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RESULTS OF NON-FINANCIAL CORPORATIONS IN 2021 Q1

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ABSTRACT

The information for the sample of firms reporting to the Central Balance Sheet Data Office Quarterly Survey evidences that in the first three months of 2021 firms' activity continued to contract compared with 2020 Q1. However, it did so at a far slower pace than a year earlier, when the first effects of the COVID-19 crisis made themselves felt. Thus, from January to March 2021 there were further reductions, albeit minor, in gross value added and gross operating profit, while employment continued to fall across the sample as a whole. Nonetheless, lower depreciation and operating provisions allowed ordinary net profit to rise and, consequently, profitability indicators to recover slightly. The financial position indicators have, on average, shown a far more subdued performance than in 2020, with slight increases in the average debt ratios and stability in the share of profits used to pay interest. Also evident is a slight decline in average liquidity ratios, following the strong increase in the previous year. In any event, these aggregate developments in the firms' economic and financial indicators were compatible with strong heterogeneity both at the sectoral level and in other dimensions. The article includes a box which analyses recent developments in the firms' liquidity ratios, concluding that some of the firms that had increased their liquidity buffers as a precautionary measure in 2020 appear to have lowered this ratio in 2021 Q1, in step with the gradual dissipation of uncertainty over future macroeconomic developments.

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

JEL classification: L25, M21, M41.

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Introduction

The results of the sample of firms reporting to the Central Balance Sheet Data Office Quarterly Survey (CBQ) evidence that in 2021 Q1 firms' activity continued to contract compared with 2020 Q1. However, it did so at a considerably slower pace than a year earlier, when the first effects of the COVID-19 crisis made themselves felt. However, the favourable developments in depreciation and operating provisions allowed for a recovery in ordinary earnings for the sample as a whole, leading the firms' average profitability levels to increase somewhat as compared with the same period in 2020. For their part, the average debt-to-asset ratio and average debt-to-ordinary earnings ratio (the sum of gross operating profit (GOP) and financial revenue) continued to grow, albeit very slightly. By contrast, the share of ordinary profit used to make interest payments held at very similar levels to the previous year for the sample as a whole. All this reflects the sharp deterioration of firms' financial position ratios last year making way for a more stable situation in 2021 Q1. Lastly, between January and March the average liquidity ratio declined somewhat, after a strong increase a year earlier. In any event, these aggregate developments in the firms' economic and financial indicators were compatible with strong heterogeneity both at the sectoral level and in other dimensions.

Activity, employment and personnel costs

The CBQ reveals that in 2021 Q1 gross value added (GVA) at the sample firms fell in nominal terms by 1.5% compared with 2020 Q1.[1] This contrasts with the dramatic decline recorded a year earlier (13.6%), already reflecting the onset of the crisis triggered by the COVID-19 pandemic (see Table 1 and Chart 1). If the rate is calculated by weighting the sectors of the sample using the National Accounts weights, a somewhat larger reduction is obtained (2.6%) since some of the sectors hardest hit by the crisis are under-represented in the CBQ.[2] Lastly,

1 The CBQ contains information on the 842 firms which had reported their 2021 Q1 data to the CBQ by 16 June. The sample represents 11.2% 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.

Table 1

FIRMS' ACTIVITY CONTINUED TO CONTRACT IN 2021 Q1 BUT AT A FAR SLOWER PACE THAN A YEAR PREVIOUSLY, WHILE PROFITABILITY RATIOS RECOVERED SLIGHTLY

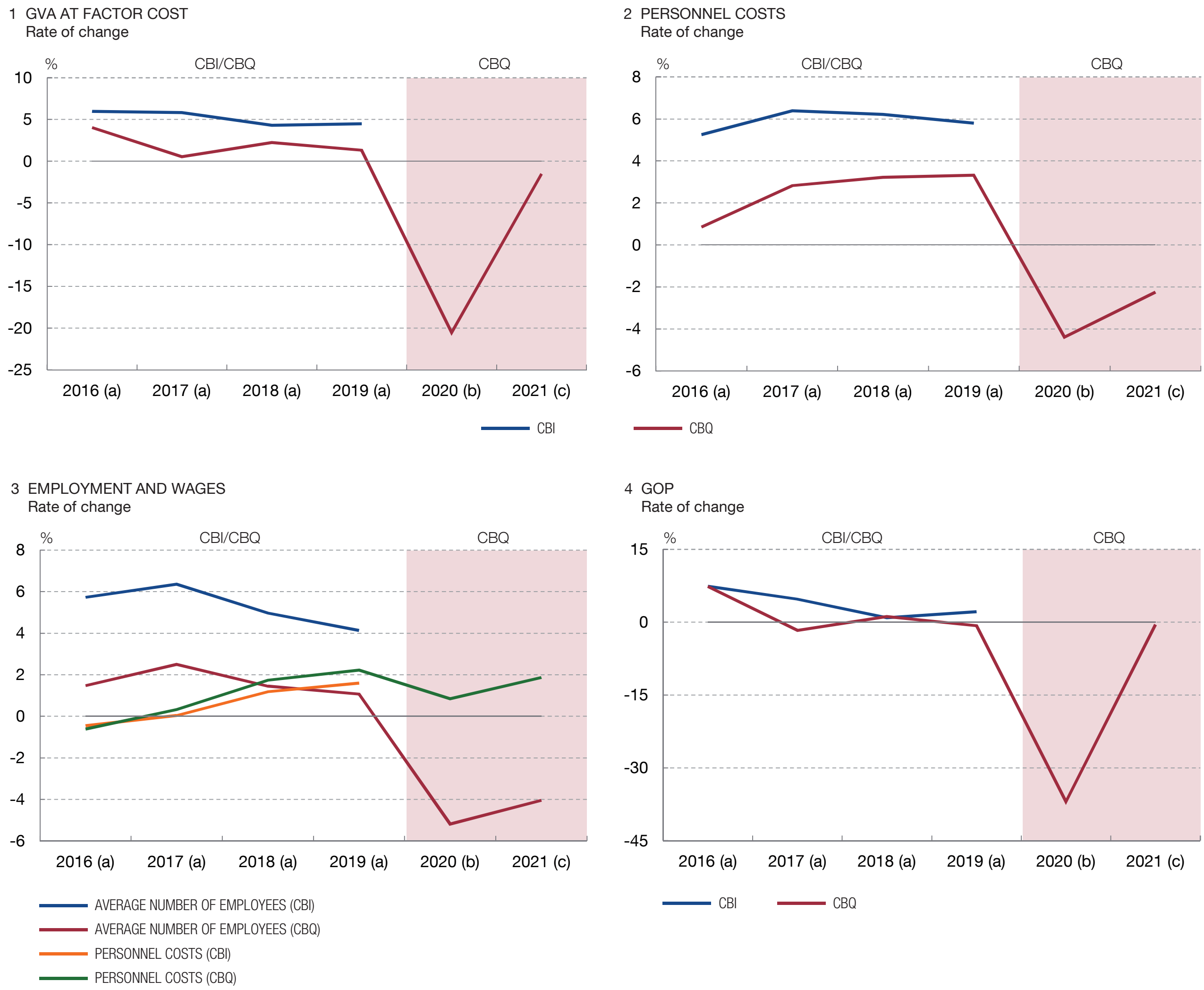
	CBI structure	CBI		CBQ		
Databases	2019	2018	2019	2020 Q1-Q4 / 2019 Q1-Q4 (a)	2020 Q1 / 2019 Q1	2021 Q1 / 2020 Q1
Number of firms		749,530	666,512	928	964	842
Total national coverage (% of GVA)		55.2	48.2	11.6	11.8	11.2
Profit and loss account (rate of change with respect to same firms in previous year, %)						
1 VALUE OF OUTPUT (including subsidies)	100.0	5.4	2.7	-19.6	-10.1	-3.8
Of which:						
Net amount of turnover and other operating income	*148.8*	*6.3*	*1.3*	*-20.0*	*-11.9*	*-3.3*
2 INPUTS (including tax)	63.0	6.0	1.7	-19.2	-8.5	-4.8
Of which:						
Net purchases	*39.5*	*3.8*	*2.2*	*-24.5*	*-13.6*	*0.3*
Other operating costs	*23.4*	*6.0*	*3.6*	*-10.9*	*-1.2*	*-6.6*
S.1 GROSS VALUE ADDED AT FACTOR COST [1 - 2]	37.0	4.3	4.5	-20.5	-13.6	-1.5
3 Personnel costs	24.0	6.2	5.8	-4.4	0.2	-2.2
S.2 GROSS OPERATING PROFIT [S.1 - 3]	13.0	1.0	2.1	-37.0	-28.4	-0.5
4 Financial revenue	3.8	5.5	5.5	-14.1	-38.6	-21.3
5 Financial costs	1.9	-5.1	-2.0	-7.2	-17.1	-2.5
6 Net depreciation, impairment and operating provisions	5.3	1.6	3.3	0.0	9.9	-7.4
S.3 ORDINARY NET PROFIT [S.2 + 4 - 5 - 6]	9.6	3.9	3.6	-52.1	-63.9	7.4
7 Gains (losses) from disposals and impairment	0.7	—	-65.4	—	—	-26.1
7' As a percentage of GVA (7 / S.1)		5.2	1.9	-4.3	-3.9	-6.0
8 Changes in fair value and other gains (losses)	-0.6	-26.8	12.8	44.5	41.5	—
8' As a percentage of GVA (8 / S.1)		-1.7	-1.5	-3.0	-4.1	0.3
9 Corporate income tax	1.4	3.3	-7.0	-45.8	-52.1	95.0
S.4 NET PROFIT [S.3 + 7 + 8 - 9]	8.3	47.2	-8.9	-72.2	-96.1	—
S. 4' As a percentage of GVA (S.4 / S.1)		24.4	22.4	13.8	0.7	2.1
RATES OF RETURN	Formulae (b)					
R.1 Return on assets (before tax)	(S.3 + 5.1) / NA	5.6	5.8	4.6	1.5	1.6
R.2 Interest on borrowed funds / interest-bearing borrowing	5.1 / IBB	2.4	2.3	1.9	1.7	1.6
R.3 Return on equity (before tax)	S.3 / E	7.5	7.8	6.6	1.3	1.6
R.4 ROA - cost of debt (R.1 - R.2)	R.1 – R.2	3.2	3.5	2.7	-0.3	-0.0
MEMORANDUM ITEM: TOTAL SAMPLE REWEIGHTED						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 - 2]		4.4	4.5	-21.1	-12.2	-2.6
S.2 GROSS OPERATING PROFIT [S.1 - 3]		1.2	2.1	-44.2	-33.2	-8.6

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
ACTIVITY AND EMPLOYMENT CONTINUED TO CONTRACT IN 2021, BUT AT A FAR SLOWER PACE THAN LAST YEAR

GVA, GOP and employment declined again in 2021 Q1, but with far less negative rates of change than in the same period a year earlier. Average compensation rose slightly.



Reporting non-financial corporations		2016	2017	2018	2019	2020	2021
Number of corporations	CBI	844,923	813,798	749,530	666,512	—	—
	CBQ	982	994	1,031	1,030	928	842
% of GVA of the non-financial corporations sector	CBI	56.1	55.7	55.2	48.2	—	—
	CBQ	14.7	14.0	13.0	13.0	1.6	11.2

SOURCE: Banco de España.

a 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.
c Data for 2021 Q1 relative to the same period in 2020.

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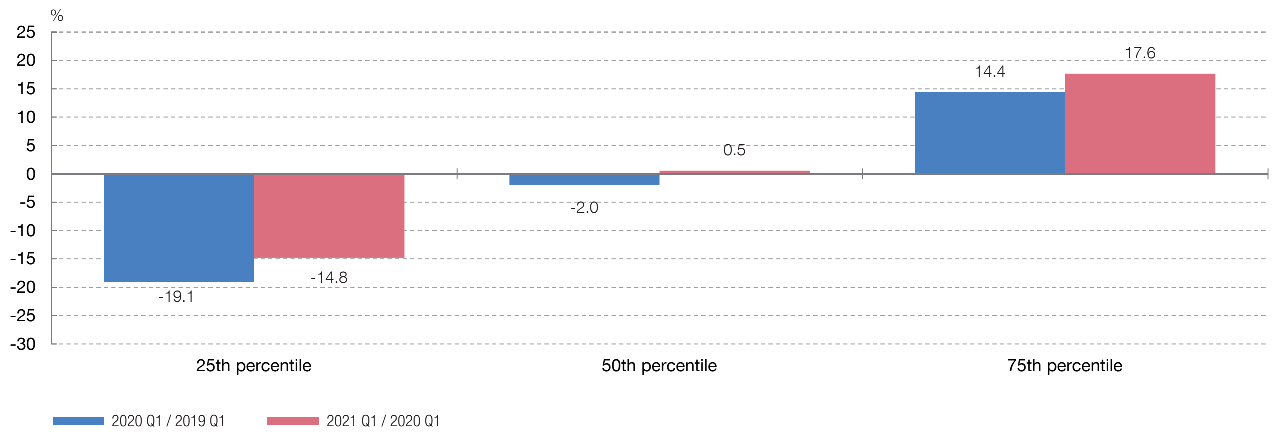
Chart 2

MORE POSITIVE GVA CHANGE IN THE THREE QUARTILES OF THE DISTRIBUTION, AS COMPARED WITH A YEAR EARLIER

In 2021 Q1 the median GVA rate of change stood at a positive value (0.5%), compared with the decline of 2% registered in 2020 Q1. The top and bottom quartiles of the distribution show an even more pronounced improvement in the GVA rate of change compared with a year earlier.



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SOURCE: Banco de España.

Chart 2, which presents data for the three quartiles of the distribution of firms by rate of change in GVA, shows a slightly positive median growth rate of 0.5%, as against the drop of 2% in 2020 Q1. The top and bottom quartiles of the distribution show an even more pronounced improvement in the GVA rate of change as compared with a year earlier.

The breakdown by sector evidences strong heterogeneity in the change in activity between January and March 2021 (see Table 2). In industry, GVA surged by 52.9%, following the steep drop of 34.1% recorded a year earlier. Nearly all sub-sectors contributed to this change, although there were particularly notable increases in those which registered the sharpest GVA contractions a year earlier: the manufacture of refined petroleum products, of chemicals and chemical products and of transport equipment. The wholesale and retail trade and hospitality sector also recorded positive, albeit very low, GVA growth (0.9%, compared with a decline of 13.7% a year previously). However, it is worth noting that small firms, which have been hit the hardest by the crisis, are under-represented within this CBQ aggregate. GVA declined in the remaining sectors, with energy recording the most moderate contraction (1.7%, down 0.4 pp on 2020 Q1). Lastly, the sectors with the sharpest GVA reductions were information and communication (13.1%)[3] and “other activities” (23.1%, mainly owing to the negative performance of the transportation sector), with both outstripping the declines recorded a year earlier.

3 However, it should be borne in mind that the steep GVA fall-off in this sector during 2021 Q1 was strongly influenced by the negative performance of a large firm in the communications sub-sector.

Table 2
GVA AND EMPLOYMENT DECLINE, WITH STRONG CROSS-SECTOR HETEROGENEITY

	GVA at factor cost				Employees (average for period)				Personnel costs				Average compensation			
	CBI	CBQ			CBI	CBQ			CBI	CBQ			CBI	CBQ		
Rate of change with respect to same firms in previous year, %	2019	2020 Q1-Q4 (a)	2020 Q1	2021 Q1	2019	2020 Q1-Q4 (a)	2020 Q1	2021 Q1	2019	2020 Q1-Q4 (a)	2020 Q1	2021 Q1	2019	2020 Q1-Q4 (a)	2020 Q1	2021 Q1
Total	**4.5**	**-20.5**	**-13.6**	**-1.5**	**4.1**	**-5.2**	**-0.2**	**-4.0**	**5.8**	**-4.4**	**0.2**	**-2.2**	**1.6**	**0.8**	**0.4**	**1.9**
Size																
Small	6.5	—	—	—	5.9	—	—	—	8.0	—	—	—	2.1	—	—	—
Medium	5.5	-9.7	0.7	1.5	4.4	-5.7	2.1	-3.7	6.6	-6.9	2.7	-2.9	2.1	-1.3	0.6	0.8
Large	3.4	-20.6	-13.7	-1.5	2.8	-5.2	-0.3	-4.0	4.4	-4.4	0.2	-2.2	1.6	0.9	0.4	1.9
Breakdown by activity																
Energy	3.7	-6.5	-2.1	-1.7	0.3	-1.9	-1.6	-1.8	2.2	-1.1	-2.1	0.0	1.9	0.9	-0.6	1.9
Industry	0.9	-27.0	-34.1	52.9	2.7	-4.2	-2.8	1.1	4.0	-3.6	-1.9	1.2	1.3	0.5	0.9	0.1
Wholesale & retail trade and hospitality	4.9	-15.2	-13.7	0.9	3.9	-6.1	1.1	-6.1	5.6	-3.9	2.2	-2.5	1.6	2.3	1.0	3.9
Information and communication	3.7	-15.5	-6.0	-13.1	5.2	-3.1	-2.1	-1.4	6.0	-4.1	-1.9	-0.9	0.8	-1.0	0.3	0.6
All other activities	6.7	-32.9	-11.9	-23.1	5.0	-5.8	0.3	-5.2	7.1	-6.1	1.3	-4.9	2.0	-0.3	0.9	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 2.2% between January and March 2021, due to the decline in the average actual workforce,[4] which was only partially offset by the increase in average compensation.

In period average terms, actual employment fell by 4% in 2021 Q1, compared with the drop of 0.2% a year earlier. 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 again bore the brunt of the fall-off in employment, with a drop of 14.4%. Permanent staff levels also declined, but by a more moderate 2.2%. In this context, the percentage of firms that reduced their actual headcounts (either via layoffs or by furloughing workers) stood at 52.6%, up 10 percentage points (pp) on a year earlier (see Table 3).

The breakdown by sector shows that the decrease in employment was practically across the board, affecting all of the sectors of activity assessed except for industry, where employment grew by 1.1% (compared with a drop of 2.8% a year earlier). By

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

Table 3
MORE THAN A HALF OF THE SAMPLE FIRMS REDUCED EMPLOYMENT AGAIN IN 2021 Q1

	CBI (a)		CBQ (b)			
Percentage of firms in specific situations	2018	2019	2019 Q1 - Q4 (a)	2020 Q1 - Q4 (a)	2020 Q1	2021 Q1
Number of firms	534,539	476,292	1,030	928	964	842
Personnel costs	100	100	100	100	100	100
Falling	32.2	32.7	33.2	51.5	40.8	49.8
Constant or rising	67.8	67.3	66.8	48.5	59.2	50.2
Average number of employees	100	100	100	100	100	100
Falling	28.9	29.8	36.7	50.8	42.0	52.6
Constant	26.4	26.5	14.0	13.7	14.2	14.0
Rising	44.7	43.7	49.3	35.5	43.8	33.4

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.

contrast, the most pronounced declines were recorded in wholesale and retail trade and hospitality (6.1%) and in “other activities” (5.2%) (see Table 2). Employment likewise fell in the other sectors but more moderately, declining by 1.4% in information and communication and by 1.8% in energy.

Average compensation grew by 1.9% in 2021 Q1, compared with 0.4% a year earlier. The sectoral breakdown evidences that these costs grew most sharply in wholesale and retail trade and hospitality (3.9%). This appears to largely owe to the steep fall-off in employment in this sector mostly affecting staff with lower wages (which drove up the average wage through a composition effect). By contrast, wages held virtually stable in industry and communication, while rising in the other sectors; these increases ranged from 0.3% in “other activities” to 1.9% in the energy sector.

Rates of return, liquidity and debt

In keeping with the contraction in activity, and despite the decline in personnel costs, GOP fell by 0.5% between January and March 2021. This decline is more pronounced (8.6%) if the sectors are weighted according to their share in GDP, owing to the negative performance of some services sectors that are under-represented in this sample, in particular the transportation sector.

Financial revenue also fell (21.3%), mainly as a consequence of lower dividends received (down 31.6%), but also due to the drop in interest income (down 6.3%). Financial costs continued to decline (2.5%) owing to the lower average cost of

Table 4

FINANCIAL COSTS CONTINUED TO DECLINE OWING TO LOWER BORROWING COSTS, OFFSETTING THE EFFECT ASSOCIATED WITH HIGHER DEBT

	CBI	CBQ	
Percentages	2018 / 2019	2020 Q1 - Q4 / 2019 Q1 - Q4	2021 Q1 / 2020 Q1
Change in financial costs	-2.0	-7.2	-2.5
A Interest on borrowed funds	-1.8	-6.9	-1.6
1 Due to the cost (interest rate)	-5.1	-7.3	-5.8
2 Due to the amount of interest-bearing debt	3.3	0.4	4.2
B Other financial costs	-0.2	-0.3	-0.9

SOURCE: Banco de España.

borrowing borne by firms, which offset the counteracting effect associated with increased debt (see Table 4).

All this, along with the drop in depreciation and operating provisions (down 7.4%, primarily on account of lower inventory write-downs), allowed ordinary net profit (ONP)[5] to increase by 7.4% in 2021 Q1, as compared with the drop of 63.9% a year earlier (see Chart 3). Extraordinary costs and income had a negative impact on net profit, owing essentially to impairment losses on certain fixed assets. Together with corporate income tax payments, this led to a net profit figure that was low but positive and triple that of 2020 Q1. As a percentage of GVA, net profit stood at 2.1%, as against 0.7% a year previously (see Table 1).

From January to March 2021, the increase in ordinary profit allowed the rates of return to stand at slightly higher levels than in 2020 Q1. Specifically, the return on assets (ROA) grew by 0.1 pp to 1.6% and the return on equity (ROE) increased by a somewhat more marked 0.3 pp, likewise to 1.6%.[6] The median values of these indicators also reflect a somewhat more positive performance, both in ROA (up 0.4 pp, to 2.7%) and in ROE (up from 2.6% to 3.9%) (see Table 5). This table also shows a reduction in the percentage of firms that recorded negative values for these indicators (down by between 3 and 4 pp, depending on the indicator), reaching 31.9% in the case of ROA and 34% in that of ROE, although these remain high by historical standards.

The sectoral breakdown of ROA shows a highly uneven performance. For instance, in industry this indicator stood at 4.4% for 2021 Q1, contrasting sharply with the negative value recorded a year earlier (-2.9%). ROA likewise improved in wholesale and retail trade and hospitality, rising 0.7 pp to 2.9%. In energy, ROA stood at 4%, a

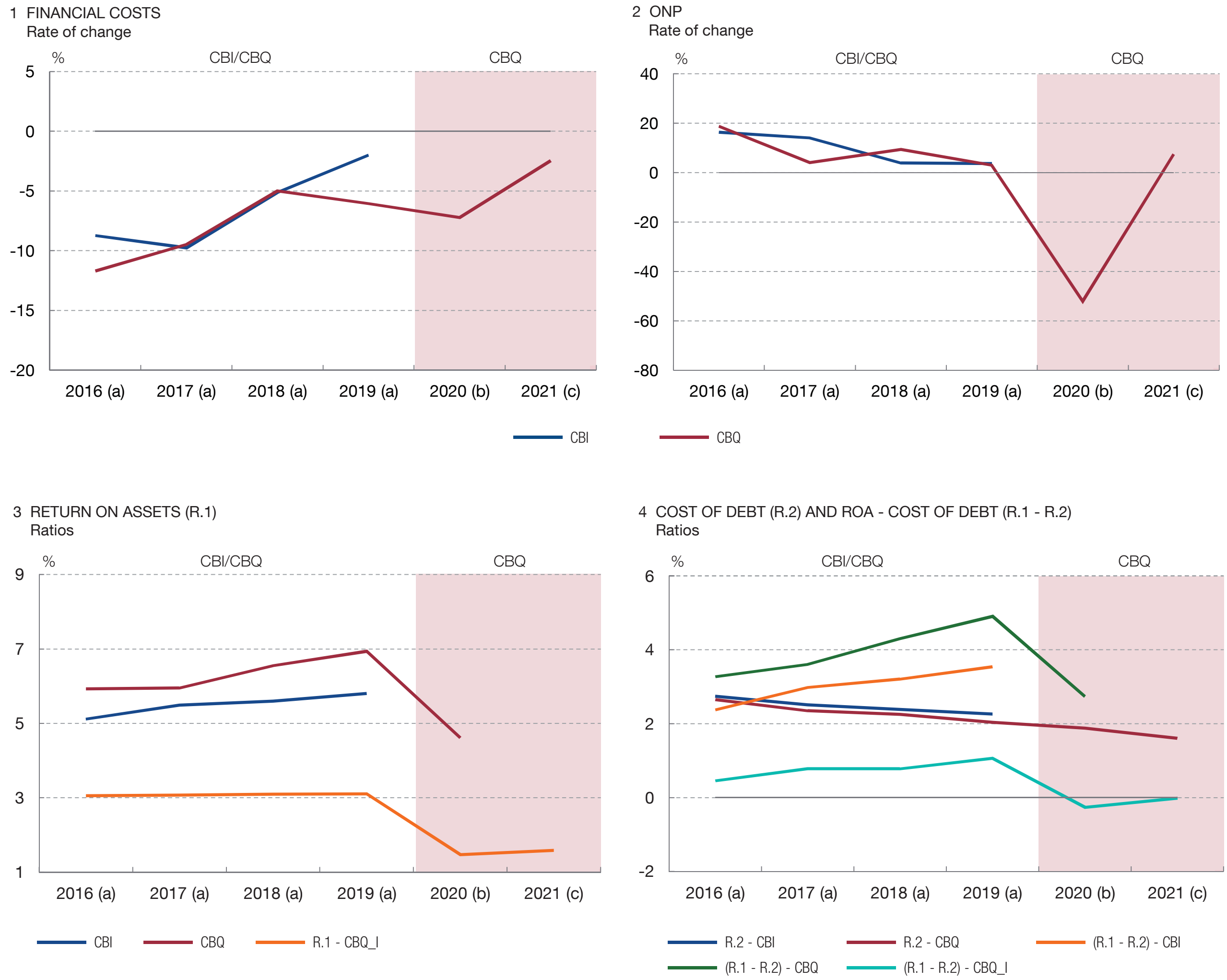
5 ONP equals GOP less financial costs and depreciation and operating provisions, plus financial revenue.

6 ROA is defined as (ONP + financial costs) / net assets, while ROE is defined as ONP / equity.

Chart 3

ORDINARY RETURNS GREW SLIGHTLY, WHICH, TOGETHER WITH DECLINING BORROWING COSTS, CAUSED THE SPREAD BETWEEN THE TWO RATIOS TO WIDEN

The increase in ordinary profit led to an increase in ordinary returns in 2021 Q1. This, together with a slight drop in borrowing costs, allowed the spread between these two ratios to widen somewhat, to a value of virtually zero.



Reporting non-financial corporations		2016	2017	2018	2019	2020	2021
Number of corporations	CBI	844,923	813,798	749,530	666,512	—	—
	CBQ	982	994	1,031	1,030	928	842
% of GVA of the non-financial corporations sector	CBI	56.1	55.7	55.2	48.2	—	—
	CBQ	14.7	14.0	13.0	13.0	1.6	11.2

SOURCE: Banco de España.

a 2016, 2017, 2018 and 2019 data, drawing on CBI firms, 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.
c Data for 2021 Q1. For the rates, the calculation is made relative to the same period of 2020.

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Table 5

INCREASE IN MEDIAN RETURN AND DECREASE IN THE PERCENTAGE OF FIRMS WITH NEGATIVE PROFITABILITY

		CBQ			
		Return on assets (R.1)		Return on equity (R.3)	
		2020 Q1	2021 Q1	2020 Q1	2021 Q1
Number of firms		964	842	964	842
Percentage of firms by profitability bracket	R ≤ 0%	34.7	31.9	37.9	34.0
	0% < R ≤ 5%	25.9	26.6	18.0	17.5
	5% < R ≤ 10%	13.2	11.3	10.8	9.9
	10% < R ≤ 15%	7.0	7.2	6.5	8.0
	15% < R	19.3	22.9	26.8	30.8
Memorandum item: median return (%)		2.3	2.7	2.6	3.9

SOURCE: Banco de España.

Table 6

FIRMS' PROFITABILITY GREW SLIGHTLY IN 2021 Q1, FOLLOWING THE SHARP DECLINE IN THE PREVIOUS YEAR, ALBEIT WITH STRONG CROSS-SECTOR HETEROGENEITY

	GOP				ONP				Return on assets (R.1)				ROA - cost of debt (R.1 - R.2)			
	CBI	CBQ			CBI	CBQ			CBI	CBQ			CBI	CBQ		
Rate of change with respect to same firms in previous year, % and pp	2019	2020 Q1-Q4 (a)	2020 Q1	2021 Q1	2019	2020 Q1-Q4 (a)	2020 Q1	2021 Q1	2019	2020 Q1-Q4 (a)	2020 Q1	2021 Q1	2019	2020 Q1-Q4 (a)	2020 Q1	2021 Q1
TOTAL	**2,1**	**-37.0**	**-28.4**	**-0.5**	**3.6**	**-52.1**	**-63.9**	**7.4**	**5.8**	**4.6**	**1.5**	**1.6**	**3.5**	**2.7**	**-0.3**	**0.0**
Size																
Small	2.4	—	—	—	0.5	—	—	—	3.6	—	—	—	1.3	—	—	—
Medium	3.0	-15.9	-4.8	16.2	0.1	-27.8	-3.9	36.3	6.8	4.6	3.3	4.2	4.6	3.2	1.9	2.9
Large	2.0	-37.1	-28.5	-0.6	4.7	-52.2	-64.2	7.2	6.4	4.6	1.4	1.6	4.1	2.7	-0.3	0.0
Breakdown by activity																
Energy	4.3	-8.3	-2.1	-2.2	27.7	-12.4	0.2	-1.0	6.2	5.7	4.0	4.0	4.0	4.0	2.3	2.3
Industry	-4.0	-59.0	-74.2	—	-7.2	-89.2	—	—	7.8	1.7	-2,9	4,4	5.3	-0.1	-4.9	2.0
Wholesale & retail trade & hospitality	3.4	-32.4	-39.4	10.4	-7.0	-46.2	-71.7	53.9	7.9	5.7	2.2	2..9	5.6	3.6	-0.3	1.0
Information and communication	1.2	-21.6	-8.5	-20.0	0.5	-40.3	-29.1	-32.8	11.3	9.9	10.2	7.8	9.4	8.6	8.9	6.6
Other activities	5.6	-81.0	-43.0	-94.7	16.0	-40.9	—	—	4.6	4.0	0.3	-0.4	2.4	2.1	-1.4	-1.9

SOURCE: Banco de España.

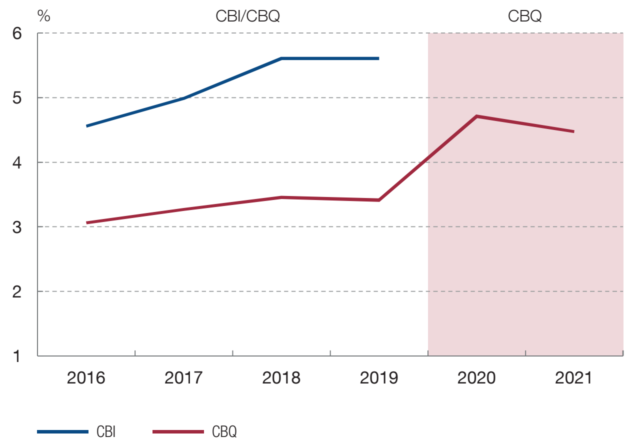
a All the data in these columns have been calculated as the weighted average of the quarterly data.

Chart 4

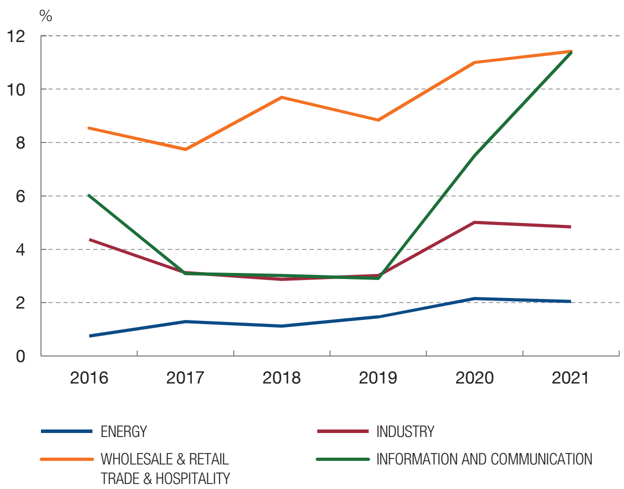
THE FIRMS' AVERAGE LIQUIDITY RATIO DECREASED IN 2021 Q1, ALBEIT WITH STRONG CROSS-SECTOR HETEROGENEITY

In 2021 Q1 the average liquidity ratio of the CBQ sample firms declined, following the strong increase in 2020. By sector, this indicator fell in industry and energy, while other sectors, such as wholesale and retail trade and hospitality, and particularly information and communication, continued the rising path of last year.

1 LIQUIDITY RATIO. CBI / CBQ (LIQUID ASSETS (a) / TOTAL ASSETS) (b)



2 LIQUIDITY RATIO. CBQ. BREAKDOWN BY SECTOR (b)



SOURCE: Banco de España.

a Cash on hand and other equivalent liquid assets are considered liquid.
b The data for 2016-2020 refer to year-end. The data for 2021 refer to end-Q1.

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virtually identical level to that recorded a year earlier. Lastly, information and communication and "other activities" recorded ROA declines of 2.4 pp (to 7.8%) and 0.7 pp (to -0.4%), respectively (see Table 6).

The average cost of borrowing remained on the downward path of recent years, falling by 0.1 pp to 1.6%. The developments in ROA and borrowing costs led to a slight improvement (0.3 pp) in the spread between these two ratios compared with the previous year, to a value of zero.

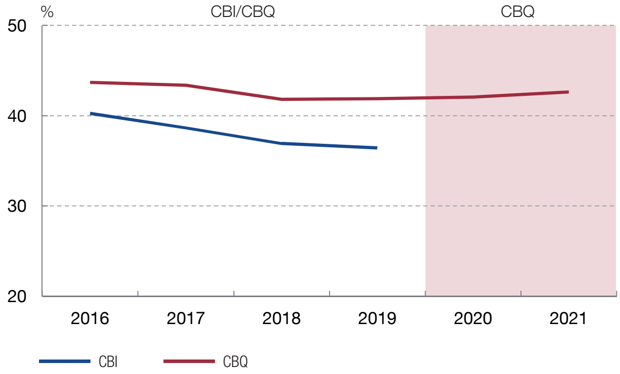
The firms' average liquidity ratio declined in 2021 Q1, following the sharp increase a year earlier (see Chart 4). The breakdown by sector shows that this drop came primarily in industry and energy, whilst wholesale and retail trade and, in particular, information communication continued the rising trajectory of the previous year. A more detailed analysis of the changes in this ratio reveals significant heterogeneity across the CBQ sample firms. Furthermore, a high proportion of the firms that lowered their liquidity ratio in 2021 Q1 had built up liquid assets in the previous year, presumably for precautionary reasons. These firms appear to be beginning to reduce their liquid assets against a background of gradually abating uncertainty over future economic developments (see Box 1).

Chart 5

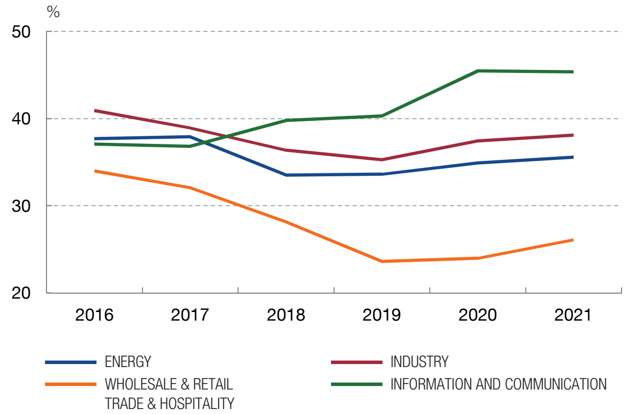
AFTER DETERIORATING SHARPLY IN 2020, THE FIRMS' FINANCIAL POSITION SHOWED GREATER STABILITY IN 2021 Q1

The average debt ratios rose slightly in 2021 Q1, both due to higher debt and the slight decline in ordinary profit. Conversely, the average debt burden ratio held at similar levels to the previous year.

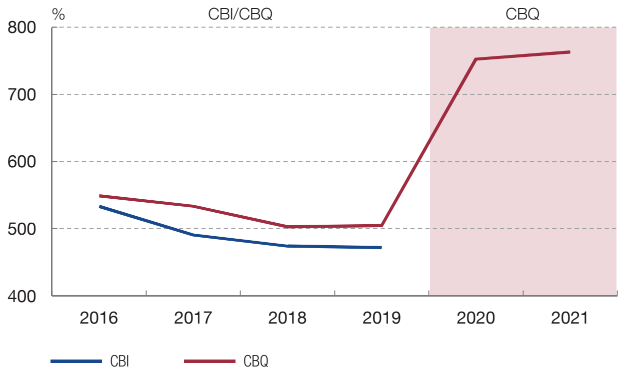
1 E.1. INTEREST-BEARING BORROWING / NET ASSETS (a) (b)
TOTAL CORPORATIONS
Ratios



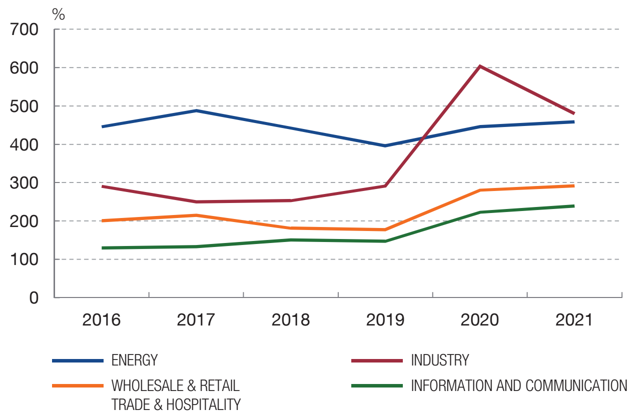
2 E.1. INTEREST-BEARING BORROWING / NET ASSETS (a) (b)
BREAKDOWN BY SECTOR. CBQ
Ratios



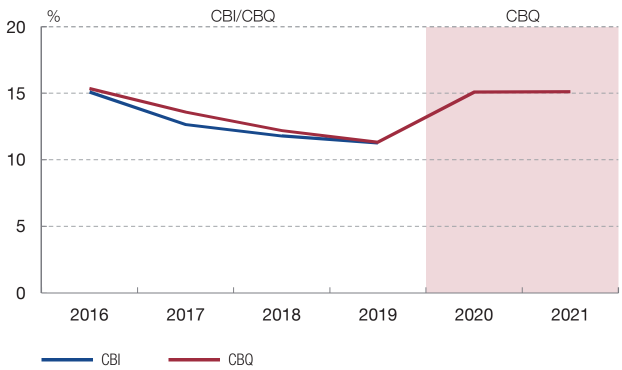
3 E.2. INTEREST-BEARING BORROWING (c) / (GOP + FR) (d) (b)
TOTAL CORPORATIONS
Ratios



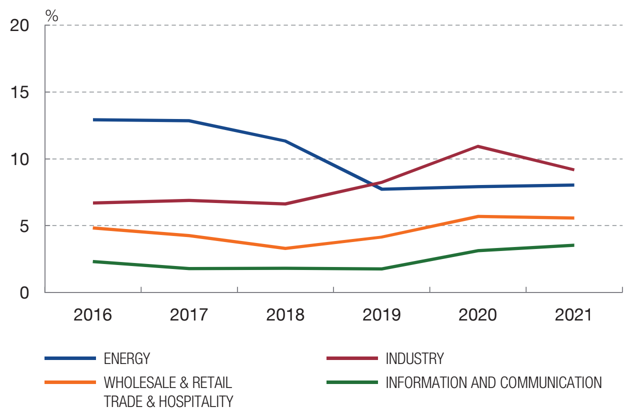
4 E.2. INTEREST-BEARING BORROWING (c) / (GOP + FR) (d) (b)
BREAKDOWN BY SECTOR. CBQ
Ratios



5 INTEREST BURDEN
TOTAL CORPORATIONS
(Interest on borrowed funds) / (GOP + FR) (d) (b)



6 INTEREST BURDEN
BREAKDOWN BY SECTOR. CBQ
(Interest on borrowed funds) / (GOP + FR) (d) (b)



SOURCE: Banco de España.

a Ratio calculated from final balance sheet figures. Equity includes an adjustment to current prices.
b The data for 2016-2020 refer to year-end. The data for 2021 refer to end-Q1.
c Concept calculated from final balance sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intra-group debt (approximation of consolidated debt).
d The expenditure and revenue included in these ratios are calculated on the basis of cumulated four-quarter amounts.

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Lastly, between January and March 2021 the CBQ sample firms moderately increased their debt ratios (see Chart 5). Thus, the average debt-to-net asset ratio grew by 0.6 pp to 42.6% at end-Q1. The sectoral breakdown shows moderate increases in this ratio across all sectors except for information and communication, which held stable. The debt-to-ordinary earnings ratio (the sum of GOP and financial revenue) also grew (albeit very slightly after the sharp increase in the previous year) as a result of both higher debt and the marginal reduction in ordinary earnings, to stand at 763% (up 10 pp on end-2020). The sectoral breakdown shows subdued increases in all sectors except industry, where there was a significant decline owing to the positive results performance within this aggregate. Finally, the ratio of interest expenses to ordinary earnings held stable at 15.1%, since the reduction in the denominator was offset by lower financial costs. The sectoral breakdown for this latter ratio shows a decline in industry, a slight increase in information and communication, and a largely stable performance in the other sectors. In short, these indicators point to a situation of greater stability in the first quarter of 2021, following the sharp deterioration of firms' financial situation in 2020.

24.6.2021.

Box 1

RECENT DEVELOPMENTS IN CBQ FIRMS' LIQUIDITY RATIOS

The information available in the CBQ reveals that last year firms' average liquidity ratio, defined as the ratio of cash and cash equivalents to total assets, surged. This was the case both in the sample as a whole and across all the sectors analysed. The data available for 2021 Q1 in the same database point to this indicator having fallen slightly in aggregate terms. Nonetheless, these two developments are compatible with high heterogeneity, reflecting the different situations that firms have faced over this period. This box explores the individual data from this sample in order to identify different behaviour and to understand its potential determinants.

One noteworthy feature is that even in a year such as 2020, in which average liquidity ratios clearly rose, just over 40% of CBQ firms lowered that ratio (see Chart 1). Furthermore, this share was relatively high in all analysed sectors, ranging from 32% in information and communication to 45% in wholesale and retail trade and hospitality. In 2021 Q1 the percentage of firms lowering their liquidity ratio increased. This is consistent with the aggregate developments, but was not the case at the majority of firms (47% reduced their liquidity ratio). These same developments were observed in all sectors, with the highest percentage recorded once again in wholesale and retail trade and hospitality, where practically half the firms lowered their liquidity ratio between January and March.

Analysis of the changes in 2020 in the median liquidity ratio (see Chart 2) points to the increases in this indicator (within the group of firms where it rose) being steeper than the declines (at the firms where it fell). This appears to be consistent with the increase in the aggregate figure. By contrast, in 2021 Q1 the opposite is true, with the decreases in the liquidity ratio being larger than the increases, which remained but were more moderate. This behaviour was observed across virtually all sectors. Moreover, it is noteworthy that those sectors where the increase in the liquidity ratio in 2020 was greater, such as information and communication and other activities, recorded steeper declines in 2021 Q1.

To better understand the determinants of the liquidity ratio developments, Chart 3 compares some characteristics of the group of firms that increased their liquidity ratio in each period with those of the firms lowering it. First, this analysis demonstrates that the firms that lowered their liquidity ratio were those that, on average, had in 2020 and 2021 Q1 greater liquidity needs stemming from their operating activity.[1] This therefore suggests that the firms with larger operating deficits have tended to use their most liquid assets to cover a portion of these deficits. Another characteristic of the firms in this group is that, on average, they reduced their indebtedness, such that some of them may have met a portion of their 2020 debt payments using their liquid assets.

Second, Chart 3 depicts how the level of this ratio rose significantly to stand above 7.5% in the group of firms that increased their liquidity in 2020. This is very high compared with the level recorded in the group of firms where this ratio fell (1.5%). This increase was largely financed via new debt, as suggested by the median indebtedness in this group of firms growing by almost 3 pp, compared with a 4.5 pp higher liquidity ratio. In a similar vein, Chart 4 shows that the firms that increased their liquid assets in 2020 tended to do so by taking credit. This points to precautionary motives potentially having been the main determinant of higher liquidity buffers for this type of firm in the past year, amid high uncertainty.

Lastly, in 2021 Q1, the initial liquidity ratio levels of the firms that lowered this ratio were very high. This could indicate that, among these firms, there are some that built up liquid assets in 2020 for precautionary motives and are now starting to unwind that position as the uncertainty over future economic developments gradually dissipates. Specifically, these firms appear to have used these assets to cancel a portion of their debt (see Chart 4). A more detailed analysis allows us to draw the following conclusion: the firms whose liquid assets increased the most in 2020 were also those which reduced them the most between January and March 2021. Overall, 68.2% of the firms that lowered their liquidity ratio in 2021 Q1 had raised it in 2020. Conversely, a high proportion (50%) of the firms that increased their liquidity ratio in 2021 Q1 did so after it fell in 2020. These developments resulted in this ratio converging slightly in the two groups of firms analysed.

In sum, the findings of this box highlight that recent developments in firms' liquidity ratios are highly heterogeneous. In 2020 those that lowered their ratio

1 Operating activity-related liquidity needs are the losses incurred, in the period considered, as a result of the income and expenses linked to ordinary activities.

appear to have done so mainly to cover operating deficits, whereas those that raised it did so partly for precautionary motives. By contrast, in 2021 Q1 a high proportion of those that lowered it did so to unwind the previous year's increase, as uncertainty over future economic developments gradually dissipates.

Chart 1
PERCENTAGE OF FIRMS WHOSE LIQUIDITY RATIO FELL (a)

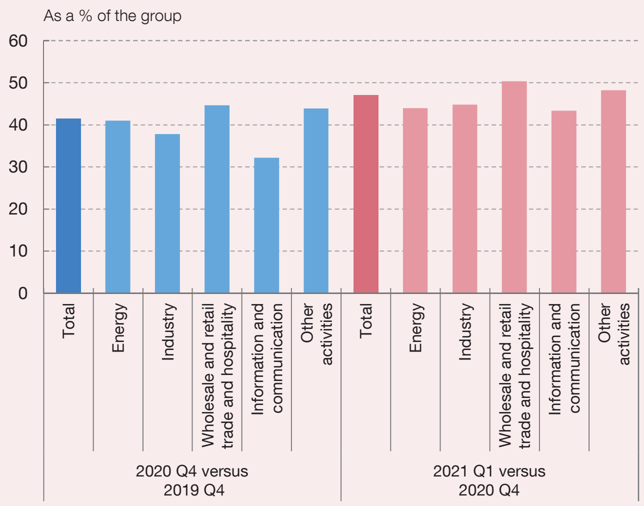


Chart 2
CHANGE IN MEDIAN LIQUIDITY RATIO. BREAKDOWN BY SECTOR (a)

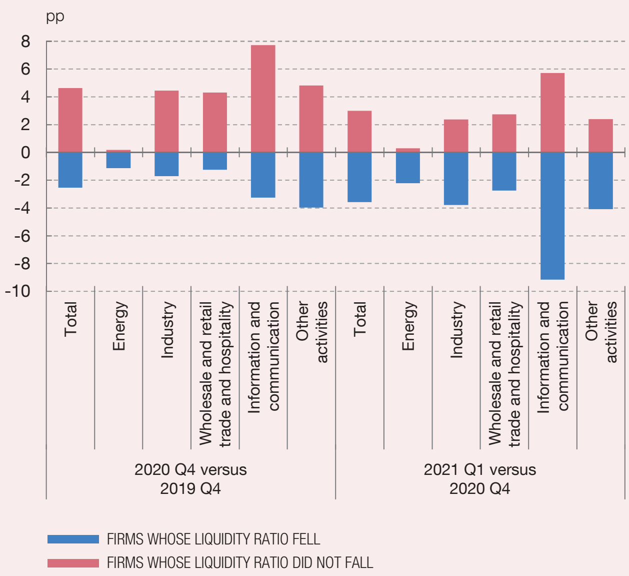


Chart 3
MEDIAN INDICATORS OF THE FIRMS, CLASSIFIED BY CHANGE IN LIQUIDITY RATIO

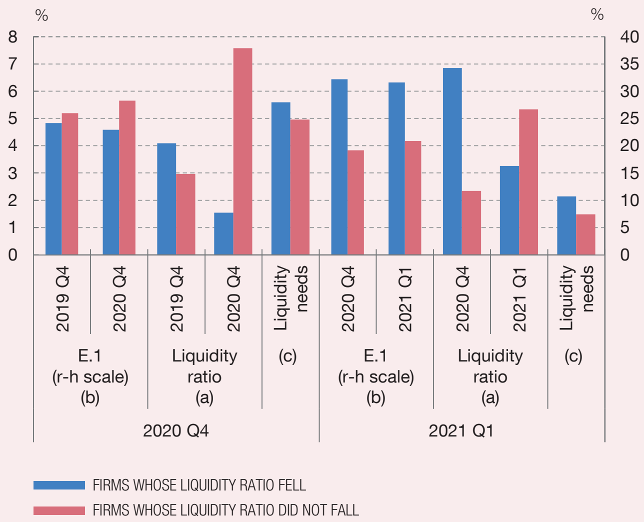
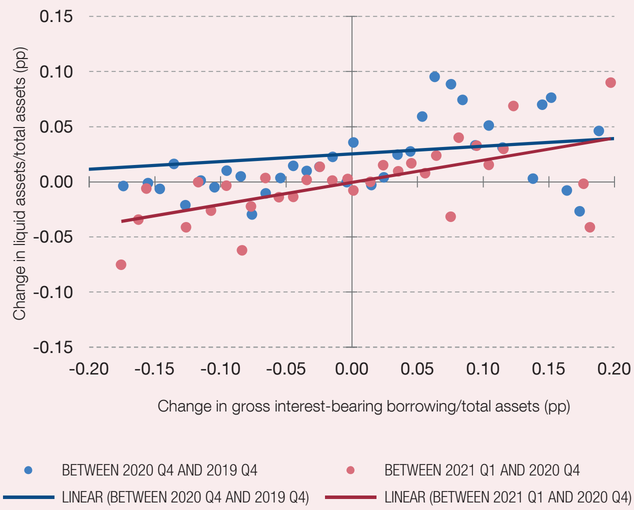


Chart 4
CHANGE IN GROSS INTEREST-BEARING BORROWING VS LIQUID ASSETS (d)



SOURCE: Banco de España.

a The liquidity ratio is defined as cash and cash equivalents/total assets.
b E.1 = interest-bearing borrowing/net assets.
c As a percentage of net assets. 2020 Q4 liquidity needs reflect the amount for the four quarters of 2020.
d Each point on the chart denotes the average change in gross interest-bearing borrowing/total assets and the average change in liquid assets/total assets, obtained in 0.01 pp intervals of the change in borrowing relative to assets. Only those intervals in which there is more than one firm are considered.