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RESULTS OF NON-FINANCIAL CORPORATIONS
TO 2021 Q2

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ABSTRACT

The information for the sample of firms reporting to the Central Balance Sheet Data Office Quarterly Survey (CBQ) evidences that in 2021 H1 firms' activity clearly recovered, partly reversing the sharp contraction in 2020. Thus, between January and June 2021, ordinary profit posted significant increases, although without recovering its pre-pandemic levels. Employment also rebounded, driven by the rise in permanent hires and a smaller decline in temporary employment. Against this background, average profitability levels rose significantly, albeit remaining below the values recorded before the pandemic. The financial position indicators showed an increase in firms' indebtedness across the sample in 2021 H1, leading to slightly higher average debt ratios, while the debt burden ratio resumed a downward path, assisted by the decline in the cost of outstanding debt and the increase in ordinary profit. Average liquidity ratios declined in most firms and sectors, following the sharp rise in the previous year. This article includes a box which analyses recent developments in trade finance granted and received by firms, concluding that the median for the average supplier payment and customer collection periods held steady in 2021 H1, slightly below pre-pandemic levels, after the increase observed in mid-2020. This may indicate that firms now have a more comfortable liquidity position, in a setting in which economic activity is gradually picking up.

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

JEL classification: L25, M21, M41.

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Introduction

The results of the Central Balance Sheet Data Office Quarterly Survey (CBQ) show an increase in firms' activity in 2021 H1 compared with the same period in 2020, with growth in both employment and ordinary profit, partly reversing the sharp decline posted in 2020 as a result of the effects of the COVID-19 crisis. The increase in ordinary profit resulted in significantly higher profitability levels than those recorded a year earlier, without reaching pre-pandemic levels. For their part, the average debt-to-asset ratio and average debt-to-ordinary profit ratio (the sum of gross operating profit (GOP) and financial revenue) continue to grow, albeit moderately. By contrast, the average share of ordinary profit used to service debt returned to a downward trend, owing to the decrease in the average cost of outstanding debt. Lastly, between January and June, liquidity ratios declined in most firms, after the strong increase posted in the previous year, amid heightened uncertainty.

Activity, employment and personnel costs

The CBQ reveals that activity recovered significantly across the sample of firms in 2021 H1, mainly owing to the growth posted between April and June. Thus, gross value added (GVA) grew in nominal terms by 10.3% in 2021 H1, compared with the same period in 2020,¹ as a result of still slightly negative developments in 2021 Q1 (year-on-year fall of 1.4% in GVA) and growth of 25% in 2021 Q2, as compared with the same quarters in 2020. GVA growth in the first half of 2021 contrasts with the dramatic decline recorded a year earlier (a fall of 22.6%), which was due to the impact of the crisis triggered by the coronavirus pandemic (see Table 1 and Chart 1).

This growth was the result of the gradual recovery of business activity in a high proportion of CBQ firms. Thus, sales increased by 13.1% to June 2021 (compared with a 22.7% decline in 2020), and purchases grew by 23.7% in the same period, whereas they had contracted by 28.5% in 2020 H1. This trend is consistent with the

¹ The CBQ contains information on the 905 firms which had reported their 2021 Q1 and Q2 data by 15 September. The sample represents 11.7% of the GVA of the entire non-financial corporations sector (according to the information furnished by the National Accounts).

Table 1

FIRMS' ACTIVITY INCREASED IN 2021 H1, AND PROFITABILITY RATIOS RECOVERED

Databases	CBI Structure	CBI		CBQ (a)		
	2019	2018	2019	2020 Q1-Q4 / 2019 Q1-Q4	2020 Q1-Q2 / 2019 Q1-Q2	2021 Q1-Q2 / 2020 Q1-Q2
Number of firms		749,530	666,512	936	962	905
Total national coverage (% of GVA)		55.2	48.2	11.6	11.8	11.7
Profit and loss account (rates of change with respect to same firms in previous year, %)						
1 VALUE OF OUTPUT (including subsidies)	100.0	5.4	2.7	-19.7	-21.5	11.8
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	148.8	6.3	1.3	-20.1	-22.7	13.1
2 INPUTS (including tax)	63.0	6.0	1.7	-19.2	-20.9	12.5
<i>Of which:</i>						
<i>Net purchases</i>	39.5	3.8	2.2	-24.8	-28.5	23.7
<i>Other operating costs</i>	23.4	6.0	3.6	-10.9	-10.3	3.0
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	37.0	4.3	4.5	-20.6	-22.6	10.3
3 Personnel costs	24.0	6.2	5.8	-4.4	-4.6	2.0
S.2 GROSS OPERATING PROFIT [S.1 – 3]	13.0	1.0	2.1	-37.1	-41.4	23.7
4 Financial revenue	3.8	5.5	5.5	-8.6	-30.8	-16.8
5 Financial costs	1.9	-5.1	-2.0	-7.2	-14.8	-7.3
6 Net depreciation, impairment and operating provisions	5.3	1.6	3.3	0.5	3.7	-5.2
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.6	3.9	3.6	-50.5	-71.6	70.5
7 Gains (losses) from disposals and impairment	0.7	—	-65.4	—	—	—
7' As a percentage of GVA (7 / S.1)		5.2	1.9	-5.6	-26.8	4.0
8 Changes in fair value and other gains (losses)	-0.6	-26.8	12.8	45.4	21.0	10.2
8' As a percentage of GVA (8 / S.1)		-1.7	-1.5	-3.2	-3.5	-3.2
9 Corporate income tax	1.4	3.3	-7.0	-44.2	-68.4	154.9
S.4 NET PROFIT [S.3 +7+ 8-9]	8.3	47.2	-8.9	-73.9	—	—
S. 4' As a percentage of GVA (S.4 / S.1)		24.4	22.4	12.7	-20.0	16.5
RATES OF RETURN						
	Formulae (b)					
R.1 Return on assets (before taxes)	(S.3 + 5.1) / NA					
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / IBB					
R.3 Ordinary return on equity (before taxes)	S.3 / E					
R.4 ROA – cost of debt (R.1 – R.2)	R.1 – R.2					
		3.2	3.5	2.8	0.1	0.8
MEMORANDUM ITEM: TOTAL SAMPLE REWEIGHTED						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]		4.4	4.5	-21.2	-24.0	10.2
S.2 GROSS OPERATING PROFIT [S.1 – 3]		1.2	2.1	-44.1	-52.3	25.2

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 this column have been calculated as the weighted average of the quarterly data.

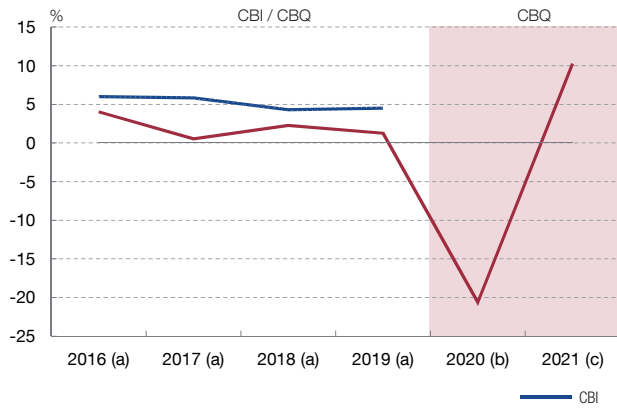
b NA = Net assets (net of non-interest-bearing borrowing; E = Equity; IBB = Interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include the portion of financial costs that is interest on borrowed funds (5.1).

Chart 1

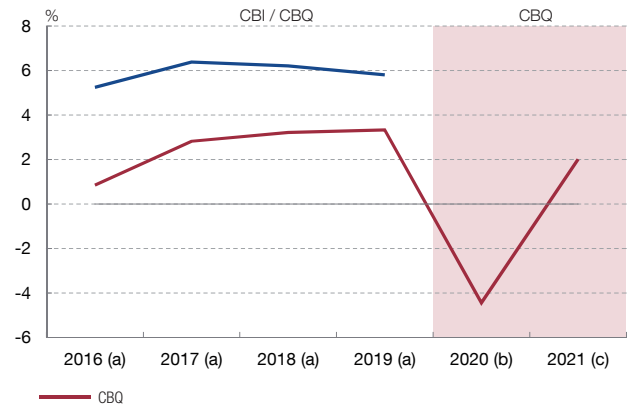
GROWTH IN ACTIVITY AND EMPLOYMENT IN 2021 H1, WITH A MODERATE INCREASE IN COMPENSATION

In 2021 H1, GVA, gross operating profit and employment all grew, partly reversing the strong decline posted in 2020. Average remuneration increased at a moderate pace.

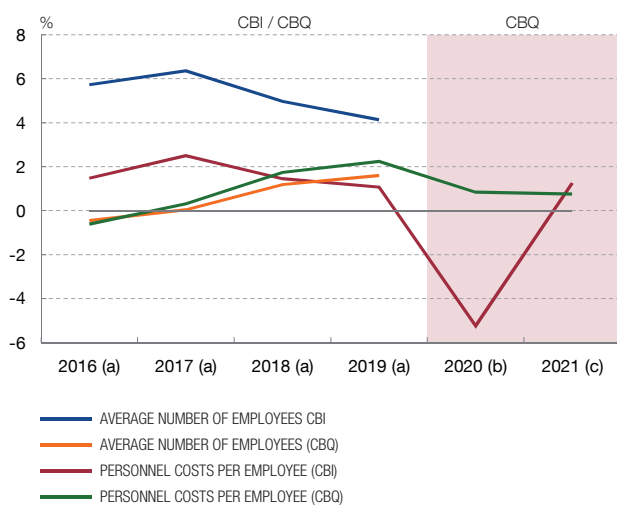
1 GROSS VALUE ADDED AT FACTOR COST
Rate of change



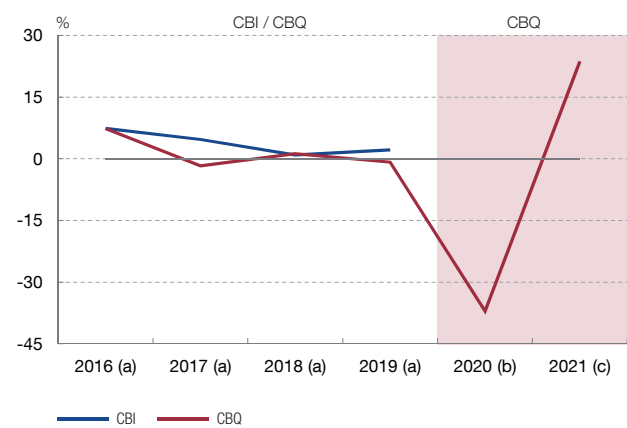
2 PERSONNEL COSTS
Rate of change



3 EMPLOYMENT AND WAGES
Rate of change



4 GROSS OPERATING PROFIT
Rate of change



Reporting non-financial corporations	2016	2017	2018	2019	2020	2021
Number of corporations	844,923	813,798	749,530	666,512	—	—
% of GVA of the sector non-financial corporations	56.1	55.7	55.2	48.2	—	—
	14.7	14.0	13.0	13.0	11.8	11.7

SOURCE: Banco de España.

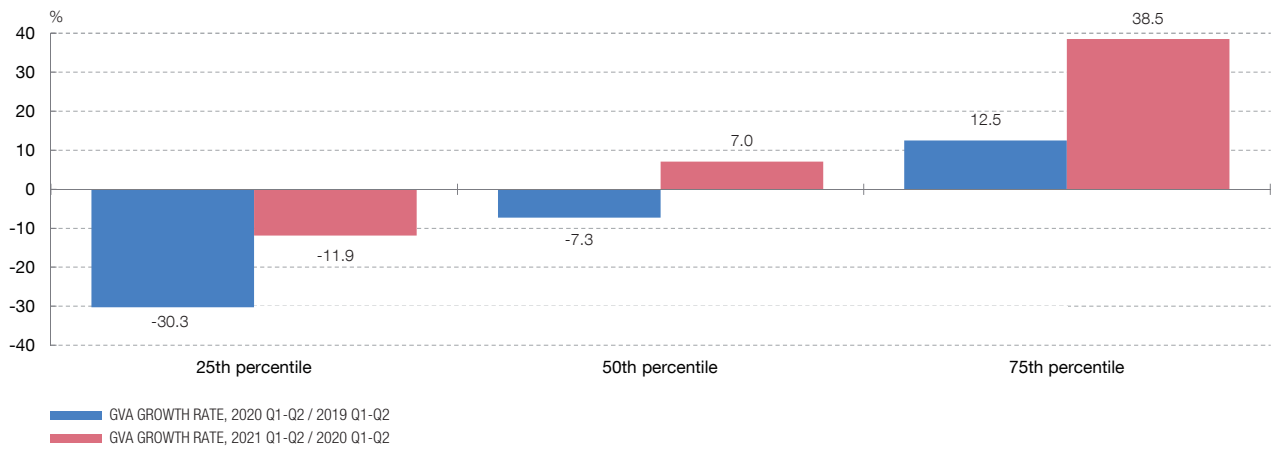
- a 2016, 2017, 2018 and 2019 data, drawing on CBI firms, and average for the four quarters of each year compared with the previous year (CBQ).
- b Average for the four quarters of 2020 relative to the same period in 2019.
- c Data to 2021 Q2 relative to the same period in 2020.



Chart 2

IMPROVEMENT IN GVA IN 2021, IN THE THREE QUANTILES OF THE DISTRIBUTION, COMPARED WITH A YEAR EARLIER

In 2021 H1, GVA posted a positive median growth rate (year-on-year) of 7%, compared with the drop of 7.3% in 2020 H1. 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.



SOURCE: Banco de España.



sales statistics published by the Spanish state tax revenue service (AEAT), based on more than one million firms,² which indicate that these firms' turnover increased by 9.9% in 2021 H1, having dropped 13.9% a year earlier (see Box 1). In this setting, the median for the average supplier payment and customer collection periods fell in 2021 H1 slightly below pre-pandemic levels, following the rise observed in mid-2020 (see Box 1). This suggests that the sample firms, as a whole, enjoyed a more comfortable liquidity position.

Chart 2, which presents data for the three quartiles of the distribution of CBQ firms by rate of change in GVA, shows a positive median growth rate of 7%, against the drop of 7.3% recorded in 2020 H1. 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 uneven behaviour in 2021 H1, most notably in the industrial sector, which posted the highest increase, with firms in the services sectors performing less favourably (see Table 2).

In any event, if the changes in GVA between January and June 2021 are compared with those in the first half of 2019, a fall of 14.7% (see Chart 3) can be observed

2 The statistics on sales, employment and wages are public and can be found at: https://www.agenciatributaria.es/AEAT.internet/Inicio/La_Agencia_Tributaria/Memorias_y_estadisticas_tributarias/Estadisticas/Ventas__Empleo_y_Salarios_en_las_declaraciones_tributarias/Ventas__Empleo_y_Salarios_en_las_declaraciones_tributarias.shtml

Table 2

GVA AND EMPLOYMENT GREW, ALBEIT UNEVENLY ACROSS SECTORS

	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 the same firms in the previous year, %	2019	2020 Q1-Q4	2020 Q1-Q2	2021 Q1-Q2	2019	2020 Q1-Q4	2020 Q1-Q2	2021 Q1-Q2	2019	2020 Q1-Q4	2020 Q1-Q2	2021 Q1-Q2	2019	2020 Q1-Q4	2020 Q1-Q2	2021 Q1-Q2
Total	4.5	-20.6	-22.6	10.3	4.1	-5.2	-5.3	1.3	5.8	-4.4	-4.6	2.0	1.6	0.8	0.7	0.7
Size																
Small	6.5	—	—	—	5.9	—	—	—	8.0	—	—	—	2.1	—	—	—
Medium	5.5	-9.0	-10.2	11.3	4.4	-6.1	-6.4	4.4	6.6	-7.1	-7.7	3.6	2.1	-1.1	-1.4	-0.8
Large	3.4	-20.7	-22.7	10.2	2.8	-5.2	-5.3	1.2	4.4	-4.4	-4.5	2.0	1.6	0.9	0.8	0.8
Breakdown by activity																
Energy	3.7	-6.6	-5.5	3.4	0.3	-1.9	-2.2	-1.5	2.2	-1.3	-2.1	-0.7	1.9	0.6	0.1	0.9
Industry	0.9	-27.0	-38.8	63.5	2.7	-4.2	-6.2	4.7	4.0	-3.6	-6.5	4.9	1.3	0.5	-0.3	0.3
Wholesale and retail trade and hospitality	4.9	-15.1	-19.0	8.2	3.9	-6.2	-6.3	2.9	5.6	-3.9	-4.2	4.3	1.6	2.5	2.2	1.3
Information and communication	3.7	-16.1	-13.3	-5.5	5.2	-3.0	-2.8	0.3	6.0	-4.5	-2.9	1.9	0.8	-1.5	-0.1	1.5
All other activities	6.7	-32.9	-31.5	-2.8	5.0	-5.9	-5.1	-0.8	7.1	-6.1	-5.0	-0.3	2.0	-0.2	0.2	0.5

SOURCE: Banco de España.

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

between these two periods, showing that, despite the recovery in activity, the levels in 2021 for the CBQ sample as a whole remain below those recorded before the pandemic. The breakdown of GVA by sector shows that firms in services sectors had considerably lower activity levels in 2021 H1 than in the same period of 2019 (reflected in the chart as a very negative contribution to the total), whereas firms in the energy and industrial sectors returned to near pre-pandemic levels. Similarly, the AEAT sales statistics also confirm, for a broader sectoral breakdown than that of the CBQ, the existence of strong heterogeneity, evidencing that in many sectors turnover in 2021 H1 has already outstripped that of 2019, while in the sectors hardest hit by the pandemic, it remains clearly below the levels posted before the COVID-19 crisis.

Personnel costs rose by 2% between January and June 2021, explained by the growth in the average effective workforce³ and the slight increase in average compensation.

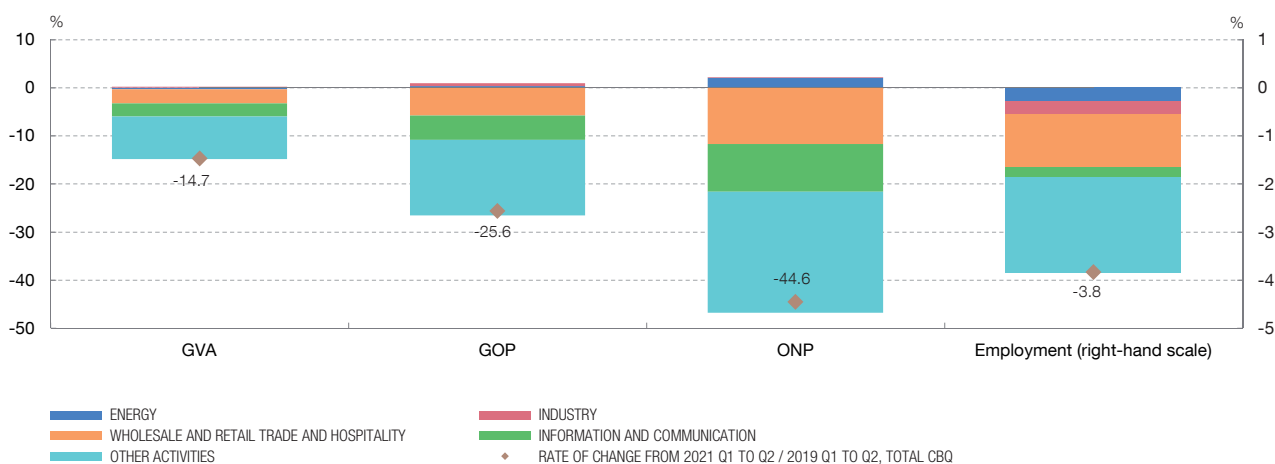
³ Average effective workforce means the average number of employees that worked in the period considered, excluding furloughed workers.

Chart 3

ACTIVITY AND EMPLOYMENT GREW IN 2021 H1, BUT HAVE NOT YET RETURNED TO PRE-PANDEMIC LEVELS

If we compare the figures for 2021 H1 with those for the same period in 2019, both ordinary profit and employment remain below pre-pandemic levels. By sector, only energy and industry appear to have returned to levels similar to those recorded before the pandemic, while those linked to services are still clearly below.

RATE OF CHANGE FROM 2021 Q1 TO Q2 COMPARED WITH 2019 Q1 TO Q2
Total CBQ and contribution by sector



SOURCE: Banco de España.



Table 3

THE SHARE OF SAMPLE FIRMS CREATING EMPLOYMENT GREW OVER 2021 H1

Percentage of firms in specific situations	CBI (a)		CBQ (b)			
	2018	2019	2019 Q1 - Q4	2020 Q1 - Q4	2020 Q1 - Q2	2021 Q1 - Q2
Number of firms	534,539	476,292	1,030	936	962	905
Personnel costs	100	100	100	100	100	100
Falling	32.2	32.7	33.1	51.6	51.4	39.7
Constant or rising	67.8	67.3	66.9	48.4	48.6	60.3
Average number of employees	100	100	100	100	100	100
Falling	28.9	29.8	36.7	51.0	49.0	43.8
Constant	26.4	26.5	14.0	13.6	13.5	14.9
Rising	44.7	43.7	49.3	35.4	37.5	41.3

SOURCE: Banco de España.

a The calculation of these percentages does not include firms that have no employees in either year.

b Weighted average of the relevant quarters for each column.

Table 4

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

Percentages

	CBI	CBQ	
	2018 / 2019	2020 Q1-Q4 / 2019 Q1-Q4	2021 Q1-Q2 / 2020 Q1-Q2
Change in financial costs	-2.0	-7.2	-7.3
A Interest on borrowed funds	-1.8	-7.6	-6.6
1 Due to cost (interest rate)	-5.1	-7.9	-9.9
2 Due to the amount of interest-bearing debt	3.3	0.3	3.3
B Other financial costs	-0.2	0.3	-0.7

SOURCE: Banco de España.

In period average terms, effective employment grew by 1.3% in 2021 H1, compared with the drop of 5.3% a year earlier. However, the average number of employees remained 3.8% below the level for the same period of 2019 (see Chart 3). The growth in employment observed in 2021 was driven by the increase in permanent staff levels (2.2%), while temporary employment continued to decline, albeit more moderately than in 2020. In line with the upward trend in employment, the percentage of firms that increased their actual workforce numbers rose by almost 4 percentage points (pp) on the previous year, to stand at 41.3% (see Table 3).

Table 2 also shows some heterogeneity in employment across sectors, with increases in the industrial, wholesale and retail trade and hospitality, and information and communication sectors, and slight decreases in the energy and “other activities” sectors.

Average compensation grew by 0.7% in 2021 H1, an identical figure to that recorded a year earlier. The breakdown by sector shows that compensation increased moderately across all sectors.

Rates of return, liquidity and debt

In keeping with the recovery in activity, gross operating profit (GOP) grew by 23.7% between January and June 2021. However, as with GVA, this surplus was still below the pre-pandemic level of 2019 H1 (specifically, 25.6% lower) (see Chart 3).

Between January and June 2021 financial revenue fell by 16.8% as a result of lower dividends received (which declined by 21.5%), while interest income increased

slightly (by 1.1%). Financial costs continued to decline (this time by 7.3%) owing to the lower average cost of 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 amortisation and in operating provisions (down 5.2%, primarily on account of lower provisions for inventory write-downs), allowed ordinary net profit (ONP)⁴ to increase by 70.5% in 2021 H1, in contrast with the sharp decline recorded a year earlier (see Chart 4). As was the case for other ordinary profit, a comparison of the 2021 ONP with that obtained from January to June 2019 shows that it is still well below the pre-pandemic level (44.6%). Extraordinary costs and revenue had an additional positive impact on net profit, owing essentially to significant capital gains on sales of financial assets. This led to a positive net profit figure, in contrast to the negative value recorded in 2020 H1. As a percentage of GVA, net profit stood at 16.5%, against -20% in the previous year (see Table 1).

The increase in ordinary profit resulted in higher rates of return, which posted levels clearly above those for 2020 H1 from January to June 2021. Specifically, the return on assets (ROA) grew by 0.6 pp to 2.4% and the return on equity (ROE) increased by just over 1 pp to 3%.⁵ The median values of these indicators performed even more favourably, both in ROA, which rose to 3.7% compared with 1.8% a year earlier, and in ROE (up from 2.1% to 5.4%) (see Table 5). This table also shows a reduction of around 8 pp in the percentage of firms that recorded negative values for these indicators, to 29.9% in the case of ROA and to 31.9% in that of ROE, although these values remain high. Moreover, Chart 4 shows that, despite trending upwards in 2021, ROA is still far from its pre-pandemic levels, as in 2019 H1 this indicator stood at 4.1%, 1.7 pp higher than in the current year.

The sectoral breakdown of the return on assets also reveals a mixed behaviour. Thus, profitability levels rose in the energy and trade and hospitality sectors and, especially, in the industrial sector, to stand at 4.2%, 3.5% and 6.1%, respectively. Conversely, the information and communication and “other activities” sectors posted slightly lower levels of ROA than in the previous year (see Table 6).

The average cost of borrowing remained on the downward path of recent years, falling by 0.1 pp, to 1.6%. Developments in ROA and borrowing costs led the spread between these two ratios to improve by 0.7 pp compared with the previous year, to stand at 0.8 pp.

Firms’ average liquidity ratio increased slightly to June 2021, although these developments are highly influenced by certain financial asset sales which have led

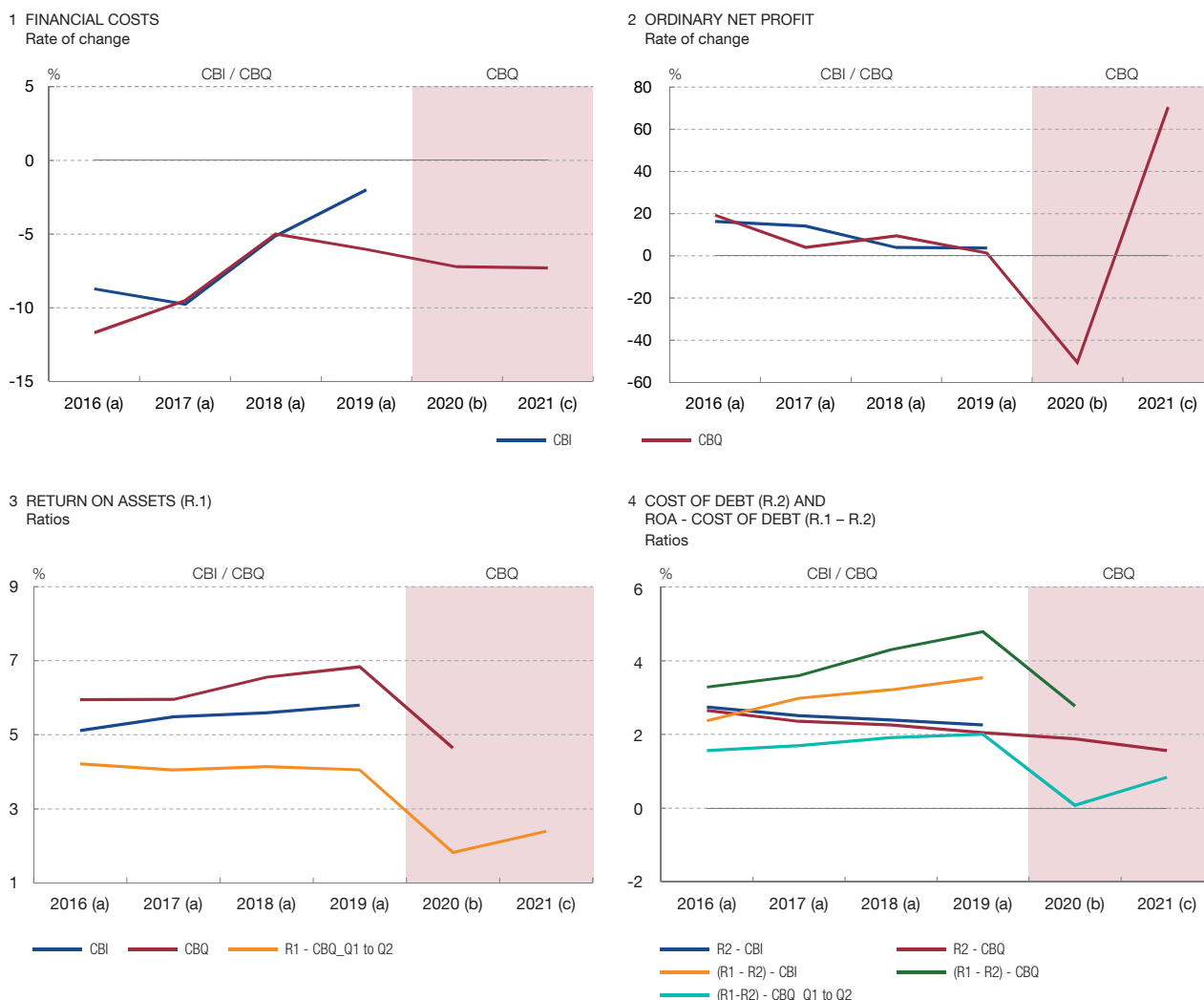
4 ONP equals GOP less financial costs and depreciation and amortisation and operating provisions, plus financial revenue.

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

Chart 4

ORDINARY PROFIT AND RETURNS GREW IN 2021 H1, BUT REMAINED BELOW PRE-PANDEMIC LEVELS

The increase in ordinary profit led to an increase in ordinary returns in 2021 H1, which remained below 2019 levels. This, along with the slight decline in borrowing costs, allowed the spread between these two ratios to widen.



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	936	905
% of GVA of the sector non-financial corporations	CBI	56.1	55.7	55.2	48.2	—	—
	CBQ	14.7	14.0	13.0	13.0	11.8	11.7

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 to 2021 Q2. For the rates, the calculation is made relative to the same period of 2020.



Table 5

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

	CBQ				
	Return on assets (R.1)		Ordinary return on equity (R.3)		
	2020 Q1-Q2	2021 Q1-Q2	2020 Q1-Q2	2021 Q1-Q2	
Number of firms	962	905	962	905	
Percentage of firms by profitability bracket	R ≤ 0%	37.8	29.9	40.1	31.9
	0% < R ≤ 5%	23.6	24.4	16.9	17.0
	5% < R ≤ 10%	12.6	12.5	10.0	9.6
	10% < R ≤ 15%	6.7	8.0	6.5	8.1
	15% < R	19.3	25.2	26.5	33.4
Memorandum item: median return (%)	1.8	3.7	2.1	5.4	

SOURCE: Banco de España.

Table 6

INCREASE IN ORDINARY PROFIT AND RETURNS, WITH UNEVEN BEHAVIOUR ACROSS SECTORS

	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)	
	2019	2020 Q1-Q4	2020 Q1-Q2	2021 Q1-Q2	2019	2020 Q1-Q4	2020 Q1-Q2	2021 Q1-Q2	2019	2020 Q1-Q4	2020 Q1-Q2	2021 Q1-Q2	2019	2020 Q1-Q4	2020 Q1-Q2	2021 Q1-Q2
Rates of change with respect to same firms in the same period of the previous year, % and pp																
Total	2.1	-37.1	-41.4	23.7	3.6	-50.5	-71.6	70.5	5.8	4.6	1.8	2.4	3.5	2.8	0.1	0.8
Size																
Small	2.4	—	—	—	0.5	—	—	—	3.6	—	—	—	1.3	—	—	—
Medium	3.0	-13.2	-16.4	34.7	0.1	-21.3	-22.3	54.1	6.8	5.2	4.1	6.1	4.6	3.7	2.7	4.5
Large	2.0	-37.2	-41.5	23.6	4.7	-50.7	-71.9	70.7	6.4	4.6	1.8	2.4	4.1	2.8	0.1	0.8
Breakdown by activity																
Energy	4.3	-8.3	-6.6	4.8	27.7	-3.6	-14.4	0.4	6.2	5.7	4.0	4.2	4.0	4.0	2.3	2.6
Industry	-4.0	-59.0	-80.6	—	-7.2	-89.7	—	—	7.8	1.7	-2.6	6.1	5.3	-0.2	-4.3	4.0
Wholesale and retail trade and hospitality	3.4	-32.3	-43.3	19.4	-7.0	-44.3	-76.4	92.3	7.9	5.8	2.2	3.5	5.6	3.8	-0.1	1.8
Information and communication	1.2	-22.4	-19.3	-10.6	0.5	-42.4	-45.8	-14.1	11.3	9.6	8.7	7.6	9.4	8.3	7.4	6.2
All other activities	5.6	-80.8	-81.3	-24.2	16.0	-39.4	-70.4	-68.8	4.6	4.1	1.0	0.6	2.4	2.1	-0.8	-0.8

SOURCE: Banco de España.

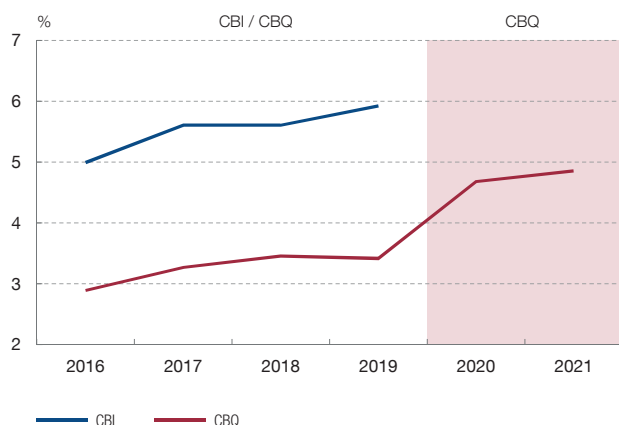
a All the data in these columns have been calculated as the weighted average of the quarterly data.

Chart 5

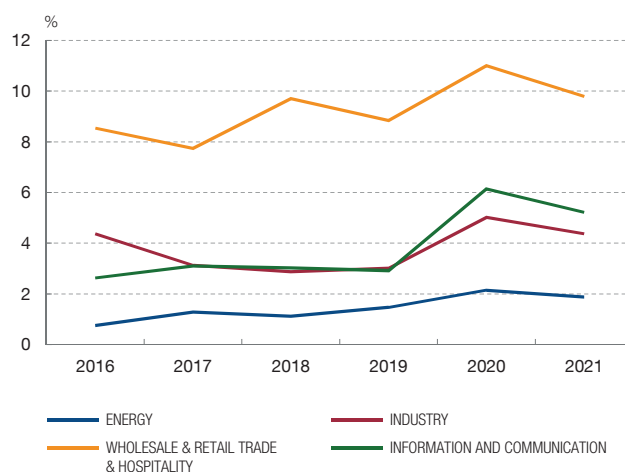
FIRMS' LIQUIDITY RATIO DECLINED IN 2021 H1 IN MOST SAMPLE FIRMS AND SECTORS

The average liquidity ratio of CBQ sample firms increased slightly between January and June 2021, although these developments are highly influenced by specific transactions at some large corporations in the "All other activities sector". The latter is not shown in the sectoral breakdown of the chart, which indicates that the prevailing trend in the other sectors was a declining liquidity ratio.

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



2 LIQUIDITY RATIO. CBQ. BREAKDOWN BY SECTOR



SOURCE: Banco de España.

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



to a surge in liquidity at a handful of large corporations in the "other activities" sector (see Chart 5.1). Indeed, Chart 5.2, which includes a sectoral breakdown, shows that the average liquidity ratio declined in other sectors. Also, the median values of this ratio trended downwards in 2021, indicating that this was the prevailing trend in most firms. This suggests that the gradual reduction in uncertainty has enabled a growing number of firms to release part of the liquidity buffers that they had built up over the previous year.

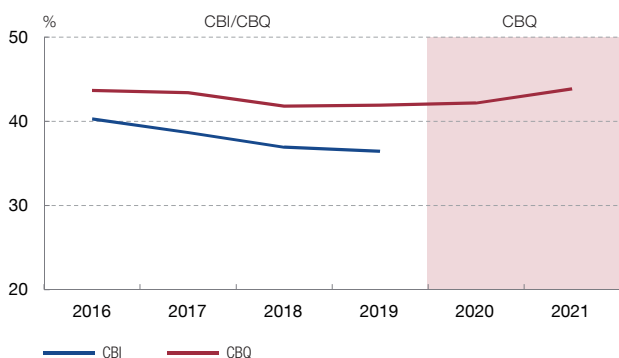
Lastly, between January and June 2021, the debt of CBQ firms increased. However, this development has been influenced by certain transactions by large corporations with a high weight in this sample (see Chart 6). As a result, the average debt-to-net asset ratio grew by almost 2 pp to 43.8% at end-H1. The sectoral breakdown shows moderate increases in this ratio across all sectors except for industry, which held practically stable. The debt-to-ordinary earnings ratio (the sum of GOP and financial revenue) also grew slightly to stand at 758% (up some 9 pp on end-2020). The sectoral breakdown shows subdued increases in the energy and information and communication sectors, and stability in the trade and hospitality sector, while a significant decline was recorded in industry owing to the positive earnings performance within this aggregate. Finally, the ratio of interest expenses to ordinary earnings resumed its downward path, following the strong surge in the previous

Chart 6

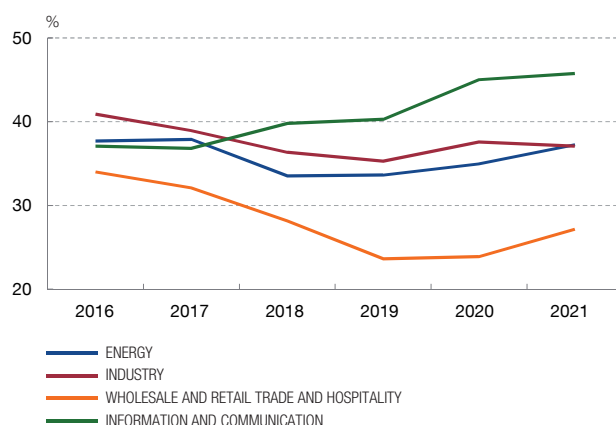
INDEBTEDNESS INCREASED IN 2021 H1 AND THE DEBT BURDEN DECLINED

In 2021 H1, firms' indebtedness increased, both in relation to net assets and ordinary profit, which also grew, but to a lesser degree than debt. Meanwhile, the recovery in income, along with the further decrease in financial costs, allowed the debt burden ratio to resume the downward path interrupted in 2020. The industrial sector notably posted sharp declines in both the debt-to-ordinary profit ratio and the debt burden ratio, owing to a significant increase in profitability levels in this sector.

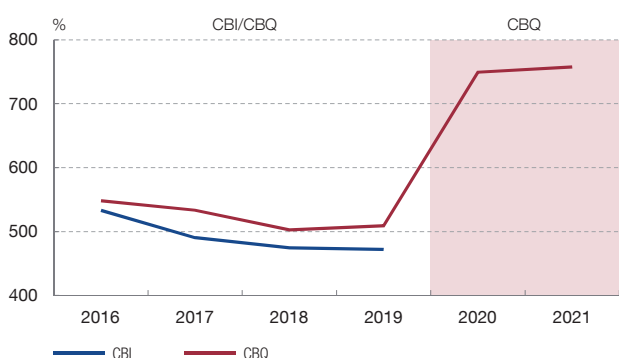
1 E1. INTEREST-BEARING BORROWING / NET ASSETS (a) TOTAL FIRMS Ratios



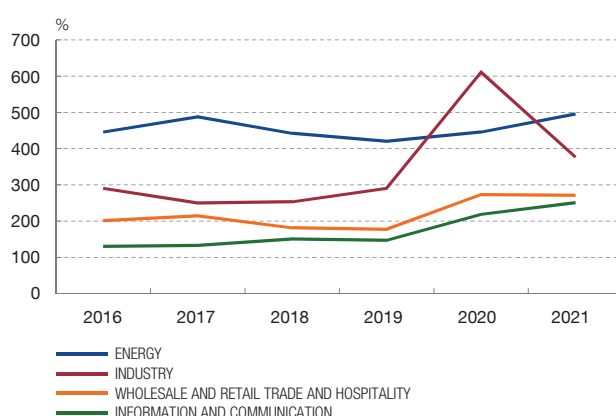
2 E1. INTEREST-BEARING BORROWING / NET ASSETS (a) BREAKDOWN BY SECTOR. CBQ Ratios



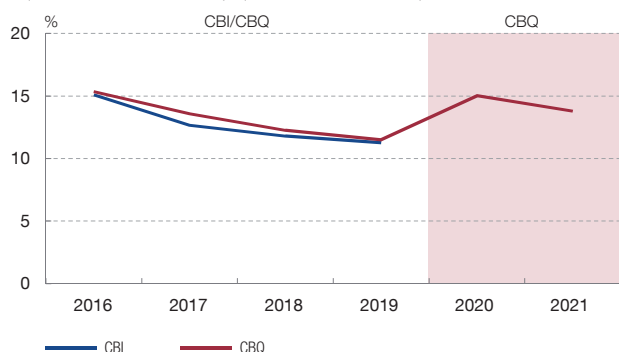
3 E2. INTEREST-BEARING BORROWING (b) / (GOP + financial revenue) (c) TOTAL FIRMS Ratios



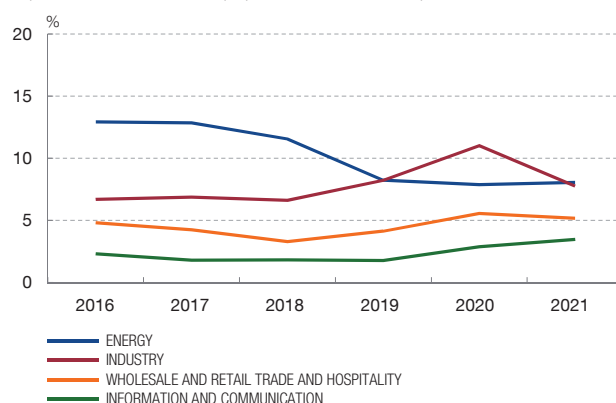
4 E2. INTEREST-BEARING BORROWING (b) / (GOP + financial revenue) (c) BREAKDOWN BY SECTOR. CBQ Ratios



5 INTEREST BURDEN TOTAL FIRMS (Interest on borrowed funds) / (GOP + financial revenue) (c)



6 INTEREST BURDEN BREAKDOWN BY SECTOR. CBQ (Interest on borrowed funds) / (GOP + financial revenue) (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. 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 cumulative four-quarter amounts.



year, driven by both the continuing fall in interest rates and the rebound in earnings, which stand at 13.8%, 1.2 pp down on 2020 but still above the 11.5% recorded two years earlier. 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.

23.9.2021.

RECENT DEVELOPMENTS IN TRADE FINANCE GRANTED AND RECEIVED BY NON-FINANCIAL CORPORATIONS

Trade credit is a form of financing that arises from the deferral of payment or collection in purchase and sale transactions, through which non-financial corporations can raise, in net terms, funds from other firms and sectors or grant them financing. This box examines developments since the onset of the COVID-19 pandemic in average supplier payment and customer collection periods (which measure the number of days that firms take, on average, to pay their suppliers or to collect payment from their customers).¹ This analysis takes on particular significance in the current situation, following the decline in activity in 2020 as a result of the COVID-19 crisis, leading many firms to need more liquidity and some to experience difficulties in meeting their payment commitments. In particular, this box analyses the extent to which this situation has translated into a delay in firms' payments in their commercial transactions. This exercise is based on the Central Balance Sheet Data Office's quarterly (CBQ) database, as it is the only one which covers the period analysed.

The information in Chart 1 shows that, according to CBQ data, both customer collection and supplier payment periods, approximated by the distribution median, increased in 2020 Q2 compared with the levels recorded in the same period a year earlier (of around 47 days in the case of collection periods and 67 in that of payment periods).² This increase could owe to the liquidity tensions generated by the strong fall in firms' turnover. In any event, it has been very moderate, albeit somewhat higher for the payment periods (which grew on average around six days) than for collection periods (around three days on average).

The asymmetry in the changes in the two indicators analysed suggests that the delay observed in supplier payments appears to have had a greater impact on firms not included in the CBQ sample (which is mainly

comprised of large firms). This means that SMEs have probably experienced a comparatively greater delay in collections than larger firms, a hypothesis that can only be confirmed once the CBI sample data for 2020 become available.³

This chart also shows that from 2020 H2 the differences in the collection and payment periods have narrowed compared with those of 2019, even declining in the case of collection periods with respect to pre-pandemic levels. This could stem from the improvement in firms' liquidity situation, which initially benefited from the support measures deployed by the economic authorities and, more recently, from the recovery in economic activity.

The remaining charts analyse the extent to which the developments described above have taken place homogeneously across all the sample firms, or have affected some firms more than others, depending on the different characteristics deemed relevant and which are related to the greater or lesser difficulties firms may have experienced in meeting their payment commitments. This analysis only applies to payment periods, over which it is considered that each firm has the power of decision, whereas collection periods are somewhat more exogenous. Thus, Chart 2 evidences, as could be expected, that firms with smaller liquidity buffers⁴ were more prone to lengthening supplier payment times than those in the opposite situation. This could reflect the greater liquidity tensions experienced, on average, by companies with fewer liquid assets.

Also, as expected, companies in the sectors hardest hit by the pandemic⁵ experienced in 2020 Q2 the sharpest increases in their payment periods. These also increased in 2021 Q1, possibly linked to the fresh waves of the pandemic, requiring authorities to adopt new restrictions on activity (see Chart 3). By contrast, for companies in moderately

1 Specifically, the average supplier payment period is calculated as the ratio of the balance of suppliers (net of advances) at the end of the period to purchases in the period (a quarter or a year), plus work performed by other companies and VAT borne by suppliers for domestic transactions, multiplied by the number of days in the period (90 days on quarterly data and 365 on annual data). The average customer collection period is calculated in an equivalent fashion (customers, net of advances, over annual sales, plus VAT charged to customers for domestic transactions, multiplied by the number of days in the period).

2 The difference between payment and collection periods is due to commercial transaction counterparties not always being CBQ firms; most are firms not included in this sample and other institutional sectors (households, general government and non-residents).

3 The CBI is comprised of a sample of around 800,000 differently sized firms. The first data for this sample for 2020 will be available in November 2021.

4 It is considered that firms with low liquidity buffers are those whose liquidity ratio in 2019 Q4 was below the median value for this indicator.

5 Sectors are defined as severely affected by the COVID-19 crisis if their sales in 2020 fell by more than 15% (textile industry, coke and refined petroleum, manufacture of transport equipment, transport and storage, hotels and restaurants, and social and cultural services) and as moderately affected if their sales fell by between 8% and 15% (wood and furniture, paper and graphic arts, manufacture of medals, machinery and equipment, wholesale trade, and professional, scientific, technical, administrative and support activities). Other sectors are considered largely unaffected.

RECENT DEVELOPMENTS IN TRADE FINANCE GRANTED AND RECEIVED BY NON-FINANCIAL CORPORATIONS (cont'd)

affected sectors the increase in payment periods was limited to 2020 Q2, reversing almost entirely in the following quarters while in the largely unaffected group of sectors the changes in this indicator were minor over the entire period analysed vis-à-vis the pre-crisis situation.

Lastly, if a distinction is made by firm risk, approximated by estimated probability of default, it is seen that those with the highest probability of default⁶ posted the sharpest increases in their payment periods in practically all the quarters since 2020 Q2, by contrast with the other

Chart 1
CHANGE VIS-À-VIS THE SAME QUARTER IN 2019 IN THE MEDIAN FOR AVERAGE SUPPLIER PAYMENT AND CUSTOMER COLLECTION PERIODS

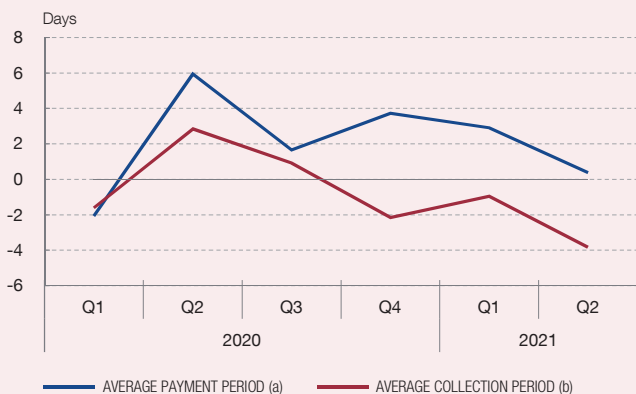


Chart 2
CHANGE VIS-À-VIS THE SAME QUARTER IN 2019 IN THE MEDIAN FOR AVERAGE SUPPLIER PAYMENT PERIODS. BREAKDOWN BY LIQUIDITY RATIO (c)

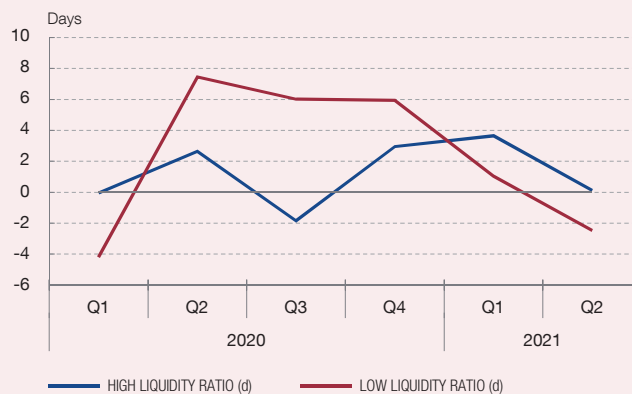


Chart 3
CHANGE VIS-À-VIS THE SAME QUARTER IN 2019 IN THE MEDIAN FOR AVERAGE SUPPLIER PAYMENT PERIODS. BREAKDOWN BY SECTOR (c) (e)

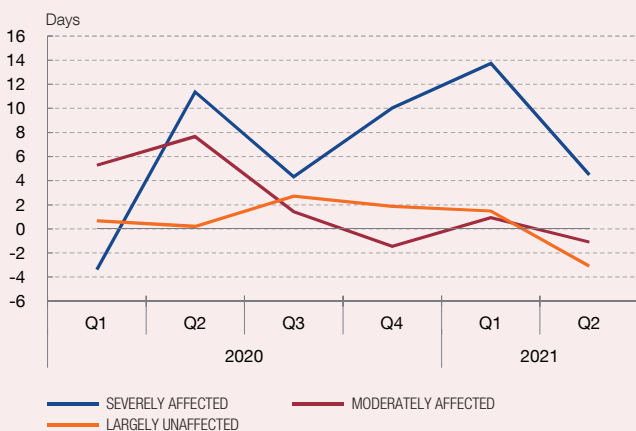


Chart 4
CHANGE VIS-À-VIS THE SAME QUARTER IN 2019 IN THE MEDIAN FOR AVERAGE SUPPLIER PAYMENT PERIODS. BREAKDOWN BY PROBABILITY OF DEFAULT (c) (f)



SOURCE: Banco de España.

- a The supplier payment period is defined as the ratio of suppliers to annual purchases for each quarter, multiplied by 365.
- b The customer collection period is defined as the ratio of customers to annual sales for each quarter, multiplied by 365.
- c Calculated on the basis of a common sample of firms.
- d The liquidity ratio is defined as the ratio of cash and cash equivalents to total assets. Firms are deemed to have a high liquidity ratio when said ratio exceeds its median value at 2019 Q4.
- e Sectors are defined as severely affected by the COVID-19 crisis if their sales in 2020 fell by more than 15% and as moderately affected if their sales fell by between 8% and 15%. Other sectors are considered largely unaffected.
- f Probability of default is estimated using a model that includes the financial ratios of each firm in 2019. A probability of default over 1% is considered high.

6 Probability of default is estimated on 2019 data based on a credit default prediction model that uses information relating to five financial ratios for each firm which measure activity, profitability, liquidity, financing structure and leverage, as well as macroeconomic and sectoral variables. A probability of default over 1% is considered high

RECENT DEVELOPMENTS IN TRADE FINANCE GRANTED AND RECEIVED BY NON-FINANCIAL CORPORATIONS (cont'd)

companies, which reflected substantially more moderate changes. This suggests that the riskiest firms had faced larger liquidity tensions, possibly because it was more difficult for them to access external financing.

To conclude, the evidence presented in this box reveals that as a result of the sharp fall in business activity experienced in 2020 Q2, an increase in payment and collection periods, somewhat stronger in the former than in the latter, was observed. This increase has reversed in subsequent

quarters, returning to values similar or even lower (in collection periods) than those in pre-pandemic 2019. In any event, these developments did not affect all firms equally. Strong heterogeneity is observed based on certain characteristics. In particular, supplier payment period increases were more intense and persistent in companies with lower liquidity buffers, those in the sectors hardest hit by the pandemic and in riskier firms. This suggests that these are the types of firms that appear to have faced more difficulties in meeting their payment commitments.