

ANNUAL REPORT 2016

CHAPTER 2

FINANCING AND INVESTMENT DECISIONS OF SPANISH NON-FINANCIAL CORPORATIONS

CHAPTER AIMS



This chapter analyses three aspects of the financing of Spanish non-financial corporations:

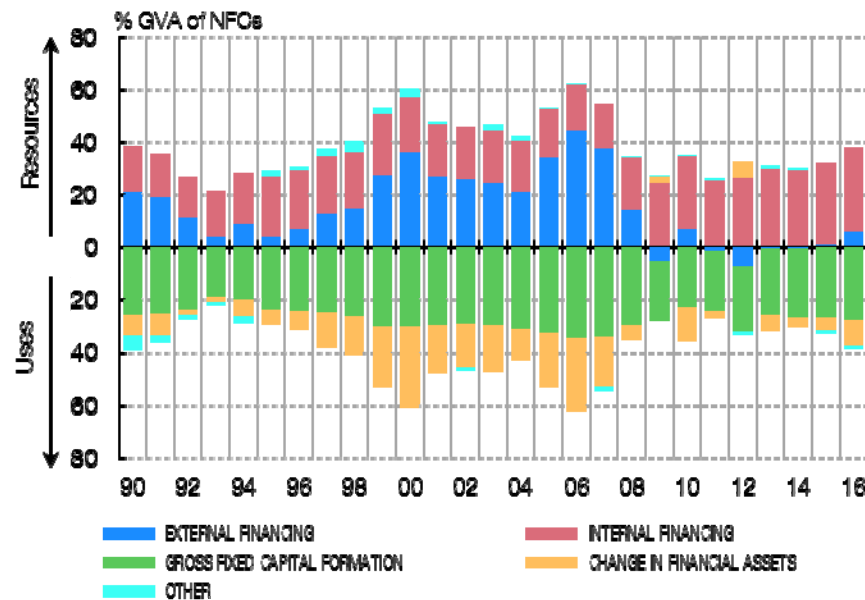
- The financing of productive investment during the current phase of economic recovery and the role of access to external funds.
- The efficiency of credit allocation.
- The structure of firms' financing and, in particular, the degree of leverage and disintermediation.

INVESTMENT FINANCING: AN AGGREGATE VIEW

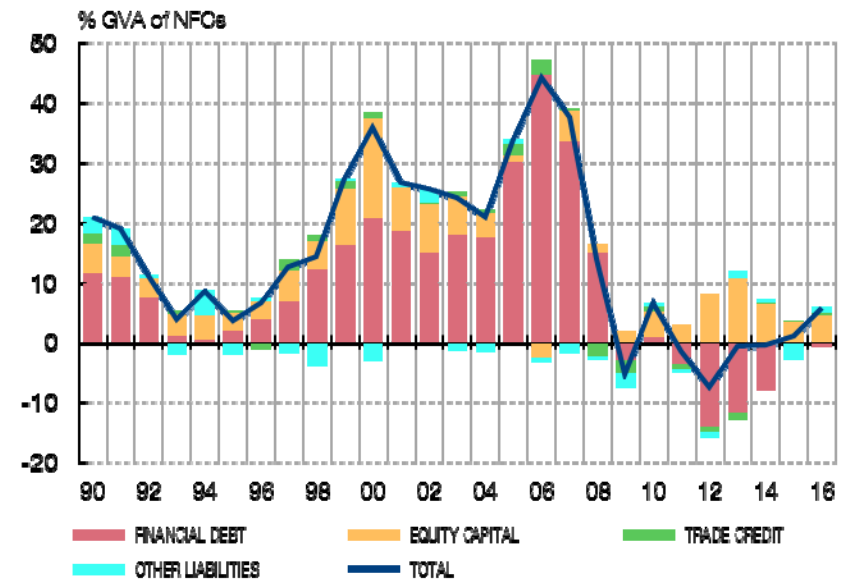


At the aggregate level, the large volume of internal financing observed during the current economic recovery is notable. By contrast, the total amount of external financing has been very limited. Of the latter, the flow channelled through capital instruments has been positive and has offset debt repayments.

INVESTMENT AND FINANCING OF NON-FINANCIAL CORPORATIONS



EXTERNAL FINANCING

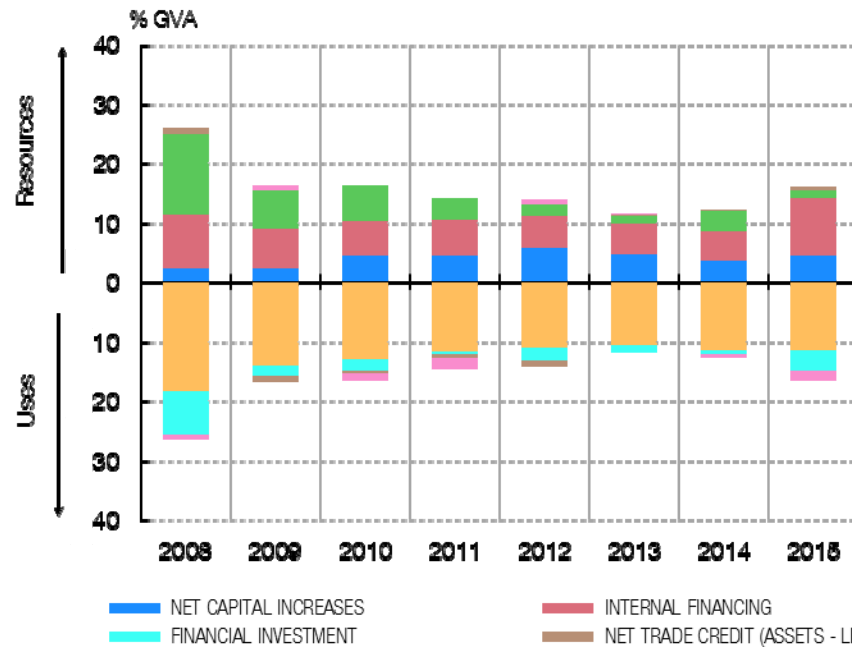


INVESTMENT FINANCING: A DISAGGREGATED VIEW

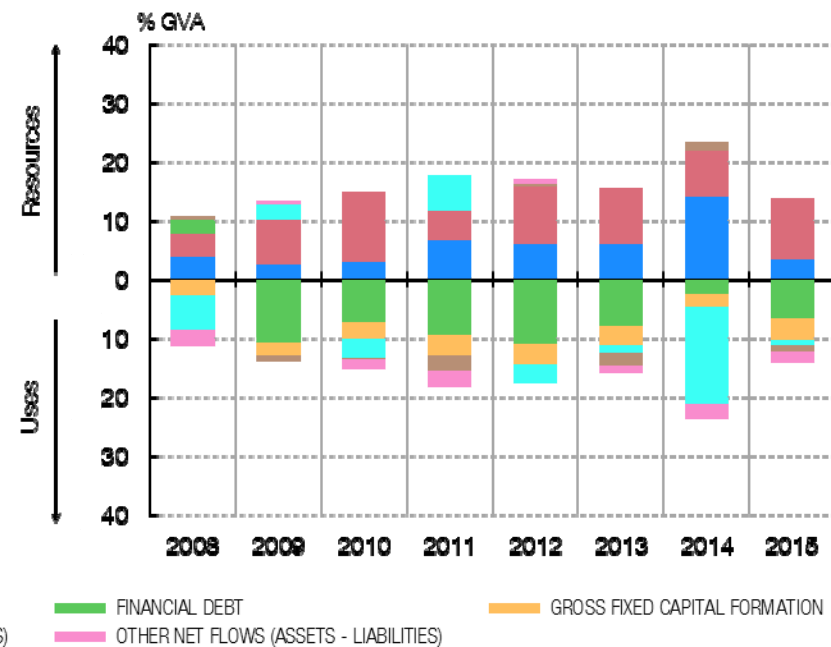


Firms with positive net investment have used both internal and external financing.
Firms with negative net investment have reduced their levels of debt by increasing their equity (internal saving and capital increases).

INVESTMENT AND FINANCING OF FIRMS WITH NIL OR POSITIVE NET INVESTMENT



INVESTMENT AND FINANCING OF FIRMS WITH NEGATIVE NET INVESTMENT

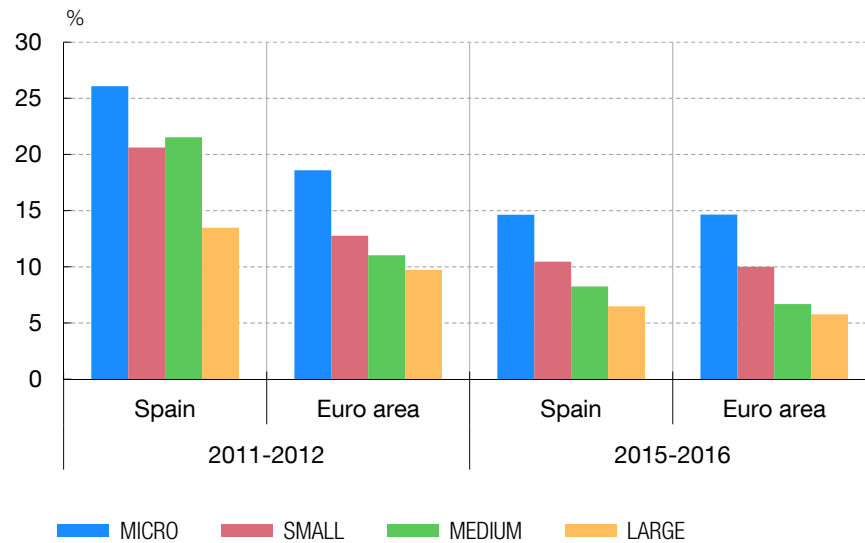


IMPROVEMENT IN SPANISH NON-FINANCIAL FIRMS' ACCESS TO CREDIT

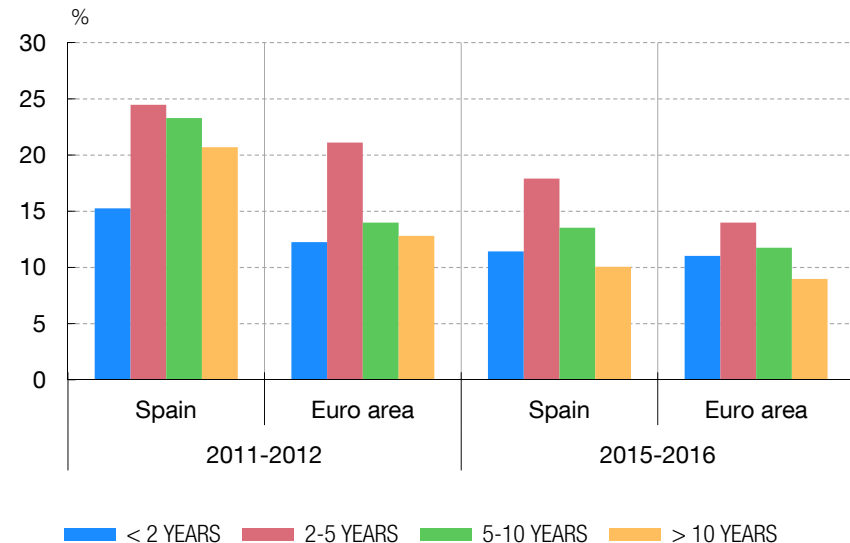


The percentage of Spanish firms facing external financing constraints has declined in recent years, converging towards average euro area levels. The improved financial position of both non-financial firms and credit institutions contributed to this decline.

PERCENTAGE OF FIRMS FACING CONSTRAINTS IN THEIR ACCESS TO BANK LOANS. BREAKDOWN BY SIZE



PERCENTAGE OF FIRMS FACING CONSTRAINTS IN THEIR ACCESS TO BANK LOANS. BREAKDOWN BY AGE



BUSINESS INVESTMENT DETERMINANTS



Firms with positive net investment are more profitable, more productive and have a stronger financial position than those whose investment does not cover the depreciation of their fixed assets. Following the crisis, firms' investment decisions are more sensitive to their indebtedness.

Impact on the probability of positive net investment

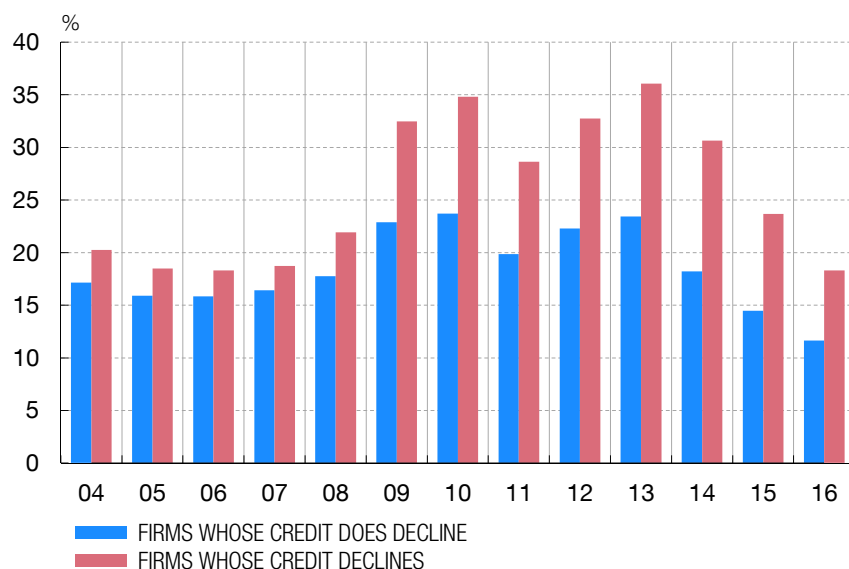
	Coefficients for 2005-2007	Coefficients for 2008-2013	Coefficients for 2014-2015
Profitability _{it-1}	0.030***	-0.006	0.024***
Debt burden _{it-1}	-0.009***	-0.012***	-0.009***
Indebtedness _{it-1}	-0.038***	-0.065***	-0.058***
Sales growth _{it-1}	0.041***	0.032***	0.032***
Total factor productivity _{it-1}	0.035***	0.010***	0.041***

REALLOCATION OF CREDIT WITHIN THE CORPORATE SECTOR



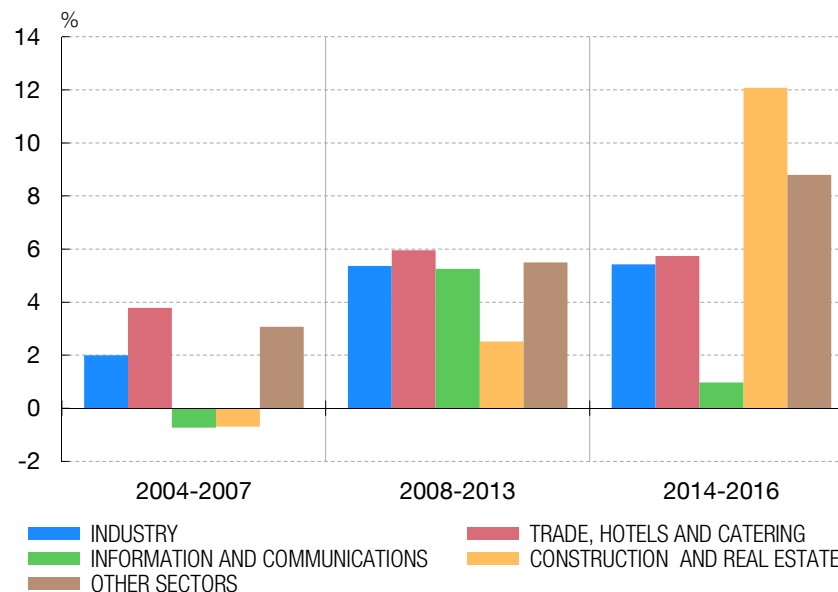
Evidence suggests that, since the crisis, the efficiency of credit allocation has increased. New lending goes to more productive firms and to firms with stronger balance sheets.

MEDIAN DEBT BURDEN OF NON-FINANCIAL CORPORATIONS (t-1) (a)



a The debt burden is defined as the ratio between interest payments on financing received and gross income (sum of gross operating profit and financial revenue).

AVERAGE DIFFERENCE IN TOTAL FACTOR PRODUCTIVITY, IN t-1, BETWEEN FIRMS WHOSE CREDIT IS NOT DECLINING AND THOSE WHOSE CREDIT IS DECLINING



BORROWER SELECTION BY CREDIT INSTITUTIONS

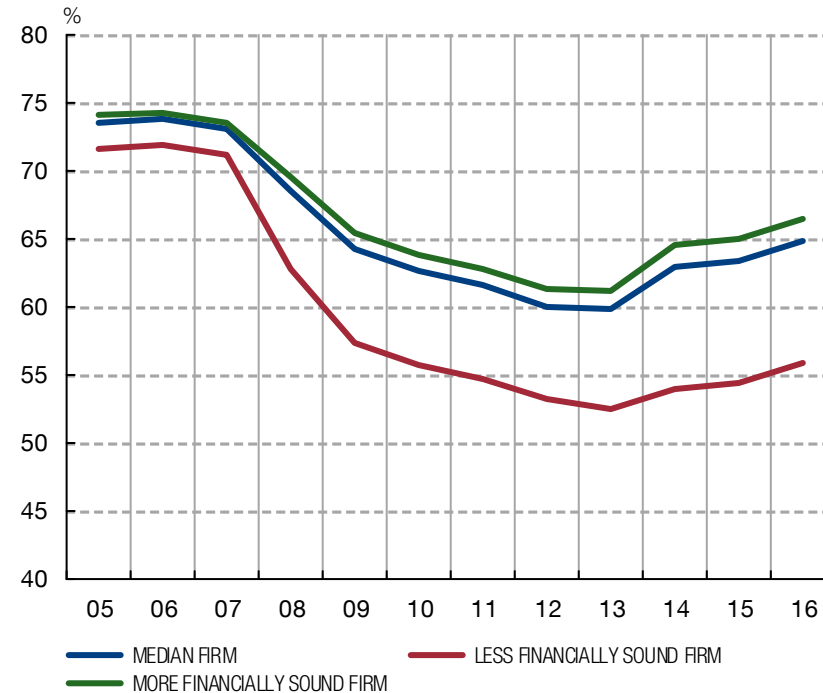


More efficient credit allocation has been accompanied by an improvement in the selection of borrowers by credit institutions.

Impact on the probability of a firm obtaining credit from any bank

	Coefficients for 05-08 Q1	Coefficients for 08 Q2-13 Q3	Coefficients for 13 Q4-16 Q2
Previous doubtful loans	-0.021	0,003	-0.042***
Indebtedness	-0.036***	-0.078***	-0.102***
Debt burden	0.000	-0.002***	-0.003***
No. of previous relationships with banks	0.006***	0.014***	0.015***
Total assets	-0.001	0.009***	0.005**
Age	0.004	0.018***	0,003

PROBABILITY OF OBTAINING CREDIT

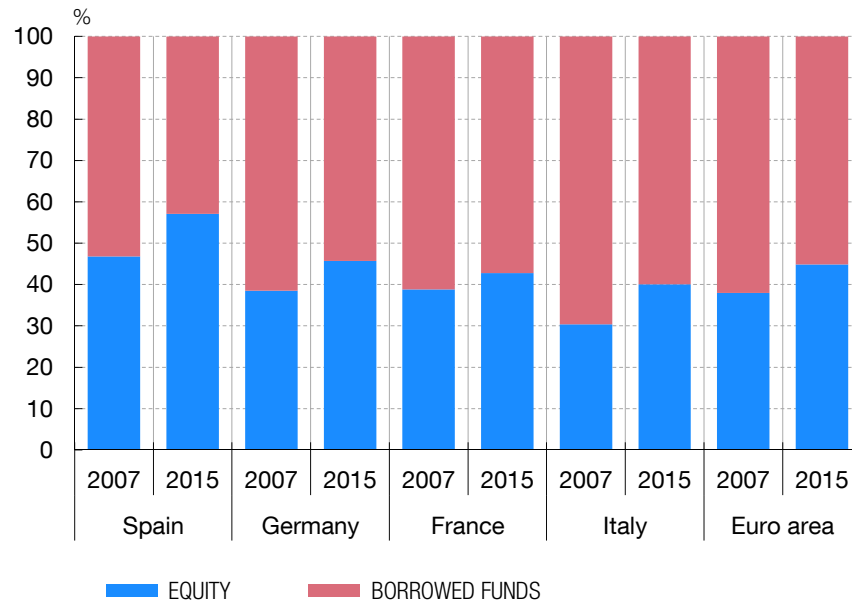


SPANISH FIRMS' LEVERAGE

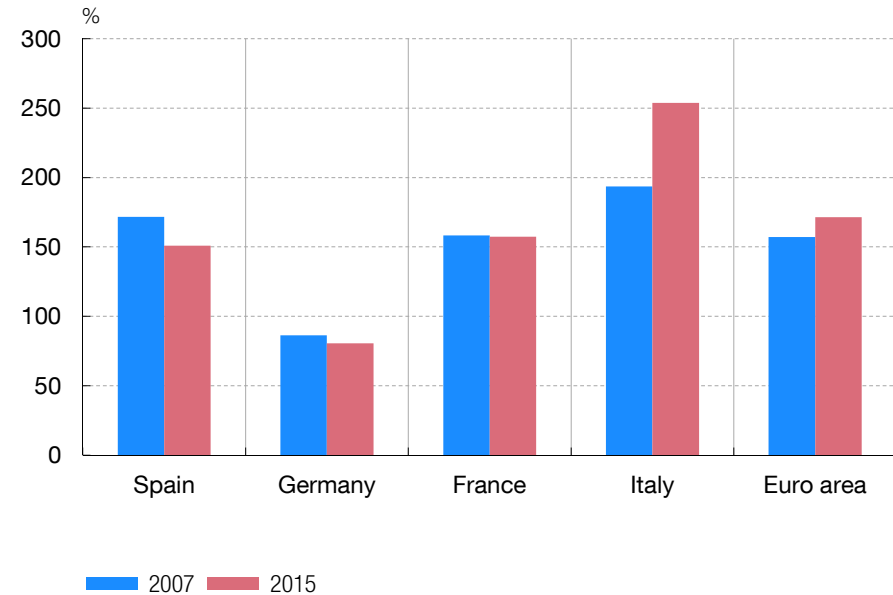


Before the crisis, the debt-to-assets ratio of Spanish SMEs was somewhat lower than that of their euro area peers, but their debt-to-earnings ratio was higher. The latest data show that Spanish SMEs are less indebted than their euro area peers, both in terms of assets and, to a lesser extent, in terms of earnings.

COMPOSITION OF LIABILITIES. SMEs



BORROWED FUNDS WITH RESPECT TO GROSS OPERATING PROFIT PLUS FINANCIAL REVENUE. SMEs

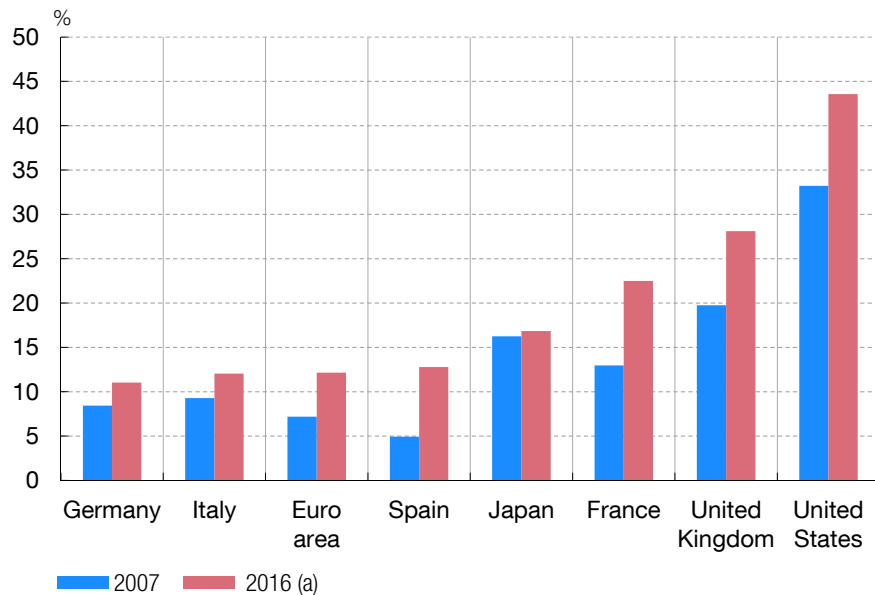


DEGREE OF DISINTERMEDIATION IN THE FINANCING OF SPANISH FIRMS

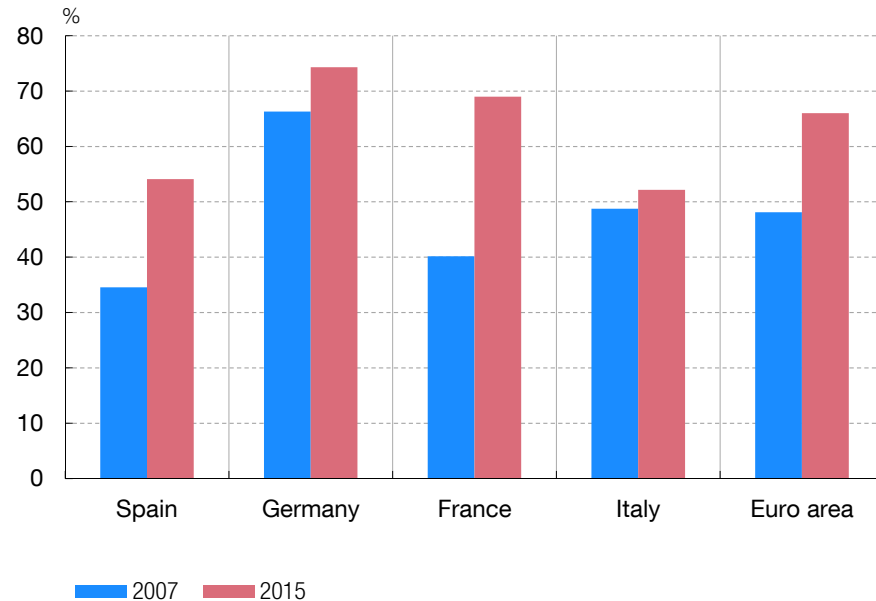


The process of disintermediation of the financing of firms has been more intense in Spain than in other European countries, so that the weight of fixed-income securities in corporate debt is now closer to the euro area average.

DEBT SECURITIES AS A PROPORTION OF DEBT. TOTAL NON-FINANCIAL CORPORATIONS



DEBT SECURITIES AS A PROPORTION OF DEBT. LISTED GROUPS



a Year-end data, except for Japan and the United States which refer to Q3.

CONCLUSIONS



The improvement in the economic and financial situation of firms and banks has contributed to the buoyancy of investment during the economic recovery, through two channels:

- By increasing the internal resources available to firms.
- By relieving the constraints on external financing.

The heterogeneity of non-financial corporations is key to analysing the dynamics of their investment and financing:

- Firms that invest: have a sound financial position and use internal and external financing.
- Firms that do not invest: either do not find investment opportunities or are constrained by their financial situation (deleveraging).

In the latest period, a more efficient allocation of credit is observed. Credit goes to more productive firms and to those with stronger balance sheets to a greater extent than before the crisis.

In recent years, the financing of large firms has been subject to a process of banking disintermediation, which has been somewhat more intense in Spain than in other European countries.