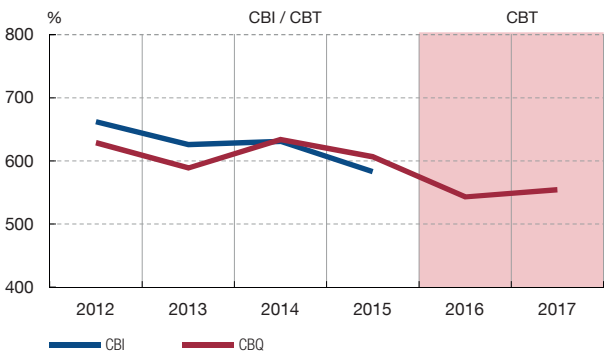
1 E1. INTEREST-BEARING BORROWING / NET ASSETS (a).  
TOTAL CORPORATIONS



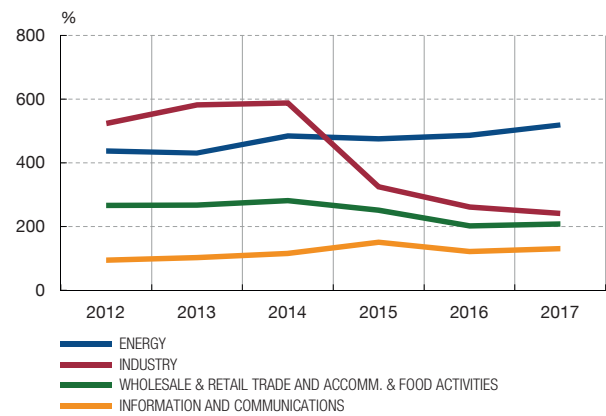
2 E1. INTEREST-BEARING BORROWING / NET ASSETS (a).  
BREAKDOWN BY SECTOR. CBQ



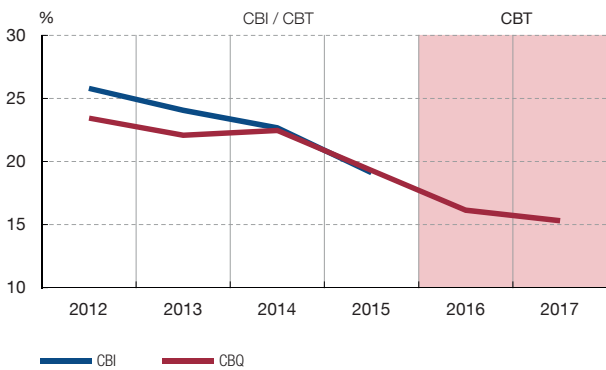
3 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c).  
TOTAL CORPORATIONS  
Ratios



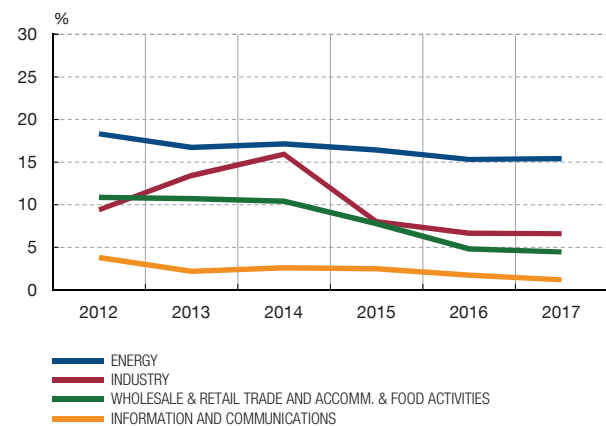
4 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c).  
BREAKDOWN BY SECTOR. CBQ  
Ratios



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)



FUENTE: Banco de España.

- a Ratio calculated from final balance sheet figures. Net assets include an adjustment to current prices.
- b Concept calculated from final balance sheet figures. Interest-bearing borrowing 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 cumulated four-quarter amounts.

and 2.4%, respectively. In the remaining aggregates, this indicator decreased by 0.7 pp in the information and communication sector, 0.8% in the energy sector, and slightly more than 1.5 pp in the wholesale and retail trade and accommodation and food service sector, to 16.1%, 3.6% and 7.7%, respectively.

Meanwhile, the average cost of borrowing decreased by 0.3 pp to 2.4% in 2017 H1. This offset the lower return on investment in the sample, which led to a widening of the spread between these two ratios, by 0.1 pp, to 1.6 pp.

Lastly, the E1 debt ratio (calculated as interest-bearing debt as a proportion of net assets) rose by 0.8 pp in 2017 H1, to stand at 43.8% (see Chart 3). The E2 ratio (defined as the ratio of interest-bearing debt to the sum of GOP and financial revenue) also rose slightly, to 55.4% (compared with 54.3% at 2016 year-end), since the increase in debt exceeded that of ordinary profit. It should be mentioned that this indicator is calculated by eliminating the impact on income and debt of intra-group financing, which has, in recent years, gained greater weight in the balance sheets of large Spanish corporate groups (see Box 1). Lastly, the interest burden ratio continued to decline, as a result of lower financial costs, albeit at a slower pace than in previous years, and was reduced by 0.8 pp to 15.3%. In all three cases, the breakdown by sector shows changes which were scantily significant and of opposing sign.

21.09.2017

Since the late 1990s large Spanish corporate groups have recorded high growth at national and international level. As a result, the structures of these groups have been changing, adapting to the needs of larger and more complex organisations. This has led to new management and funding needs, evolving from a system in which each firm was responsible for covering its financial needs to another in which one or several group companies are entrusted with raising funds.

Among the financing models that are currently most commonly used two distinct patterns can be identified (centralised and decentralised). Under the so-called centralised model, the parent company raises the funds, arranging credit facilities or issuing securities, which are subsequently distributed to subsidiaries. The decentralised model is more complex and frequent in large groups. In this case, subsidiaries are more independent and in some cases

their sole purpose is to raise funds, including directly from the markets, mainly through the issuance of debt securities.

According to the CBI,<sup>1</sup> large groups have a particularly high weight in information and communications and in energy, accounting for 49% and 37% of the total GVA for each of these sectors,<sup>2</sup> respectively (see Chart 1). This weight is lower in other sectors, although in recent years it has risen both in industry and

- 1 The Integrated Central Balance Sheet Data Office Survey (CBI) comprises annual information on slightly more than 600,000 firms, both from the survey data voluntarily submitted by these firms to the Central Balance Sheet Office (CBA) and from the accounts filed with the Mercantile Registries (CBB database).
- 2 This ratio measures the weight of firms belonging to groups included in the CBI sample in respect of the total GVA for each sector provided by the National Accounts. The percentages therefore relate to a lower bound.

Chart 1  
WEIGHT OF FIRMS BELONGING TO GROUPS IN TERMS OF GVA. DETAIL BY SECTOR

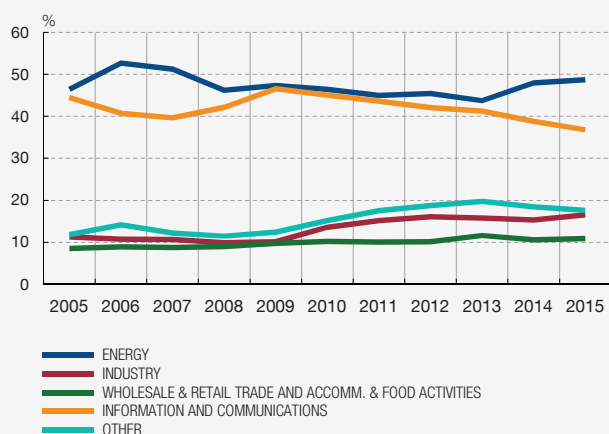


Chart 2  
EXTERNAL FINANCING OF CENTRAL HEADQUARTERS AND HOLDINGS (a)

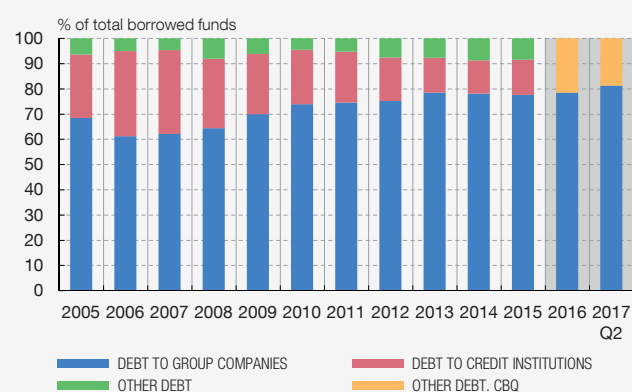


Chart 3  
EXTERNAL FINANCING OF SPANISH SUBSIDIARIES (EXCLUDING HOLDINGS)

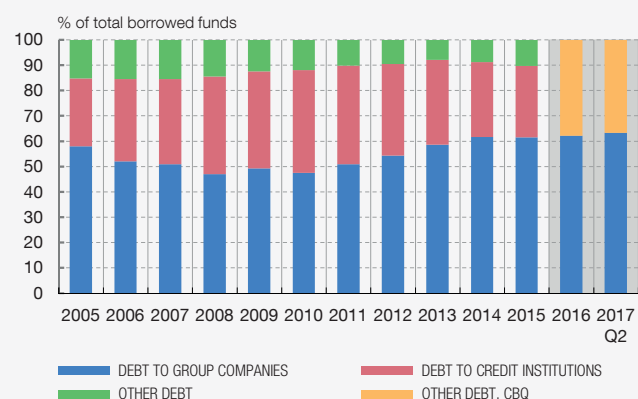
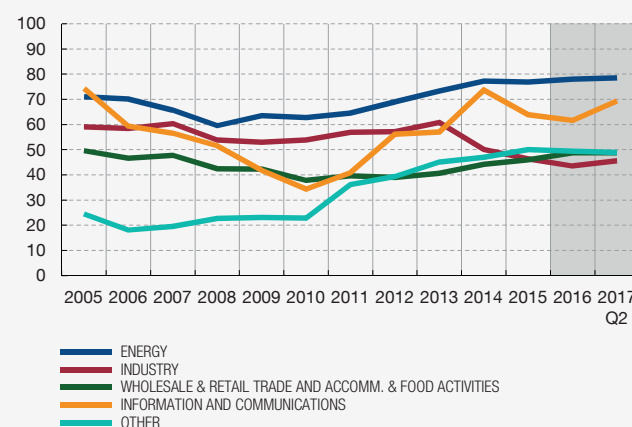


Chart 4  
DEBTS TO SPANISH SUBSIDIARY GROUP COMPANIES (EXCLUDING HOLDINGS). DETAIL BY SECTOR (a) (b)



SOURCE: Banco de España.

- This information was drawn up for an aggregate of 107 groups existing during the period analysed. The shaded area relates to data linked to a CBQ sample, which comprises fewer corporate groups.
- Total sector debt was calculated on the basis of the CBI database.

in all other activities, in both accounting for slightly less than 20% of GVA in 2015. In wholesale and retail trade the proportion is approximately 10%.

In order to assess the significance of financial flows in these conglomerates, a sample was constructed with firms belonging to 107 groups (both listed and unlisted) included in the CBI during the period 2005-2015, thereby eliminating the impact on the indicators analysed of the entry of new groups or the exit of others previously in the sample. This information reveals that intra-group financing has become increasingly widespread both for headquarters and holdings and for the rest of resident subsidiaries included in the sample. Thus, intra-group financing for headquarters and holdings accounted for 80% of total borrowed funds in 2015, nearly 20 percentage points (pp) more than in 2006 (see Chart 2). In the case of subsidiaries other than holdings, lending from other group companies began to grow from 2010, accounting for 47% of total borrowed funds then, and for more than 60% in 2015 (see Chart 3). In both cases a similar decrease is seen in the weight of funds obtained through credit institutions. The most recent data obtained from the CBQ<sup>3</sup> suggest that these trends will continue in 2016 and in 2017 Q1. The determinants of these changes in large corporate groups' financing structures are both structural (specifically, greater size and more internationalisation) and conjunctural. The latter

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3 Owing to the unavailability of CBI data, data from the CBQ sample, which comprises fewer firms, were used for 2016 and 2017. Accordingly, the data for these two years were linked to the 2015 data obtained from the CBI, based on the performance of firms in the quarterly sample.

include most notably the tightening of bank lending conditions during the crisis and, more recently, the decline in the cost of market-based debt financing (which is channelled to group subsidiaries after being obtained by the parent or by financial subsidiaries) bolstered by, among other factors, the ECB's asset purchase programme.

Finally, from a sectoral standpoint, in 2015 the weight of intra-group financing in respect of all the debts of these conglomerates' subsidiaries was high in all branches, around 50% in industry, wholesale and retail trade and all other activities and rising to 64% in information and communication and to 77% in energy (see Chart 4).

In summary, the increasing importance and complexity of these corporate groups in Spain since the late 1990s has fostered changes in their management and financing models, leading to an increase in funds obtained through subsidiaries (often using securities issues) and, by contrast, to a decrease in the weight of bank lending in their balance sheets, patterns seen across all branches of activity. All this is set against a backdrop where more efficient management of funding at group level is sought, in an attempt to take advantage of scale economies derived from centralising the raising of funds for the entire conglomerate in one subsidiary or very few of them. However, although the existence of stronger bonds between subsidiaries may facilitate their access to funding it may, on the other hand, increase the probability that the availability of funds will be conditioned by adverse shocks affecting other group companies.