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RESULTS OF NON-FINANCIAL CORPORATIONS TO 2020 Q4. PRELIMINARY YEAR-END DATA

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ABSTRACT

The COVID-19 crisis has significantly impacted firms' economic and financial performance. Thus, the Central Balance Sheet Data Office Quarterly Survey evidences that in 2020 the ordinary earnings and average profitability of the firms of this sample fell sharply. While profitability worsened across the board, in some sectors, such as industry, wholesale and retail trade and hospitality, and information and communication, the deterioration was particularly severe. Further, extraordinary earnings performed particularly negatively, resulting in a sharp drop in net profit. Financial positions have also been dented; the average debt and debt burden ratios both increased. In light of greater uncertainty, firms increased their liquidity buffers as a precautionary measure. The article contains a box that concludes that the increased financial pressure borne by some firms seems to bear a greater relation to the drop in ordinary earnings than to the rise in debt, which, overall, appears to have been moderate for the sample firms.

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

JEL classification: L25, M21, M41.

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Introduction

The corporate sector's performance in 2020 was heavily influenced by the unprecedented contraction in economic activity triggered by the pandemic, which significantly dented many firms' profitability and financial positions. Thus, the Central Balance Sheet Data Office Quarterly Survey (CBQ), for which data for the whole year are now available, evidences a sharp drop in firms' ordinary earnings and profitability levels. This decline seems to have been steeper in some sectors, such as industry, wholesale and retail trade and hospitality, and information and communication. Further, while overall the debt-to-asset ratio remained stable in 2020, the ratio of debt to ordinary earnings (gross operating profit (GOP) plus financial revenue) increased. The percentage of ordinary earnings used to cover interest payments also rose, interrupting the downward path of this ratio in recent years. This all led to a significant increase in the share of firms bearing high financial pressure.

Activity, employment and personnel costs

The CBQ reveals that in 2020 gross value added (GVA) at the sample firms fell in nominal terms by 20.9% compared with the previous year.[1] This contrasts with the 1.3% increase recorded a year earlier (see Table 1 and Chart 1). A very similar decline is obtained (21.7%) if the rate is calculated by weighting the sectors of the CBQ sample using the National Accounts weights.[2] Chart 2, which depicts the distribution of the firms by rate of change in GVA, confirms that GVA deteriorated across the board, although the median rate reflects a significantly more moderate drop (4.4%) than the aggregate figure. This difference is due to the highly adverse performance in 2020 of some large firms with a high weight within the sample; accordingly, the median rate could, in this case, be more representative of the

1 The CBQ contains information on the 889 firms which had reported their 2020 data to the CBQ by 17 March. The sample represents 11% of the GVA of the entire non-financial corporations sector (according to the information furnished by the National Accounts).

2 The re-weighted figure is obtained by applying, to the aggregate rate of each sector, the weight of such sector in the economy, approximated using National Accounts data. For further information, see Box 1, "Re-weighting of GVA and GOP on the basis of the weight of the different sectors in the national economy", in the article "Results of non-financial corporations in 2018 Q1", *Economic Bulletin,* 2/2018, Banco de España.

Table 1
SHARP DECLINE IN FIRMS' ORDINARY EARNINGS AND PROFITABILITY RATIOS IN 2020 OWING TO THE IMPACT OF THE COVID-19 CRISIS

	CBI structure	CBI		CBQ (a)		
Databases	2019	2018	2019	2018 Q1-Q4 / 2017 Q1-Q4	2019 Q1-Q4 / 2018 Q1-Q4	2020 Q1-Q4 / 2019 Q1-Q4
Number of corporations		749,530	381,916	1,032	1,026	889
Total national coverage (% of GVA)		55.6	32.5	13.0	13.0	11.0
Profit and loss account (rate of change with respect to same corporations in previous year, %)						
1 VALUE OF OUTPUT (including subsidies)	100.0	5.4	2.2	5.1	0.2	-20.0
Of which:						
Net amount of turnover and other operating income	*149.9*	*6.3*	*0.7*	*6.7*	*-1.2*	*-20.4*
2 INPUTS (including taxes)	64.1	6.0	1.1	6.5	-0.3	-19.5
Of which:						
Net purchases	*41.2*	*3.8*	*2.2*	*6.6*	*-2.5*	*-25.4*
Other operating costs	*23.0*	*6.0*	*3.3*	*5.0*	*4.3*	*-10.3*
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	35.9	4.3	4.1	2.2	1.3	-20.9
3 Personnel costs	22.4	6.2	5.5	3.2	3.4	-4.8
S.2 GROSS OPERATING PROFIT [S.1 – 3]	13.5	1.0	1.8	1.2	-0.8	-36.8
4 Financial revenue	4.9	5.5	13.1	15.5	9.5	-13.4
5 Financial costs	2.0	-5.1	-3.8	-5.0	-6.0	-6.4
6 Net depreciation, impairment and operating provisions	5.4	1.6	2.6	0.6	1.2	-0.2
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	10.9	3.9	7.4	9.3	3.9	-50.8
7 Gains (losses) from disposals and impairment	1.0	—	-60.3	—	-48.7	—
7' As a percentage of GVA (7 / S.1)		5.2	2.8	14.7	7.6	-3.1
8 Changes in fair value and other gains (losses)	-0.8	-26.8	-11.7	-80.2	-22.9	45.5
8' As a percentage of GVA (8 / S.1)		-1.7	-2.2	-3.1	-4.6	-3.1
9 Corporate income tax	1.3	3.3	-10.7	-10.5	-27.7	-38.7
S.4 NET PROFIT [S.3 + 7 + 8 – 9]	9.8	47.2	-6.8	89.6	-12.3	-68.2
S. 4' As a percentage of GVA (S.4 / S.1)		24.4	27.3	43.8	38.3	16.2
RATES OF RETURN	Formulas (b)					
R.1 Return on assets (before tax)	(S.3 + 5.1) / NA	5.6	5.9	6.6	6.9	4.6
R.2 Interest on borrowed funds / interest-bearing borrowing	5.1 / IBB	2.4	2.2	2.2	2.0	1.9
R.3 Return on equity (before tax)	S.3 / E	7.5	8.0	9.8	10.6	6.5
R.4 ROA - cost of debt (R.1 - R.2)	R.1 – R.2	3.2	3.7	4.3	4.9	2.7
MEMORANDUM ITEM: TOTAL SAMPLE REWEIGHTED						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]		4.4	4.2	2.4	0.9	-21.7
S.2 GROSS OPERATING PROFIT [S.1 – 3]		1.4	1.7	1.1	-3.9	-44.2

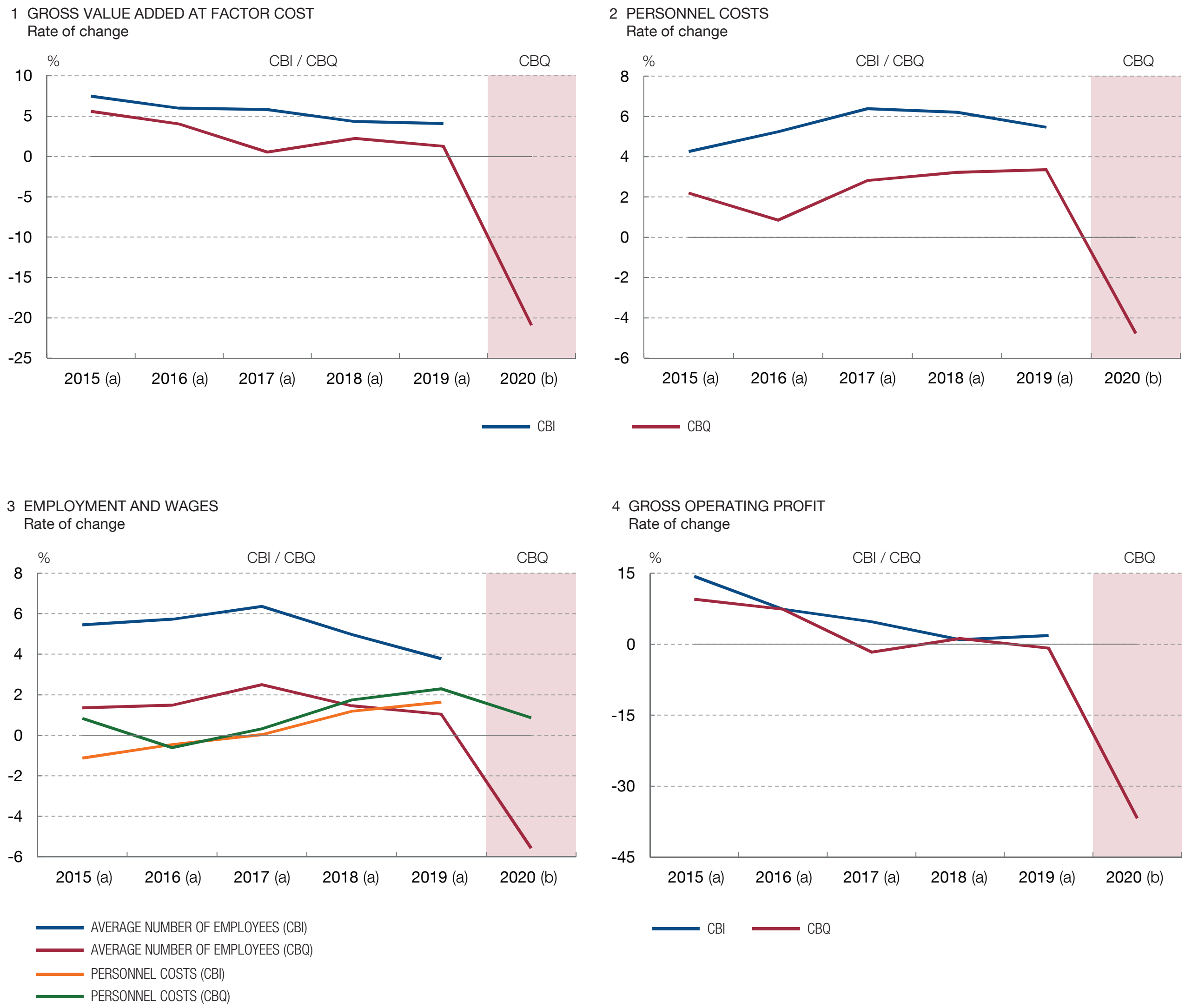
SOURCE: Banco de España.
NOTE: In calculating rates, internal accounting movements have been edited out of items 4, 5, 7 and 8.

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).

Chart 1

STRONG DECLINE IN BUSINESS ACTIVITY AND EARNINGS, AS A RESULT OF THE COVID-19 CRISIS

Firms' activity fell sharply in 2020 as a result of the pandemic-containment measures adopted. This translated into an unprecedented reduction in ordinary earnings. Personnel costs also fell, owing mainly to the reduction in employment, although the decline was much more moderate than that in GVA.



Reporting non-financial corporations		2015	2016	2017	2018	2019	2020
Number of corporations	CBI	843,457	844,923	813,798	749,530	381,916	—
	CBQ	984	982	994	1,032	1,026	889
% of GVA of the non-financial corporations sector	CBI	55.8	56.1	55.8	55.6	32.5	—
	CBQ	14.6	14.7	14.0	13.0	13.0	11.0

SOURCE: Banco de España.

a 2015, 2016, 2017, 2018 and 2019 data, drawing on CBI firms, and average for the four quarters of each year compared with the previous year (CBQ).
b Average for the four quarters of 2020 relative to the same period in 2019.

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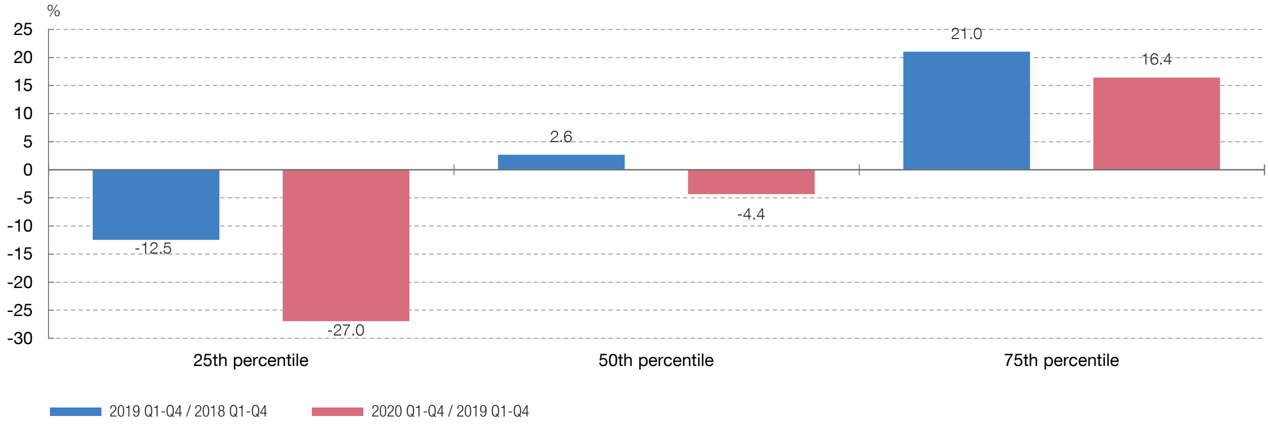
Chart 2
BROAD-BASED DECLINE IN GVA, ESPECIALLY SHARP IN THE 25TH PERCENTILE

The distribution of corporations by rate of change in GVA shows an across-the-board downturn in activity in 2020, affecting the three percentiles, but most markedly the 25th percentile, in which firms with the biggest declines in this variable are concentrated.



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SOURCE: Banco de España.

deterioration in GVA recorded at most CBQ firms. This chart also depicts an increase in the dispersion of the activity indicator, proxied by the interquartile range, defined as the distance between the 25th and 75th percentiles, which indicates greater cross-firm heterogeneity in the change in GVA. Lastly, the course of GVA over the four quarters of the year for the sample as a whole reveals that, after the sharp contraction observed between January and June, it recovered in the second half of the year, albeit remaining below the level for the same period of 2019.

The breakdown by sector shows that GVA declined across all of the sectors of activity assessed in this article, which are the most representative of the sample (see Table 2). The decline in industry was particularly sharp (28.7%), with all sub-sectors contributing to this fall-off, although the decreases in the manufacture of refined petroleum products, of transport equipment and of chemicals and chemical products stand out. Also particularly adversely affected was the sector dubbed "other activities" (encompassing firms not assigned to any of the assessed sectors), with a decline in GVA of 32.6%. Notable within this group was the especially adverse change in transport sector firms, down 44.1%. The drop was pronounced in wholesale and retail trade and hospitality (16.4%), albeit smaller than anticipated by other sources, such as the National Accounts. This is because small firms, which have been hit the hardest by the crisis, are under-represented within this aggregate in the CBQ. Lastly, information and communication also underwent a significant decline in GVA (15.9%), while the contraction was relatively more moderate in energy (6.6%).

Table 2

THE DECLINE IN GVA WAS SHARP AND EXTENSIVE TO ALL SECTORS. CONVERSELY, THE DECLINE IN PERSONNEL COSTS WAS MORE MODERATE

	GVA at factor cost				Employees (average for period)				Personnel costs				Average compensation			
	CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)	
Rate of change with respect to same corporations in previous year, %	2018	2019	2019 Q1-Q4	2020 Q1-Q4	2018	2019	2019 Q1-Q4	2020 Q1-Q4	2018	2019	2019 Q1-Q4	2020 Q1-Q4	2018	2019	2019 Q1-Q4	2020 Q1-Q4
TOTAL	**4.3**	**4.1**	**1.3**	**-20.9**	**5.0**	**3.8**	**1.0**	**-5.6**	**6.2**	**5.5**	**3.4**	**-4.8**	**1.2**	**1.6**	**2.3**	**0.9**
Size																
Small	7.4	6.5	—	—	6.8	5.6	—	—	8.6	7.8	—	—	1.6	2.1	—	—
Medium	4.9	5.9	2.9	-10.9	5.1	4.1	3.2	-5.6	6.5	6.4	4.1	-6.5	1.3	2.2	0.9	-1.0
Large	2.9	3.0	1.2	-21.0	3.6	2.5	1.0	-5.6	4.8	4.2	3.3	-4.7	1.2	1.6	2.3	0.9
Breakdown by activity																
Energy	4.1	5.1	5.1	-6.6	1.4	0.5	-1.8	-1.8	2.2	1.4	0.5	-1.1	0.8	0.9	2.3	0.8
Industry	2.4	0.0	-7.9	-28.7	3.6	2.2	-0.3	-4.6	4.7	3.8	2.6	-4.2	1.1	1.6	2.9	0.5
Wholesale & retail trade and hospitality	4.4	5.4	4.5	-16.4	4.4	3.8	1.8	-6.9	6.1	5.4	3.1	-4.6	1.7	1.6	1.3	2.5
Information and communication	2.6	3.0	1.2	-15.9	6.0	4.5	3.1	-3.1	5.9	4.9	3.5	-4.5	-0.1	0.3	0.3	-1.5
All other activities	6.0	5.9	2.8	-32.6	6.1	4.6	1.0	-6.0	7.5	7.0	4.7	-6.3	1.3	2.3	3.7	-0.3

SOURCE: Banco de España.

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

Personnel costs fell by 4.8%, owing to the slowdown in compensation and, particularly, the decrease in the average actual workforce.[3]

In period average terms, actual employment fell by 5.6% in 2020. It is important to note that employment as defined for CBQ purposes does not include furloughed workers, as they do not generate labour costs aside from a percentage of social security contributions depending on the type of firm in question.

Temporary workers bore the brunt of the fall-off in employment, falling by 18.4%. Permanent staff levels also declined, but by a more moderate 2.8%. In this context, the percentage of firms that reduced their actual headcounts (either via layoffs or by furloughing workers) was 14 pp higher than a year earlier (50.5%) (see Table 3).

The breakdown by sector shows that the decrease in employment was broad-based, affecting all of the sectors of activity assessed, albeit to varying degrees. The most

3 Average actual workforce means the average number of employees that worked in the considered period, excluding furloughed workers.

Table 3

NOTABLE INCREASE IN PROPORTION OF FIRMS THAT REDUCED THEIR AVERAGE NUMBER OF EMPLOYEES

	CBI (a)			CBQ (b)		
Percentage of corporations in specific situations	2017	2018	2019	2018 Q1 - Q4	2019 Q1 - Q4	2020 Q1 - Q4
Number of corporations	563,654	534,539	271,869	1,032	1,026	889
Personnel costs	100	100	100	100	100	100
Falling	30.8	32.2	32.5	32.3	33.0	51.3
Constant or rising	69.2	67.8	67.5	67.7	67.0	48.7
Average number of employees	100	100	100	100	100	100
Falling	27.2	28.9	29.8	33.4	36.6	50.5
Constant	26.1	26.4	26.8	15.0	14.2	14.1
Rising	46.7	44.7	43.4	51.6	49.2	35.4

SOURCE: Banco de España.

a The calculation of these percentages does not include corporations that have no employees in either year.
b Weighted average of the relevant quarters for each column.

pronounced fall-offs were recorded in wholesale and retail trade and hospitality (6.9%), industry (4.6%) and “other activities” (6%) (see Table 2). In the other sectors, the average number of workers was down somewhat more moderately, falling by 3.1% in information and communication and by 1.8% in energy. These drops are consistent with their smaller decline in activity.

Average compensation grew moderately (0.9%) in 2020, compared with the 2.3% increase recorded a year earlier. The sectoral breakdown evidences that these costs grew the most in wholesale and retail trade and hospitality (2.5%). This largely appears to be because the decrease in employment in this sector mostly affected staff with lower wages. Conversely, information and communication recorded the steepest decline (1.5%), while in the other sectors the changes were smaller. These ranged from a 0.8% increase in the energy sector to a 0.3% decline in the “other activities” sector.

Rates of return, liquidity and debt

In keeping with the sharp contraction in activity and the comparatively modest decline in personnel costs, GOP fell steeply in 2020 (by almost 36.8%). This deterioration is somewhat more pronounced (44.2%) if the sectors are weighted according to their share in total GDP, since those most affected by the crisis are under-represented in the CBQ sample.

Financial revenue also fell, by 13.4%, as result of the reductions in dividends received (down 13.4%) and interest income (down 13.2%). Financial costs continued

Table 4
FINANCIAL COSTS CONTINUED TO FALL, ESSENTIALLY OWING TO LOWER DEBT COSTS

Percentages	CBI	CBQ	
	2019 / 2018	2019 Q1 - Q4 / 2018 Q1 - Q4	2020 Q1 - Q4 / 2019 Q1 - Q4
Change in financial costs	-3.8	-6.0	-6.4
A Interest on borrowed funds	-2.7	-6.6	-6.2
1 Due to the cost (interest rate)	-5.9	-9.8	-6.4
2 Due to the amount of interest-bearing debt	3.2	3.2	0.2
B Other financial costs	-1.1	0.5	-0.2

SOURCE: Banco de España.

to decline (by 6.4%) owing to the lower average cost of borrowing borne by firms (see Table 4).

The result of these developments was a contraction of 50.8% in ordinary net profit (ONP)[4] (see Chart 3). Extraordinary revenue and costs had an additional negative impact on net profit, mainly as result of the recognition of the impairment of financial investments. Together with corporate income tax payments, this led to a fall of 68.2% in net profit, in comparison with 2019. As a percentage of GVA, net profit was 16.2%, as against 38.3% in 2019 (see Table 1).

Against this background, rates of return fell significantly in 2020, reversing the rising trend of previous years. Specifically, the return on assets (ROA) fell by more than 2 pp, and the return on equity (ROE) by somewhat more than 4 pp, to 4.6% and 6.5%, respectively.[5] The median values of these indicators also reflect a more pronounced decline, both in the case of ROA (down somewhat more than 2.5 pp, to 2.9%) and in that of ROE, which fell from 7.9% to 3.9% (see Table 5). This table also shows the high percentage of firms that recorded negative values for these indicators (34.5% in the case of ROA and 36.5% in that of ROE), which was up 8 pp from a year earlier.

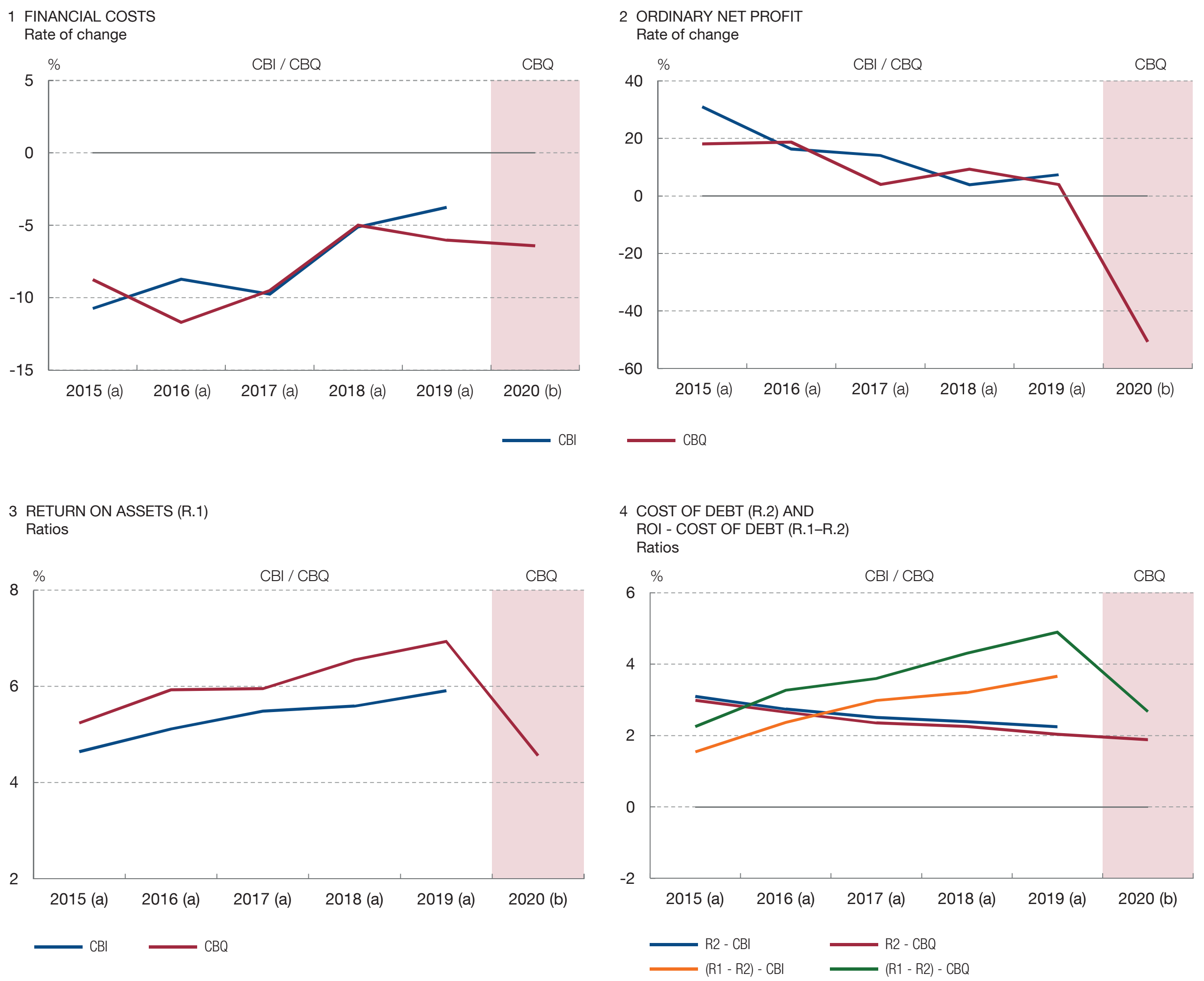
The breakdown by sector of ROA shows that the deterioration was across the board, albeit uneven. The most pronounced falls were recorded in wholesale and retail trade and hospitality, where this indicator fell by more than 8 pp, to 5%; in industry, with a reduction of somewhat less than 6 pp, to 1.7%; and in information and communication, where it fell from 16% to 9.8%. In energy the decline in ROA was more moderate (down 1 pp to 5.7%) and, lastly, in the sector comprising all the other activities it decreased by 1.5 pp, to 4% (see Table 6).

4 ONP is obtained by deducting financial costs and operating depreciation from GOP and adding financial revenue.
5 ROA is defined as (ONP + financial costs) / net assets, while ROE is defined as ONP / equity.

Chart 3

STRONG DECLINE IN PROFITS AND IN ROE AND ROA LEVELS

Despite the fact that financial costs continued falling, the strong contraction in activity prompted a sharp decline in ordinary net profit (down 49%), which translated into a steep reduction in ROA. That led the spread between this indicator and the cost of debt to narrow by over 2 pp, to 2.7 pp.



Reporting non-financial corporations		2015	2016	2017	2018	2019	2020
Number of corporations	CBI	843,457	844,923	813,798	749,530	381,916	—
	CBQ	984	982	994	1,032	1,026	889
% of GVA of the non-financial corporations sector	CBI	55.8	56.1	55.8	55.6	32.5	—
	CBQ	14.6	14.7	14.0	13.0	13.0	11.0

SOURCE: Banco de España.

a 2015, 2016, 2017, 2018 and 2019 data, drawing on CBI corporations, and average for the four quarters of each year (CBQ). For the rates, the calculation is made relative to the previous year.
b Average of the four quarters of 2020. For the rates, the calculation is made relative to the same period of 2019.

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Table 5

STRONG DECLINE IN LEVELS OF ROA AND ROE AND INCREASE IN PERCENTAGE OF FIRMS WITH NEGATIVE PROFITABILITY RATIOS

		CBQ			
		Return on asstes (R.1)		Return on equity (R.3)	
		2019 Q1-Q4	2020 Q1-Q4	2019 Q1-Q4	2020 Q1-Q4
Number of corporations		1,026	889	1,026	889
Percentage of corporations by profitability bracket	R <= 0%	26.2	34.5	28.1	36.5
	0% < R <= 5%	21.9	22.2	14.9	15.6
	5% < R <= 10%	14.3	12.5	11.1	9.5
	10% < R <= 15%	9.3	7.2	8.9	7.1
	15% < R	28.3	23.6	37.0	31.3
MEMORANDUM ITEM: Average return (%)		5.6	2.9	7.9	3.9

SOURCE: Banco de España.

Table 6

THE DECLINE IN PROFITABILITY WAS EXTENSIVE TO ALL SECTORS, AFFECTING THE INDUSTRY, WHOLESALE AND RETAIL TRADE AND HOSPITALITY, AND INFORMATION AND COMMUNICATION SECTORS MORE SHARPLY

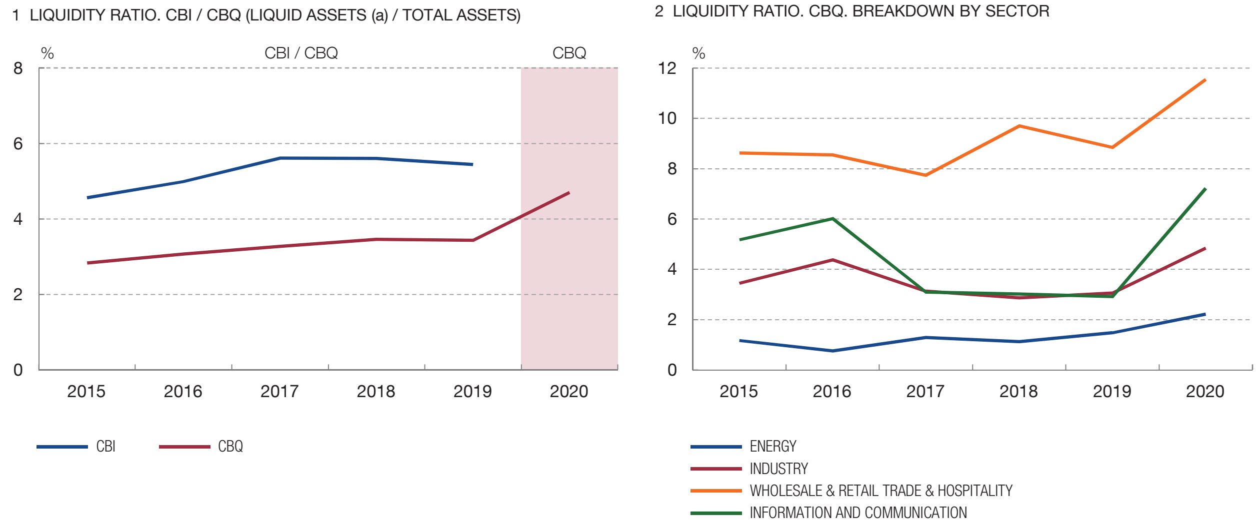
	Gross operating profit				Ordinary net profit				Return on assets (R.1)				ROA-cost of debt (R.1-R.2)			
	CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)	
Rate of change with respect to same corporations in previous year and ratios, % and pp	2018	2019	2019 Q1-Q4	2020 Q1-Q4	2018	2019	2019 Q1-Q4	2020 Q1-Q4	2018	2019	2019 Q1-Q4	2020 Q1-Q4	2018	2019	2019 Q1-Q4	2020 Q1-Q4
Total	**1.0**	**1.8**	**-0.8**	**-36.8**	**3.9**	**7.4**	**3.9**	**-50.8**	**5.6**	**5.9**	**6.9**	**4.6**	**3.2**	**3.7**	**4.9**	**2.7**
Size																
Small	4.0	2.9	—	—	3.4	2.7	—	—	3.7	3.7	—	—	1.5	1.4	—	—
Medium	1.3	4.7	0.5	-19.6	-0.3	3.2	-0.4	-31.8	7.1	7.0	6.7	4.7	4.8	4.8	4.9	3.0
Large	0.0	1.4	-0.9	-36.9	4.3	8.5	4.0	-50.9	6.0	6.4	6.9	4.6	3.6	4.2	4.9	2.7
Breakdown by activity																
Energy	5.0	6.6	6.7	-8.5	6.5	43.7	46.8	-14.1	5.3	6.5	6.8	5.7	2.4	4.3	4.8	4.0
Industry	-1.1	-5.6	-19.8	-60.8	-2.6	-5.9	-27.3	-89.0	8.6	8.1	7.4	1.7	6.1	5.4	4.6	-0.2
Wholesale & retail trade and hospitality	0.5	5.5	6.8	-34.4	8.2	-6.5	-15.0	-54.1	9.1	7.8	13.2	5.0	6.8	5.5	11.1	2.9
Information and communication	-1.1	0.9	-0.2	-21.9	-2.2	0.0	1.1	-40.2	11.0	11.3	16.0	9.8	9.1	9.3	14.8	8.5
Other activities	2.1	3.4	-0.5	-78.0	10.3	17.9	20.5	-37.9	4.1	4.6	5.5	4.0	1.8	2.4	3.5	2.1

SOURCE: Banco de España.

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

Chart 4
FIRMS INCREASED THEIR LIQUIDITY BUFFERS IN 2020 FOR PRECAUTIONARY REASONS

CBQ firms increased their liqudity buffers significantly in 2020. Set against the current high uncertainty, this appears to be linked to precautionary reasons, to address possible future needs. The increase in liquidity was in all sectors of activity, although the increase was sharpest in the industry, wholesale and retail trade and hospitality, and information and communication sectors.



SOURCE: Banco de España.

a Cash on hand and other equivalent liquid assets are considered liquid.

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In 2020, the average cost of borrowing remained on the downward path of recent years, falling by 1 pp to 1.9%. The developments in ROA and borrowing costs led to a sharp narrowing of the spread between these two ratios in this period, to 2.7 pp, more than 2 pp smaller than the spread a year earlier.

Concurrently, during 2020, there was a significant increase in the liquidity buffers of the sample firms, which, in the current context of heightened uncertainty may be linked to precautionary motives, to be ready for possible future requirements, and, possibly, also to the fall in fixed investment, whereby firms with surpluses have accumulated them in the form of liquid assets (see Chart 4). Liquidity increased in all sectors, although the rises were sharper in industry, wholesale and retail trade and hospitality, and information and communication.

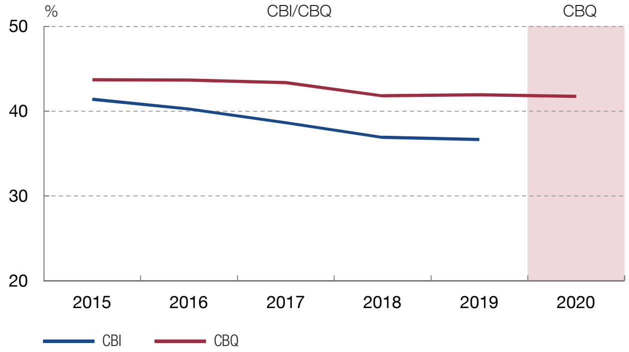
Lastly, in 2020 many firms became more indebted, partly for the reasons explained above (to accumulate liquidity) and partly to cover their greater liquidity needs in the context of the COVID-19 pandemic. This increase is not, however, reflected in the average debt-to-asset ratio, as the numerator and the denominator increased proportionately, and so, at the end of 2020, this ratio remained at around 42% for the sample as a whole. The sectoral breakdown does, however, show increases in this ratio in the energy, industry and above all, information and communication sectors. The ratio of debt to ordinary earnings (the sum of GOP and financial revenue) surged

Chart 5

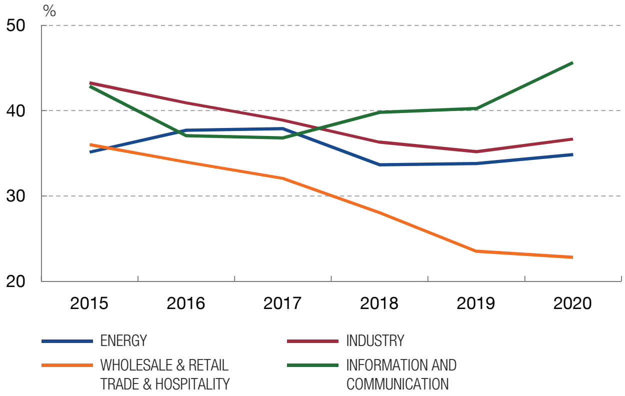
DOWNTURN IN FIRMS' FINANCIAL POSITION, WITH INCREASES IN DEBT AND IN THE INTEREST BURDEN

For CBQ firms as a whole in 2020, the debt/assets ratio held stable while the ratio calculated in respect of ordinary earnings (GOP + financial revenue) clearly increased. However, the breakdown by sector shows that both ratios grew in most sectors of activity. The interest burden ratio also grew, interrupting the declining trend on which it had moved since 2015. In this case, the industry and wholesale and retail trade and hospitality sectors were those most clearly on a rising course.

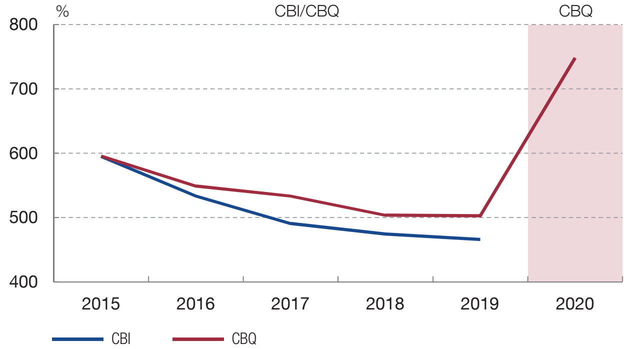
1 E1. INTEREST-BEARING BORROWING/NET ASSETS (a)
TOTAL CORPORATIONS
Ratios



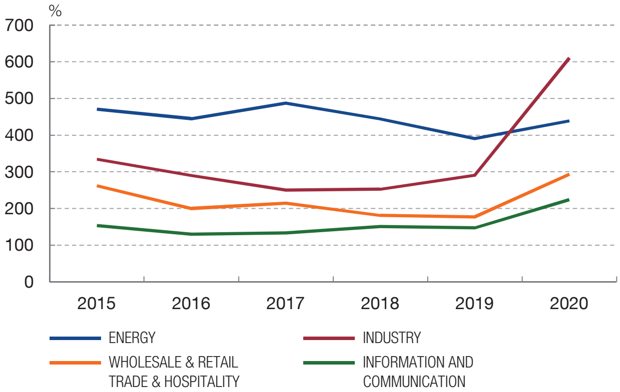
2 E1. INTEREST-BEARING BORROWING/NET ASSETS (a)
BREAKDOWN BY SECTOR. CBQ
Ratios



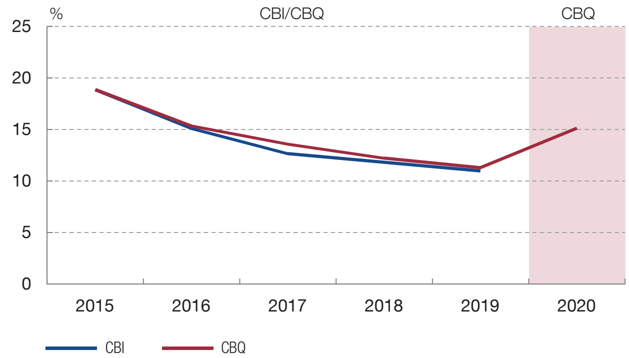
3 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)
TOTAL CORPORATIONS
Ratios



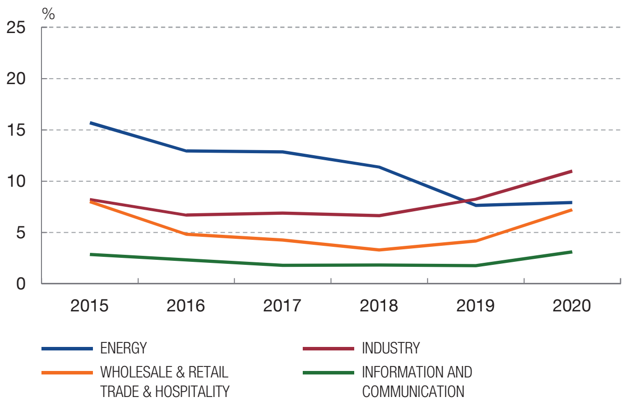
4 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)
BREAKDOWN BY SECTOR. CBQ
Ratios



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 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.

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in 2020, as a result of the sharp decline in earnings, to stand at 748% (up from 503% at the end of 2019). The sectoral breakdown shows increases in all sectors (see Chart 5). The interest burden ratio also rose, by almost 4 pp, to 15.1%, reversing the downward trend this indicator had followed since 2015. This was because the reduction in ordinary earnings was much larger than that in financial costs. The sectoral breakdown of this latter ratio shows increases in all sectors except energy, where it was practically unchanged. Finally, analysis of the distribution of debt in the CBQ sample shows that in 2020 there was a significant increase in the number of firms whose ratio of net debt (defined as gross financial debt less liquid assets) to ordinary earnings reached high levels, and a notable increase in the volume of borrowing (see Box 1).

26.3.2021.

Box 1

RECENT CHANGES IN THE DISTRIBUTION OF INDEBTEDNESS OF CBQ FIRMS

The crisis caused by the COVID-19 pandemic resulted in a sharp fall in ordinary income for many firms in 2020. In this setting, firms increased their indebtedness to meet their higher short-term liquidity needs. One way to assess the economic and financial implications of higher corporate indebtedness is to identify firms with financial ratios above certain vulnerability thresholds. This box reviews the recent changes in the distribution of two complementary indicators of corporate indebtedness, drawing on data from a sample of almost 700 (mainly large) firms reporting to the Central Balance Sheet Data Office Quarterly Survey (CBQ), with data for 2020.[1] The first – more structural – indicator is the net debt[2]-to-net debt plus equity[3] ratio of each firm, which measures the weight of net debt on the balance sheet. The second indicator, which is calculated as the ratio of net debt to

Chart 1
PERCENTAGE OF FIRMS BY TRANCHE OF NET DEBT / (NET DEBT + EQUITY) (a)

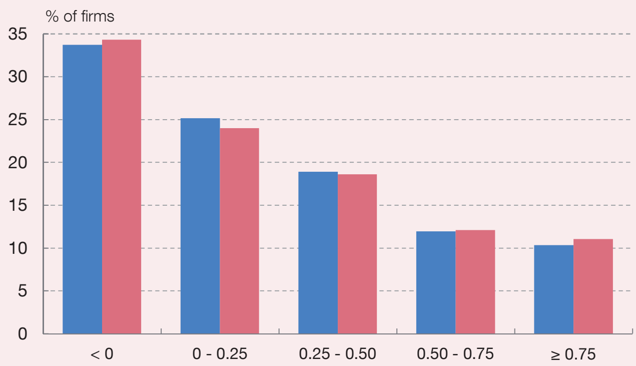


Chart 2
WEIGHT OF INTEREST-BEARING BORROWING OF FIRMS BY TRANCHE OF NET DEBT / (NET DEBT + EQUITY) (a)

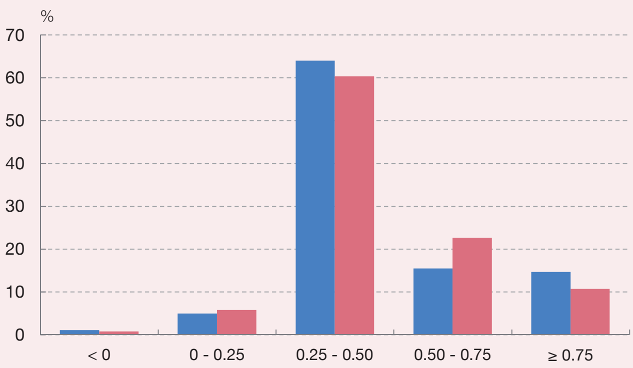


Chart 3
PERCENTAGE OF FIRMS BY TRANCHE OF NET DEBT / (GROSS OERATING PROFIT + FINANCIAL REVENUE) (a)

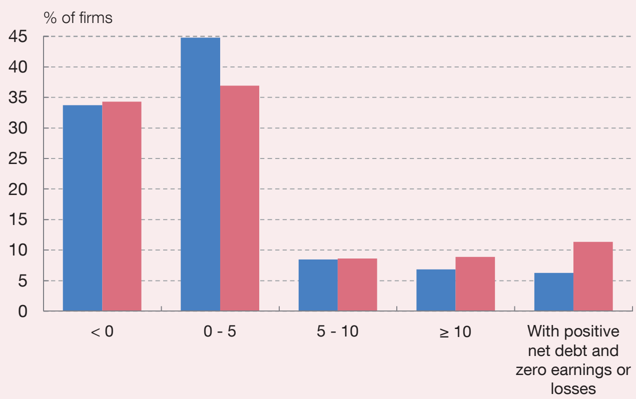
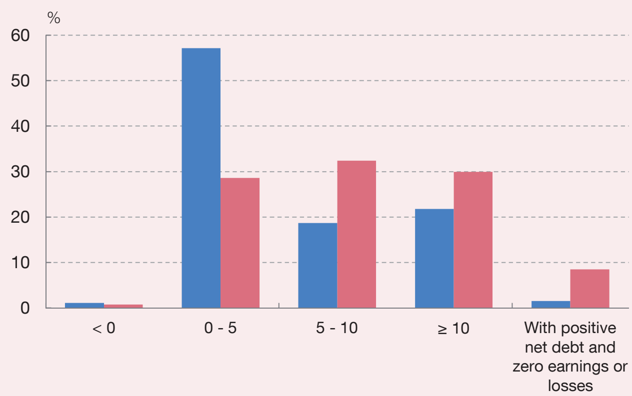


Chart 4
WEIGHT OF INTEREST-BEARING BORROWING OF FIRMS BY TRANCHE OF NET DEBT / (GROSS OERATING PROFIT + FINANCIAL REVENUE) (a)



2019 Q4 2020 Q4

SOURCE: Banco de España.

a Findings obtained from a common sample of CBQ firms. Excludes holding companies and financial services sector firms. Net debt defined as interest-bearing borrowing less cash on hand and other liquid assets.

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1 The sample used in this analysis contains firms' reported data for 2019 and 2020. It excludes holding companies.

2 Net debt is calculated as the difference between financial debt and liquid assets.

3 Equity is defined as the sum of "Own funds", "Valuation adjustments" and "Grants, donations and legacies received".

ordinary earnings (defined as gross operating profit plus financial revenue) measures firms' ability to service their debt with the operating profit generated in the year.

Charts 1 and 2 present the findings obtained with the ratio that measures the weight of net debt on the balance sheet. Chart 1 shows the distribution of firms according to different ranges of this indicator, and Chart 2 the proportion of the gross debt of the sample accumulated by the firms whose ratios lie in each of these ranges. In both cases, the situation at end-2020 is quite similar to that existing before the COVID-19 crisis, reflecting moderate increases in net debt at most firms. This is partly related to the fact that some of the increase in gross debt will probably have been used to build up liquidity buffers. In this respect, some analyses confirm that, in the CBQ sample, there is a positive relationship at firm level between the increase in gross debt and the build-up of liquid assets. Thus, the number of firms in each tranche remains quite steady, with some decrease (slightly more than 1 percentage point (pp), down to 24%) in the tranche that includes firms whose debt ratio is between 0 and 0.25. Conversely, the proportion of firms with values equal to or greater than 0.75, which are the financially most vulnerable firms, has risen slightly, by 0.7 pp to 11%. As regards the volume of gross debt, the most notable aspect is that the weight of the debt of the firms whose indicator stands between 0.5 and 0.75 has risen by some 7 pp to 22.6%, whereas for the firms whose indicator is between 0.25 and 0.50, and for those whose ratio is over 0.75 (the most vulnerable firms), the weight of the debt has fallen by around 4 pp,[4] to 60% and 11%, respectively.

Charts 3 and 4 present the findings obtained with the second indicator, that is, the ratio of net debt-to-ordinary earnings. In this case the distribution has shifted towards the segments with the higher ratios. Accordingly, the number of more vulnerable firms (with ratios over 10 or with losses) has increased, overall, by slightly more than 7 pp. As regards the proportion of the total gross debt of the sample, the highest increase – of more than 14 pp, to 32.3% – is observed among firms with a debt-to-earnings ratio of between 5 and 10. In the segments that include the firms with the highest values (over 10) and with losses, the proportion of debt has risen by 8 pp and 7 pp to 30% and 8.4%, respectively. The firms included in these two last segments may come under greater financial pressure and, in some cases, may have difficulties meeting their interest payments and debt repayments. In any event, these problems are partially mitigated by the low level of interest rates and the extension of grace periods and of the average duration of outstanding debt in 2020, the latter linked to the new State-backed loan facilities.

These findings suggest that, at least for the sample used in this box, the greater financial pressure under which firms find themselves as a consequence of the COVID-19 crisis is due more to the decline in profits than to the increase in the volume of debt, which overall for the firms analysed has been moderate in net terms. In this respect, this higher financial pressure should tend to ease as economic activity and corporate earnings recover. However, some firms, and especially those hardest hit by the crisis, could have significant difficulties in overcoming the increase in financial deterioration.

4 The weight of debt has declined in this case because firms that entered this tranche in 2020 had a lower level of indebtedness than those that moved to the lower tranche (between 0.50 and 0.75).