

## RESULTS OF NON-FINANCIAL CORPORATIONS IN THE FIRST HALF OF 2016

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

*In 2016 H1 economic activity continued to grow in the sample of firms reporting to the Central Balance Sheet Data Office Quarterly Survey (CBQ), while employment rose across the board. The increase in ordinary profit gave rise to similar or slightly higher aggregate profitability levels than a year earlier. A more in-depth analysis of this sample of firms evidences the recovery of returns in an increasing number of firms and in most sectors. Net profit for the year also rose, also driven by the growth of extraordinary costs and revenue. Finally, both the debt ratios and, to a greater extent, the debt burden ratio decreased.*

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

The CBQ data show that in 2016 H1 the gross value added (GVA) of the sample firms increased by 2.3% in year-on-year terms, compared with 4.2% in 2015 H1. Personnel costs rose by 1.9%, 0.1 percentage point more than in the same period a year earlier, mainly driven by the recovery of employment, which grew 1.5% as compared with 0.9% in 2015 H1, while average compensation rose moderately (by 0.4%).

Gross operating profit (GOP) increased by 2.8% compared with a 6.9% increase a year earlier. Financial revenue fell by 3.8%, mainly as a result of the decrease in interest income, while dividends received remained largely unchanged. Financial costs continued to display the pattern of the last two years, declining by 10.3%, owing to the lower cost of borrowing and, to a lesser extent, to the decrease in interest-bearing debt.

The fall in borrowing by the firms that make up the sample in the first six months of 2016 gave rise to a further decrease in the debt ratios (both in terms of net assets and, to a larger extent, GOP). The interest burden ratio (calculated as financial costs as a proportion of the sum of GOP and financial revenue) declined somewhat more sharply as a result of the joint effect of the contraction of financial costs and the growth of income. The performance of these three indicators suggests that the financial pressure faced by firms declined again in 2016 H1. This is also evidenced by observing that the percentage of firms in the sample whose interest coverage ratio (ICR) was lower than one (i.e. those whose period income was insufficient to satisfy debt interest) decreased in 2016 and reached levels similar to those recorded before the crisis (see Box 1).

The growth of GOP, along with the decrease in financial revenue and costs, and the slight increase in depreciation and provisions, gave rise to an increase in ordinary net profit (ONP) in 2016 H1 of 6.5%, which was more modest than that recorded a year earlier (18.3%). The increase in ordinary profit enabled aggregate returns to be similar or slightly higher than in the previous year. This slight improvement in the aggregate return indicators was also accompanied by a shift in their distribution by corporations to higher levels and by a recovery in most sectors. In any event, the stability of the aggregate return on assets, together with the decrease in the average cost of borrowing, led to a slight widening of the spread between the two ratios, by 0.2 percentage points (pp), to 1.4 pp.

<sup>1</sup> This article draws on the information of the 856 corporations that had reported data to the CBQ by 13 September 2016 and which, according to National Accounts data, represent 13.7% of the GVA generated by the entire sector.

**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

	CBI structure	CBI		CBQ (a)		
	2014	2013	2014	2015 Q1-Q4/ 2014 Q1-Q4	2015 Q1-Q2/ 2014 Q1-Q2	2016 Q1-Q2/ 2015 Q1-Q2
<b>DATABASES</b>						
Number of corporations		626,480	596,862	958	991	856
Total national coverage (% of GVA)		46.7	45.6	13.9	14.4	13.7
<b>PROFIT AND LOSS ACCOUNT</b>						
1 VALUE OF OUTPUT (including subsidiaries)	100.0	-1.9	2.1	-2.6	-1.6	-3.9
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	150.4	-1.8	3.7	-2.6	0.5	-6.8
2 INPUTS (including taxes)	65.3	-1.7	1.6	-6.2	-4.2	-6.8
<i>Of which:</i>						
<i>Net purchases</i>	41.9	-3.4	2.1	-9.0	-8.1	-9.9
<i>Other operating costs</i>	23.3	-0.4	1.2	1.0	2.5	-3.0
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	34.7	-2.3	3.2	5.9	4.2	2.3
3 Personnel costs	23.5	-1.5	2.4	2.2	1.8	1.9
S.2 GROSS OPERATING PROFIT [S.1 – 3]	11.2	-3.8	4.9	10.1	6.9	2.8
4 Financial revenue	3.6	4.8	-17.7	-13.3	-9.5	-3.8
5 Financial costs	3.4	-4.6	-5.7	-9.4	-12.3	-10.3
6 Depreciation, impairment and operating provisions	5.6	-6.7	-4.6	0.4	-3.9	1.8
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	5.8	9.5	4.2	13.7	18.3	6.5
7 Gains (losses) from disposals and impairment	-0.6	22.9	78.8	—	34.4	145.6
7' As a percentage of GVA (7 / S.1)		-9.0	-1.9	-10.5	4.2	14.1
8 Changes in fair value and other gains (losses)	0.2	52.9	—	-95.7	—	—
8' As a percentage of GVA (8 / S.1)		-1.5	0.5	-4.1	0.8	-1.7
9 Corporate income tax	0.8	—	39.2	91.0	-20.9	118.2
S.4 NET PROFIT [S.3 + 7 + 8 - 9]	4.6	—	—	-43.7	33.1	14.3
S.4' As a percentage of GVA (S.4 / S.1)		2.6	13.2	14.3	30.5	36.4
<b>PROFIT RATIOS</b>						
	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / NA	4.3	4.4	5.2	4.1	4.1
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / IBB	3.7	3.5	3.0	2.9	2.7
R.3 Ordinary return on equity (before taxes)	S.3 / E	4.7	4.9	6.8	5.1	5.2
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	0.6	0.8	2.2	1.2	1.4

SOURCE: Banco de España.

NB: 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).

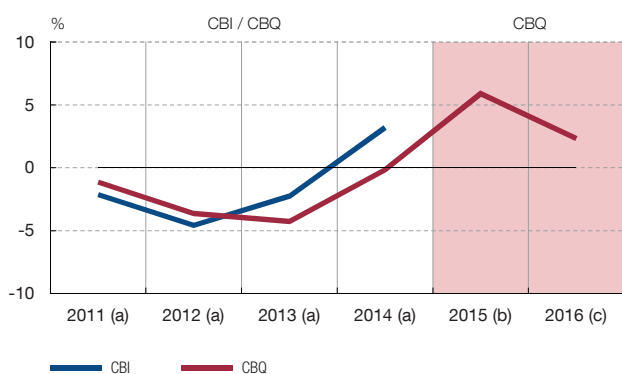
Finally, extraordinary costs and revenue made an overall positive contribution to developments in net profit for the year in 2016 H1, owing to certain substantial gains on sales of financial assets, the non-recurrence of write-downs recorded in 2015 and reversals of certain impairments recorded in prior years. Conversely, the rebound in the corporate income tax expense, largely linked to the extraordinary decline recorded in the previous year, had an opposite effect. As a result, the final surplus grew by 14.3%.

**Activity**

The CBQ data show that, for the whole of the sample, GVA rose by 2.3% in 2016 H1 (see Table 1 and Chart 1). The recovery of this surplus spread to almost all sectors, in a setting

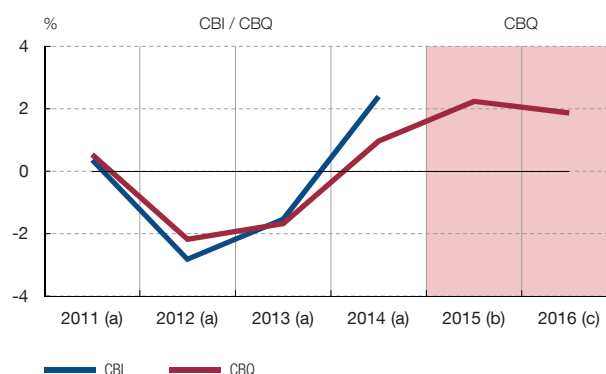
## 1 GROSS VALUE ADDED AT FACTOR COST

Rate of change



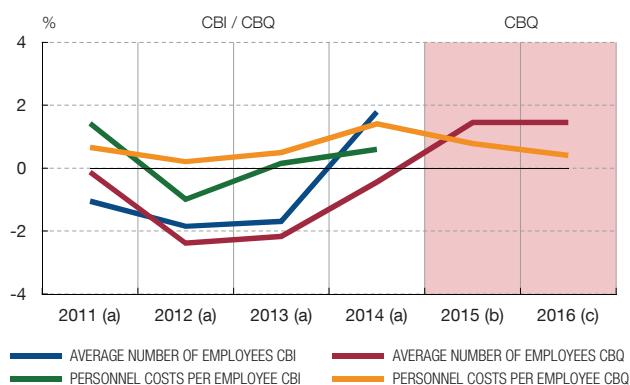
## 2 PERSONNEL COSTS

Rate of change



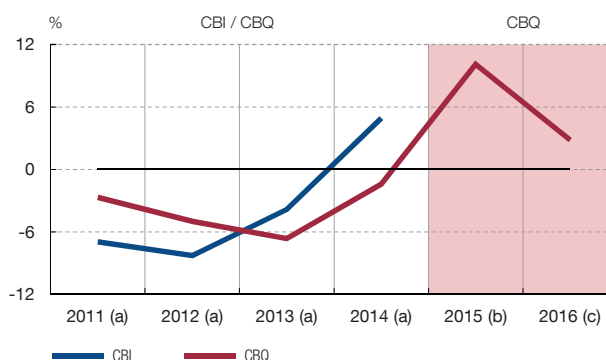
## 3 EMPLOYMENT AND WAGES

Rate of change



## 4 GROSS OPERATING PROFIT

Rate of change



## Reporting non-financial corporations

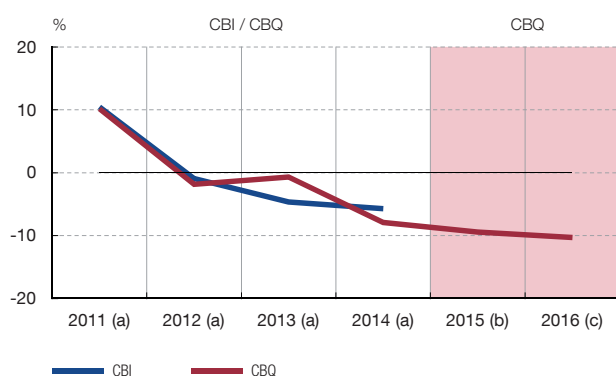
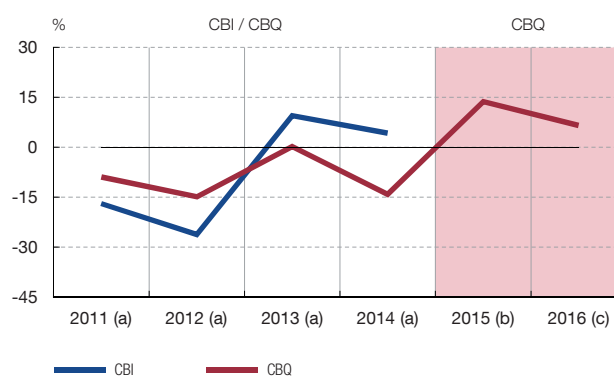
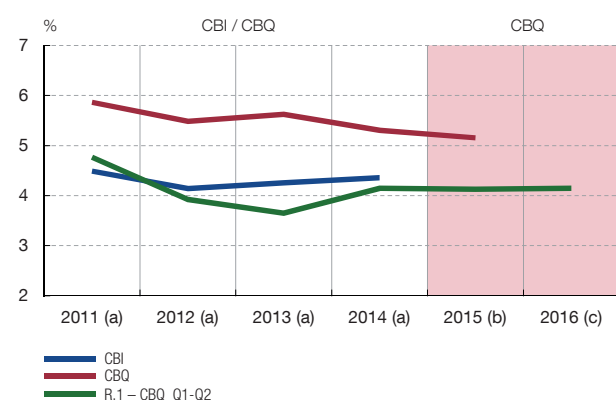
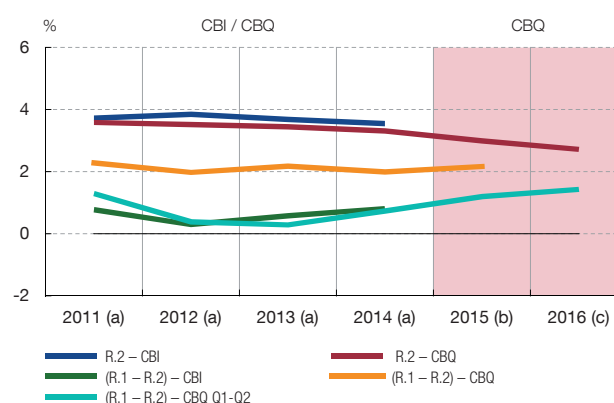
		2011	2012	2013	2014	2015	2016
Number of corporations	CBI	594,687	629,926	626,480	596,862	—	—
	CBQ	819	839	842	887	958	856
% of GVA of the sector non-financial corporations	CBI	44.6	47.3	46.7	45.6	—	—
	CBQ	12.0	12.2	11.9	13.4	13.9	13.7

SOURCE: Banco de España.

- a The 2011, 2012, 2013 and 2014 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 2015 relative to the same period in 2014.  
 c 2016 Q2 data relative to the same period in 2015.

in which external activity was the most dynamic aggregate. Thus, sales abroad increased by 5% to 23.3%, compared with 21.7% in 2015 H1, and so continued to gain in importance relative to total net turnover (see Table 2).

Performance was positive in most sectors, except for industry, the only one where GVA declined (by 2.7%) (see Table 3). This decline, however, is the result of a very varied performance by subsector. There were sharp falls in certain of them, most notably in oil refining (by 25.5%) and, to a lesser degree, in manufacture of mineral and metal products (13.1%). Conversely, other subsectors were markedly dynamic and posted significant increases, such as the chemical industry (13%) and the manufacture of transport equipment (6.3%). In the energy sector, GVA grew by 4.5%, in contrast with the 9% decline recorded

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		2011	2012	2013	2014	2015	2016
Number of corporations	CBI	594,687	629,926	626,480	596,862	—	—
	CBQ	819	839	842	887	958	856
% of GVA of the sector non-financial corporations	CBI	44.6	47.3	46.7	45.6	—	—
	CBQ	12.0	12.2	11.9	13.4	13.9	13.7

SOURCE: Banco de España.

- a The 2011, 2012, 2013 and 2014 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 2015. The rates are calculated relative to the same period in 2014.  
c 2016 Q2 data. The rates are calculated relative to the same period in 2015.

in 2015 H1. The wholesale and retail trade and accommodation and food service activities continued to benefit from the recovery in consumption, giving rise to an increase in GVA of 3.7%, which was, however, more moderate than that recorded a year earlier (7.4%). In the information and communications sector, GVA rose by 3.1%, thus breaking out of the downward pattern observed in recent years. Lastly, in the group encompassing all other activities, GVA grew by 3% on the back of the good performance of transport and other service sector firms.

Chart 2 shows a slightly lower degree of dispersion in the distribution of GVA growth (approximated by the distance between the 75th and 25th percentiles) in 2016 H1 compared with the situation a year earlier. Also, the median of the distribution in 2016 was

**PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA  
ON PURCHASING SOURCES AND SALES DESTINATIONS**

TABLE 2

Structure and rate of change; percentages

		CBA		CBQ (a)	
		2014	2015 Q1-Q4	2015 Q1-Q2	2016 Q1-Q2
Total corporations		9,423	958	856	856
Corporations reporting source/destination		9,423	892	799	799
Percentage of net purchases according to source	Spain	65.5	69.3	71.8	67.6
	Total abroad	34.5	30.7	28.2	32.4
	EU countries	16.2	23.7	20.9	24.3
	Third countries	18.3	7.0	7.3	8.1
Percentage of net turnover according to destination	Spain	78.0	77.0	78.3	76.7
	Total abroad	22.0	23.0	21.7	23.3
	EU countries	13.4	16.5	15.8	17.7
	Third countries	8.5	6.5	5.8	5.7
Change in net external demand (exports less imports), rate of change	Industry	47.1	-0.9	3.7	11.0
	Other corporations	98.0	-0.3	23.1	—

SOURCE: Banco de España.

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

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

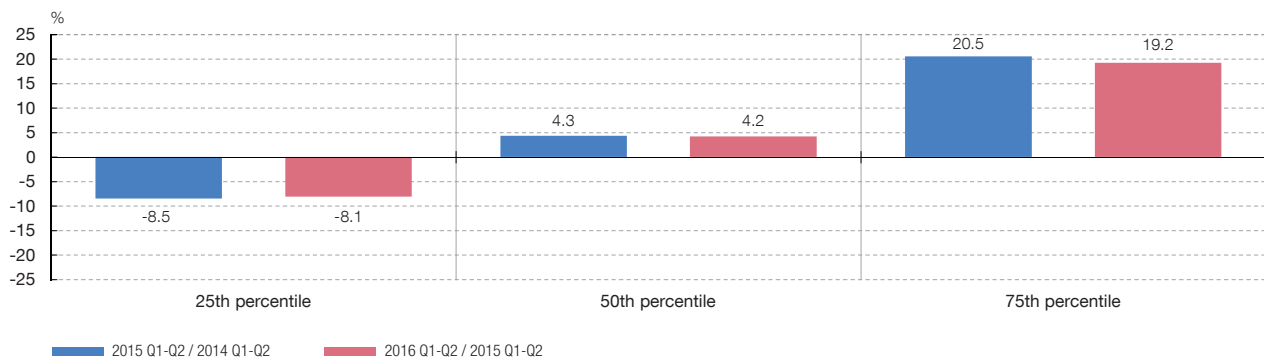
TABLE 3

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)	
	2014	2015 Q1-Q4 (a)	2015 Q1-Q2	2016 Q1-Q2	2014	2015 Q1-Q4 (a)	2015 Q1-Q2	2016 Q1-Q2	2014	2015 Q1-Q4 (a)	2015 Q1-Q2	2016 Q1-Q2	2014	2015 Q1-Q4 (a)	2015 Q1-Q2	2016 Q1-Q2
<b>Total</b>	<b>3.2</b>	<b>5.9</b>	<b>4.2</b>	<b>2.3</b>	<b>1.8</b>	<b>1.5</b>	<b>0.9</b>	<b>1.5</b>	<b>2.4</b>	<b>2.2</b>	<b>1.8</b>	<b>1.9</b>	<b>0.6</b>	<b>0.8</b>	<b>0.9</b>	<b>0.4</b>
<b>SIZE</b>																
Small	5.6	—	—	—	3.1	—	—	—	2.8	—	—	—	-0.3	—	—	—
Medium	5.2	9.5	4.6	5.2	2.4	2.1	1.5	2.7	3.0	3.5	2.9	5.2	0.5	1.3	1.4	2.4
Large	2.1	5.9	4.2	2.3	0.8	1.4	0.9	1.4	2.1	2.2	1.8	1.8	1.3	0.8	0.9	0.4
<b>BREAKDOWN BY ACTIVITY</b>																
Energy	1.3	-2.6	-9.0	4.5	-2.4	-0.4	0.2	0.2	-0.9	-1.0	-0.9	0.0	1.6	-0.7	-1.1	-0.2
Industry	4.8	29.3	26.4	-2.7	1.4	1.2	0.1	2.4	2.3	2.2	2.6	3.5	0.8	1.0	2.4	1.1
Wholesale and retail trade and accommodation & food service activities	3.8	7.3	7.4	3.7	1.6	1.7	1.2	2.7	2.3	2.9	1.6	3.3	0.7	1.2	0.4	0.5
Information and communications	-3.1	-0.8	-3.3	3.1	1.0	1.1	0.6	-1.1	4.5	4.6	2.9	-1.0	3.4	3.4	2.3	0.0
Other activities	4.0	2.8	4.2	3.0	2.4	1.9	1.3	0.9	2.4	2.1	2.0	1.7	0.0	0.2	0.6	0.7

SOURCE: Banco de España.

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

**DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE IN GROSS VALUE ADDED**
**CHART 2**


SOURCE: Banco de España.

**PERSONNEL COSTS AND EMPLOYEES**
**TABLE 4**
**Percentage of corporations in specific situations**

	CBI (a)		CBQ (b)			
	2013	2014	2014 Q1-Q4	2015 Q1-Q4	2015 Q1-Q2	2016 Q1-Q2
Number of corporations	448,695	397,342	887	958	991	856
<b>PERSONNEL COSTS</b>	100	100	100	100	100	100
Falling	51.1	45.2	41.4	35.8	37.5	34.1
Constant or rising	48.9	54.8	58.6	64.2	62.5	65.9
<b>AVERAGE NUMBER OF EMPLOYEES</b>	100	100	100	100	100	100
Falling	33.1	19.7	48.0	37.9	39.6	38.0
Constant	39.7	55.5	14.8	15.6	15.9	16.4
Rising	27.2	24.8	37.2	46.5	44.5	45.6

SOURCE: Banco de España.

- a** To calculate these percentages, corporations that did not have any staff in 2013 and in 2014 were excluded.  
**b** Weighted average of the relevant quarters for each column.

clearly higher than the rate of growth calculated for the sample as a whole, which suggests that the aggregate figure was adversely affected by the less favourable performance of some large corporations.

**Employment and personnel costs**

Personnel expenses rose by 1.9% in 2016 H1, compared with 1.8% in 2015 H1 (see Table 3). The increase in this item was boosted by the growth in employment, against a background in which average compensation grew moderately.

In the firms of the quarterly sample average headcount rose by 1.5%, exceeding the increase of 0.9% recorded in 2015. In keeping with that performance, Table 4 shows that, in 2016 H1, the percentage of firms that created employment continued to grow, reaching 45.5% (1 pp more than in 2015), and the percentage that destroyed employment continued to diminish (38%, as compared with 39.6% a year earlier). Employment recovery was again largely underpinned by temporary employment, which grew by 8.4% (see Table 5), a rate that was somewhat lower than the 9% increase in 2015 H1. By contrast, the change in permanent employment was more positive than a year earlier, showing a timid increase (0.1%) compared with the decrease of 0.5% in 2015 H1.

	Total CBQ corporations 2016 Q1-Q2	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations	856	531	325
<b>NUMBER OF EMPLOYEES</b>			
Initial situation 2015 Q1-Q2 (000s)	891	525	366
Rate 2016 Q1-Q2/ 2015 Q1-Q2	1.5	5.3	-4.1
Permanent	Initial situation 2015 Q1-Q2 (000s)	433	314
	Rate 2016 Q1-Q2/ 2015 Q1-Q2	0.1	-3.8
Non-permanent	Initial situation 2015 Q1-Q2 (000s)	92	53
	Rate 2016 Q1-Q2/ 2015 Q1-Q2	8.4	-6.0

SOURCE: Banco de España.

By sector, job growth was seen in almost all branches of activity, at mostly similar or higher rates of growth than a year earlier. The one exception was the information and communications sector, where the average headcount decreased by 1.1%. Industry, on one hand, and wholesale and retail trade and accommodation and food service activities, on the other, posted the highest rates of growth (2.4% and 2.7%, respectively), in both cases higher than in 2015. The energy sector and the group encompassing all other activities posted more moderate increases (lower than 1%).

Average compensation rose by 0.4% in 2016 H1, 0.5 pp less than in 2015 H1 (see Table 3). Almost all branches of activity saw moderate growth, with rates of change that were below 1% and, in the case of the energy sector, even slightly negative. Compensation in the industrial sector grew slightly more (1.1%), but the rate was lower than the 2.4% increase recorded a year earlier.

### Profit, rates of return and debt

In line with the expansionary trend of activity, in 2016 H1 GOP increased by 2.8%, as compared with the 6.9% increase recorded in 2015 H1. As with GVA, the recovery of GOP extended to all sectors, except industry, which was affected by the poor performance of the refining subsector, following its extraordinary growth in 2015. In the other sectors, GOP growth rates ranged between 4.4%, in the wholesale and retail trade and accommodation and food service sector, and 6.2%, in the energy sector (see Table 6).

Financial revenue fell by 3.8%, mainly because interest income contracted (by 12.2%), while dividends received declined slightly (-0.6%). Financial costs continued to decrease in 2016 H1 (by 10.3%) owing to the decline in the average cost of borrowing and, to a lesser extent, to the trend in interest-bearing debt, which was lower than the average levels recorded a year earlier (see Table 7).

Compared with the end-2015 levels, interest-bearing debt also declined slightly and, together with the increase in assets, this gave rise to a drop of 0.3 pp in the E1 debt ratio (calculated as interest-bearing debt as a proportion of net assets), to 43% (see Chart 3). By sector, there were declines in the four analysed, albeit to differing degrees. The E2 ratio (defined as interest-bearing debt as a proportion of GOP plus financial revenue) also fell, since the decline in debt was coupled with the increase in surpluses. The breakdown by branch of activity also shows slight decreases in the four sectors analysed. Finally, decreases in the interest burden ratio (with the same denominator) were somewhat sharper

**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)	
	2014	2015 Q1-Q4 (a)	2015 Q1-Q2	2016 Q1-Q2	2014	2015 Q1-Q4 (a)	2015 Q1-Q2	2016 Q1-Q2	2014	2015 Q1-Q4 (a)	2015 Q1-Q2	2016 Q1-Q2	2014	2015 Q1-Q4 (a)	2015 Q1-Q2	2016 Q1-Q2
<b>Total</b>	<b>4.9</b>	<b>10.1</b>	<b>6.9</b>	<b>2.8</b>	<b>4.2</b>	<b>13.7</b>	<b>18.3</b>	<b>6.5</b>	<b>4.4</b>	<b>5.2</b>	<b>4.1</b>	<b>4.1</b>	<b>0.8</b>	<b>2.2</b>	<b>1.2</b>	<b>1.4</b>
<b>SIZE</b>																
Small	17.9	—	—	—	107.7	—	—	—	2.0	—	—	—	-1.4	—	—	—
Medium	12.0	22.8	8.2	5.4	28.3	44.0	16.5	2.7	5.3	6.7	6.4	6.4	1.5	4.5	4.3	4.8
Large	2.0	10.0	6.9	2.8	-3.1	13.5	18.3	6.5	5.0	5.2	4.1	4.1	1.4	2.2	1.2	1.4
<b>BREAKDOWN BY ACTIVITY</b>																
Energy	2.3	-3.1	-11.7	6.2	-17.0	-0.3	-9.7	14.7	4.1	4.9	3.9	4.6	0.5	1.7	0.7	1.5
Industry	10.3	97.3	74.5	-9.5	19.8	148.6	153.2	-8.8	6.1	7.9	8.7	8.0	2.5	5.4	6.3	5.6
Wholesale & retail trade and accommodation & food service activities	8.4	15.0	17.6	4.4	17.6	21.6	32.5	7.2	6.1	12.2	9.1	9.7	2.3	9.3	6.1	7.4
Information and communications	-10.7	-4.1	-7.2	6.0	-20.3	-9.3	-19.7	16.2	10.0	15.9	14.3	16.0	6.7	13.7	12.1	14.0
Other activities	9.1	4.3	9.2	5.7	14.4	-7.4	33.8	4.9	3.4	3.6	2.6	2.3	-0.2	0.6	-0.4	-0.4

SOURCE: Banco de España.

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

**FINANCIAL COSTS**

**TABLE 7**

Percentages

	CBI		CBQ	
	2013/2014	2015 Q1-Q4/ 2014 Q1-Q4	2016 Q1-Q2/ 2015 Q1-Q2	
Change in financial costs	-5.7	-9.4	-10.3	
A Interest on borrowed funds	-5.3	-8.5	-9.3	
1 Due to the cost (interest rate)	-3.5	-8.8	-7.3	
2 Due to the amount of interest-bearing debt	-1.8	0.3	-2.0	
B Other financial costs	-0.4	-0.9	-1.0	

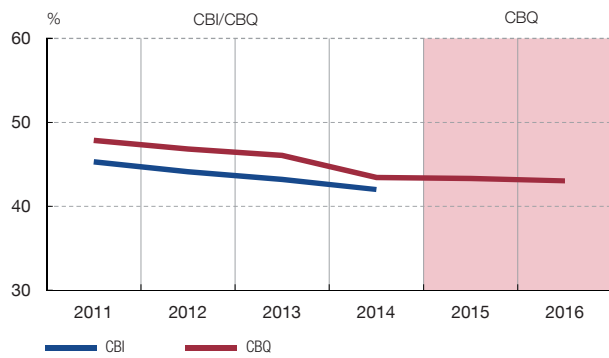
SOURCE: Banco de España.

owing to the greater contraction in financial costs. All the branches analysed followed a downward trend which was steeper in energy, industry, and wholesale and retail trade and accommodation and food service activities, and very mild in information and communications, where the starting point was comparatively lower.

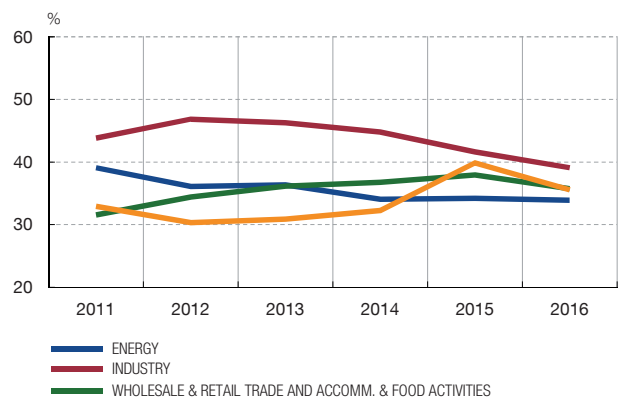
The growth of GOP, along with the decrease in financial revenue and costs, and the slight increase in depreciation and operating provisions, gave rise to an increase in ordinary net profit (ONP) of 6.5% in 2016 H1. Against this background, aggregate return ratios were similar or slightly higher than a year earlier, with the return on investment at 4.1%, the same as in 2015, and the return on equity at 5.2%, 0.1 pp above the 2015 figure. This



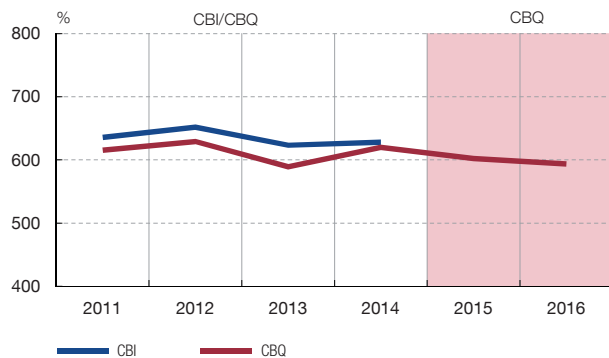
1 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)  
TOTAL CORPORATIONS



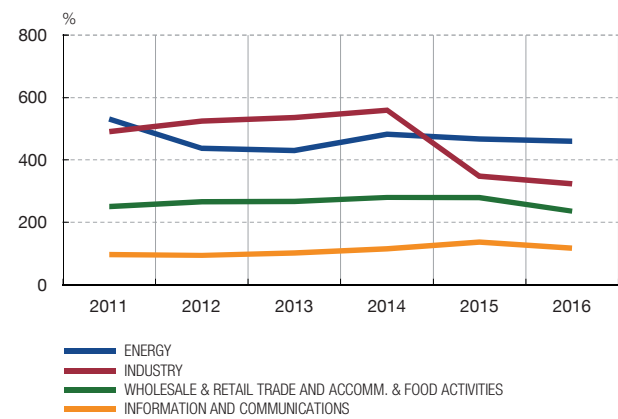
2 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)  
BREAKDOWN BY SECTOR. CBQ



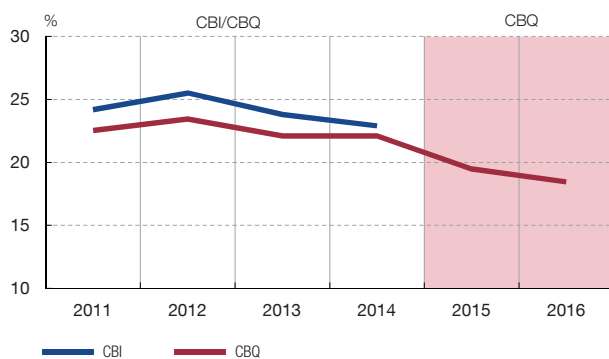
3 E2. INTEREST-BEARING BORROWING / (GOP + FR) (b)  
TOTAL CORPORATIONS



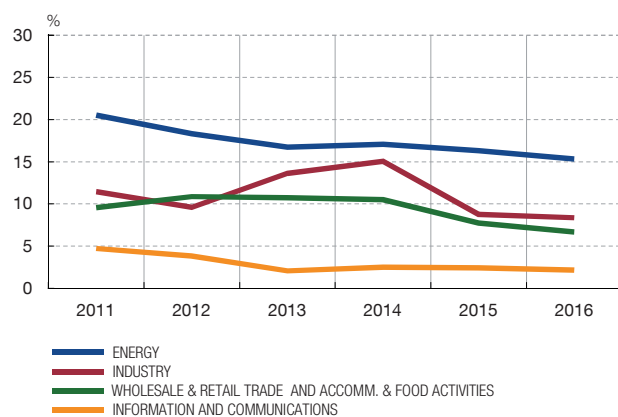
4 E2. INTEREST-BEARING BORROWING / (GOP + FR) (b)  
BREAKDOWN BY SECTOR. CBQ



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



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



SOURCE: Banco de España.

- a Ratio calculated from final balance sheet figures. Net assets include an adjustment to current prices.
- b Ratio calculated from final balance sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intra-group debt (approximation of consolidated debt).

		CBQ			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		2015 Q1-Q2	2016 Q1-Q2	2015 Q1-Q2	2016 Q1-Q2
Number of corporations		991	856	991	856
Percentage of corporations by profitability bracket	R ≤ 0%	24.8	23.2	29.5	27.9
	0% < R ≤ 5%	25.9	25.2	17.5	16.4
	5% < R ≤ 10%	15.6	17.2	11.7	13.2
	10% < R ≤ 15%	8.7	9.2	7.8	8.5
	15% < R	25.1	25.1	33.4	34.0
MEMORANDUM ITEM: Average return		4.9	5.3	6.1	7.1

SOURCE: Banco de España.

slight improvement in corporate returns becomes more evident when we observe the data in Table 8, which shows the distribution of the sample firms by rate of return. A shift can be seen in the distribution of firms' returns from low to higher levels, with a reduction in the percentage of corporations with rates of return below 5% or negative in 2016 H1, and a rise in that of the segments with rates of return of 5% or over. The table also shows that median returns increased more sharply than the aggregate ratios, with the return on investment increasing from 4.9% to 5.3% and the return on equity by 1 pp to 7.1%. This suggests that the aggregate rate of return data were adversely affected by the less favourable performance of some large corporations.

The breakdown by sector of activity reveals that rates of return were similar to or higher than their levels in 2015 (see Table 6) in all sectors, with the exception of the industrial sector. Excluding the effect of the refining sub-sector, where the decreases were steepest, rates of return also rose in the industrial sector, showing that this indicator improved in almost all the other industrial sub-sectors.

The average cost of borrowing fell by 0.2 pp in 2016 H1, to 2.7%. Along with the stability of the aggregate return on investment, this gave rise to a slight widening of the spread between the latter ratio and the cost of borrowing, to 1.4 pp, which is 0.2 pp more than a year earlier. By branch of activity, there was a notable improvement in wholesale and retail trade and accommodation and food service activities, where the spread widened to 7.4 pp (6.1 pp in 2015), and in information and communications, which posted an increase of almost 2 pp, to 14 pp.

Lastly, extraordinary costs and revenue contributed positively to growth in net profit in 2016 H1, mainly owing to the existence of substantial gains on sale transactions and to impairment loss reversals, in both cases associated with financial assets. The increase in revenue was partially offset by a substantially higher corporate income tax expense that was largely linked to the extraordinary decrease recorded the previous year, when this item included high revenue from tax credits available for offset. As a consequence of these two effects, profit for the year grew by more than ONP (14.3%). Expressed as a percentage of GVA, net profit stood at 36.4%, almost 6 pp higher than a year earlier.

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The interest coverage ratio (ICR), calculated as gross operating profit (GOP) plus financial revenue<sup>1</sup> divided by interest paid on borrowed funds, is useful to assess the degree of financial pressure borne by firms. Thus, when a firm's ICR is lower than one it is potentially in a position of greater pressure or vulnerability, since it is unable to generate sufficient income from ordinary activities to satisfy payments on its debt. Apart from being important in the analysis of financial stability, monitoring this indicator is useful from a macroeconomic viewpoint insofar as financial pressures influence firms' investment and employment decisions. This box analyses recent developments in the proportion of firms in which this ratio has been below one since 2007, using the Central Balance Sheet Data Office databases. Specifically, use is made of the CBI,<sup>2</sup> which contains data up to 2014, and the CBQ, which makes it possible to proxy the most recent developments and contains data up to 2016 Q2. However, it should be noted that certain sectors, such as construction and real estate development, are not well represented and that the performance of larger corporations is particularly influential in the CBQ.

During the economic crisis, when many firms were highly indebted and their earnings performance was unfavourable, the proportion of firms included in the CBI sample that were under high financial pressure (taken here to be those with an ICR below one) increased substantially from 17% in 2007 to 28.3% in 2012 (see Chart 1), after which a period of recovery started and these percentages gradually declined to 23.6% in 2014. The breakdown by size reveals that this indicator performed similarly at large firms, albeit with consistently lower values than at SMEs. Also, the increase was more moderate during the crisis (7.9 pp between 2007 and 2012, up to 23.6%), mainly thanks to the lower decline in earnings at these companies, which benefited from their more highly diversified activity and geographical location. The proportion (of the sector total) represented by the debt of firms with a high financial pressure followed a pattern similar to that of the percentage of firms in such position, although both the increases up to 2012 and the decline since then were sharper, especially in the SME segment (see Chart 2).

As a result of the greater impact of the crisis on the construction and real estate development sectors, the financial position of firms operating in these branches of activity deteriorated more sharply in the recession (see Charts 3 and 4). In this case, the breakdown

by size does not show significant differences and the percentage of firms with an ICR below one rose to 33% in 2012, falling significantly in subsequent years, to 26% in 2014. The proportion (in the sector total) represented by the debt of firms under high financial pressure in these sectors was higher in large firms than in SMEs over the period analysed. In 2012 it amounted to 59.1% and 49.2%, respectively, of total firms' interest-bearing borrowing in these branches of activity. These figures, however, fell to 53.1% and 34.5%, respectively, from 2012 to 2014.

As may be observed in Chart 5, performance in the other branches of activity was in general more stable, and a more moderate deterioration of financial position was recorded during the crisis, as was a softer recovery afterwards. Thus, the proportion of firms in a more vulnerable position increased between 2007 and 2012 by 10.5 pp to 27.1%, decreasing in the following two years to 22.9%. By size, these percentages were higher in the SME group, revealing that the degree of financial pressure was greater in this segment. In terms of the weight of debt in these firms (see Chart 6), the patterns are similar, with a clear improvement in the last two years. The related percentages recorded in 2014 were 22% for SMEs and 12.5% for the larger firms (around 8 pp below those recorded in 2012).

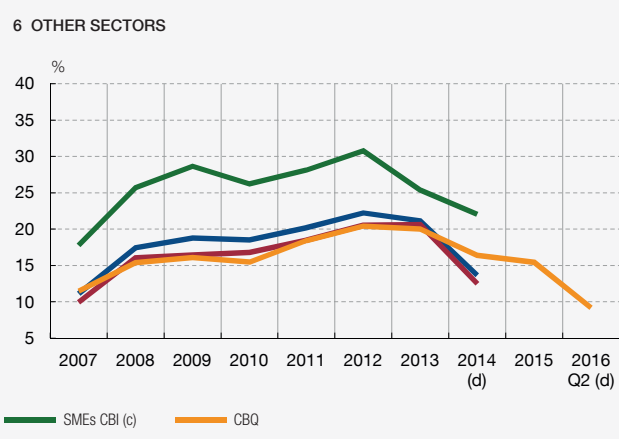
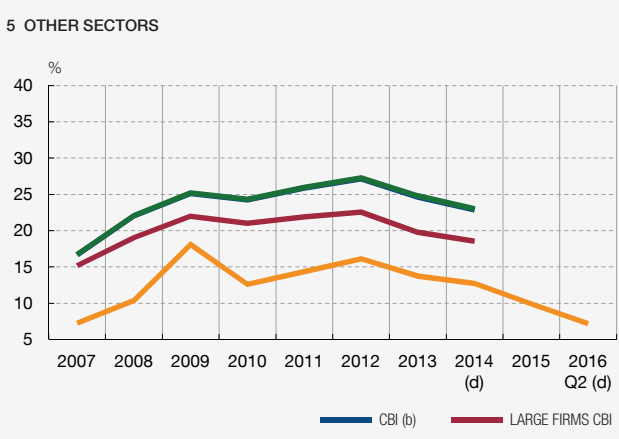
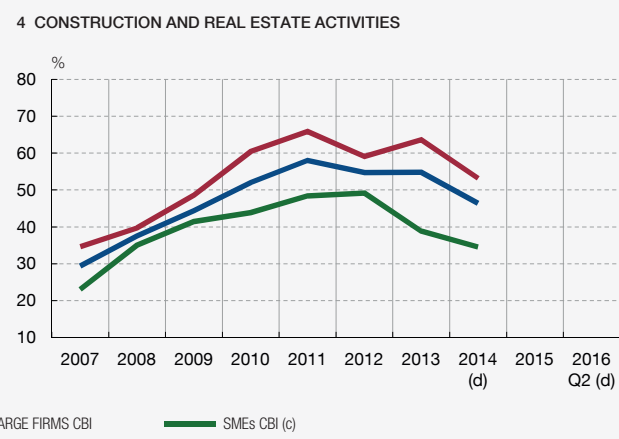
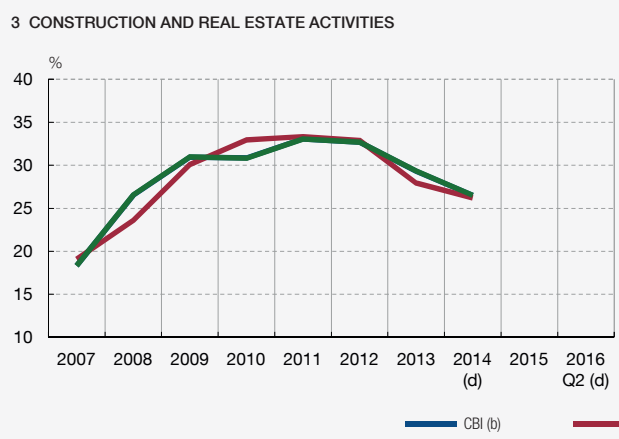
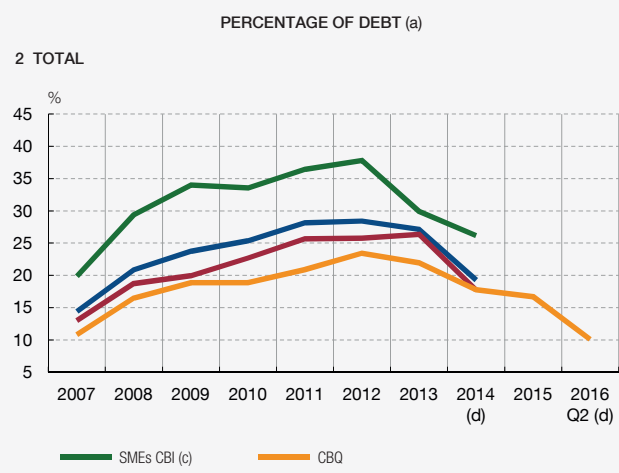
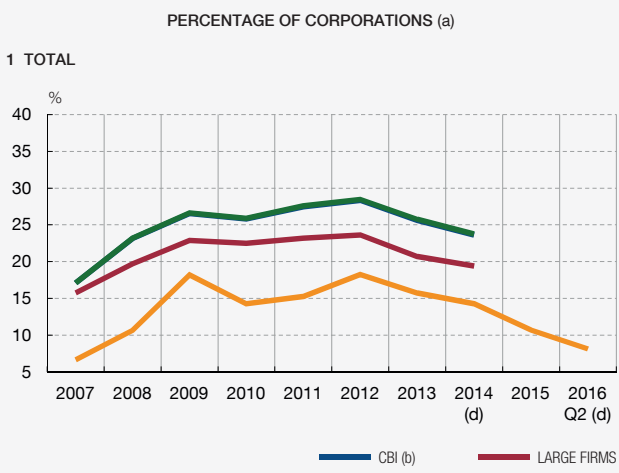
Finally, the CBQ<sup>3</sup> data show that the gradual improvement recorded in prior years continued in 2015, with both the number of corporations under high financial pressure and the weight of their debt declining. This change was driven both by a favourable performance of business income and by the reduction of debt and its average cost. The latest data, relating to 2016 H2, suggest that this downward trend in both indicators will continue until the pre-crisis levels are reached.

In summary, the economic crisis gave rise to an increase in the proportion of corporations that did not generate sufficient revenue to cover financial costs. This increase was stronger in certain sectors, particularly construction and real estate, while in the other branches of activity, although this indicator of vulnerability did rise, it did so more moderately, particularly among larger firms. Starting in 2013 this trend began to reverse with the start of the economic recovery and the ECB's increasingly expansionary monetary policy, leading to continuing declines in both the number of companies in a more vulnerable position and the weight of their debt in the sector total. The latest CBQ data point to continued improvement in 2015 and in 2016 H1, when the two indicators are estimated to stand at levels similar to those at the start of the crisis.

<sup>1</sup> In this definition of ordinary profit, neither amortisation nor depreciation are deducted, since they are both accounting costs that do not involve any disbursement of funds for the corporation.

<sup>2</sup> The CBI (Central de Balances Integrada) is the result of combining the CBA (Central Balance Sheet Data Office Annual Survey) and the CBB database (data on accounts filed by corporations in the mercantile registers), and contains on average data on approximately 600,000 non-financial corporations per year.

<sup>3</sup> We do not show CBQ data for the construction and real estate development sectors, since this database does not have data on sufficient firms in these sectors of activity and, accordingly, it is considered that they are not well represented.



SOURCE: Banco de España.

- a Corporations whose (GOP +FR) / financial costs ratio is lower than one. Those with zero financial costs were not taken into account in this calculation.
- b The CBI series is practically identical to the CBI (SMEs) series because 99% of the sample firms are SMEs; accordingly, it was not included in this chart.
- c According to the European recommendation, SMEs are defined as firms that do not exceed certain thresholds (relating to employment, sales and assets), excluding government-owned firms and those belonging to a corporate group (the latter two types are classified as large).
- d 2014, CBI and 2016 Q2 data are the result of applying the relevant percentage change, calculated from a common sample of firms, to the prior period figure.