

# Results of non-financial corporations in 2019 Q1

Álvaro Menéndez

## **Abstract**

On information from the Banco de España Central Balance Sheet Data Office Quarterly Survey (CBQ), activity at non-financial corporations remained expansionary in 2019 Q1, although some indicators point to a certain degree of deceleration. Employment continued to rise, but also at a slower pace than in 2018. In this setting, corporate profitability ratios held steady, while borrowing costs declined again, prompting a further slight widening of the spread between return on investment and the cost of debt. Debt ratios rose somewhat, reversing the downward pattern of recent years. Lastly, the decline in borrowing costs and the growth in profit led to a further decrease in the debt burden ratio, down to all-time lows in the CBQ historical series. The article includes a box that analyses certain aspects of the recent performance of SMEs in Spain, drawing on qualitative data taken from the ECB's survey on access to finance of enterprises (SAFE).

**Keywords:** activity, earnings, financial situation, non-financial corporations.

**JEL codes:** L25, M21, M41.

## RESULTS OF NON-FINANCIAL CORPORATIONS IN 2019 Q1

The author of this article is Álvaro Menéndez, of the Directorate General Economics, Statistics and Research.

### Overview

The information from the Central Balance Sheet Data Office Quarterly Survey (CBQ) shows that firms' activity remained expansionary in the first three months of 2019. Gross value added (GVA) rose by 4%, in year-on-year and nominal terms, compared with an increase of 2.5% a year earlier.<sup>1</sup> However, if each branch of activity is weighted according to its share of the non-financial corporations sector as a whole, the rate of growth is somewhat lower: 2.2% in 2019 Q1, compared with 2.8% in the same period in 2018.<sup>2</sup> All the foregoing, in a setting in which both the purchases and sales of these firms in Spain increased compared with the previous year.

Employment rose by 0.7% to March, almost 1.5 pp down on a year earlier (2.1%). The increase in the numbers employed was driven mainly by the growth in permanent hires (up 1.1%).

The performance of GVA and personnel costs translated into growth of 5.4% in Gross Operating Profit (GOP), compared with 1.2% a year earlier. Financial revenue and financial costs both declined in the quarter: financial revenue owing to the lower dividends received, while financial costs continued to decrease as a result of the fall in interest rates. All the foregoing, together with the small rise in depreciation, resulted in growth in Ordinary Net Profit (ONP) in 2019 Q1 of 7.2%, compared with 2.7% in the same period of 2018. In turn, extraordinary costs and revenue had a negative impact on earnings for the year, which fell by 75.6% compared with the 2018 Q1 figure, heavily impacted as it was by high extraordinary revenue. Net profit expressed as a percentage of GVA was 17.7%, well below the previous year's figure of 66.6%.

As a result of the ordinary profit performance, average profitability ratios remained at values similar to those posted a year earlier. The average cost of borrowing continued to decline in 2019 Q1, down to 2.1% which is an all-time low in the CBQ. In consequence, the spread between return on investment and the cost of debt widened again slightly, but it is still short of the pre-crisis levels.

As to firms' financial position, debt ratios rose slightly in 2019 Q1, both in terms of debt to assets and debt to income from ordinary activities. By contrast, the debt burden ratio continued in its downward pattern of recent years, reaching all-time lows, driven by both the lower borrowing costs and the increase in ordinary profit.

In short, the CBQ data show that the economic and financial position of the sample firms overall continued to strengthen in the quarter.

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<sup>1</sup> This article draws on the information on the 871 firms which, to 12 June 2019, had reported their 2019 Q1 data to the CBQ. In terms of GVA, the sample represents 11.4% of the total non-financial corporations sector (according to the information furnished by National Accounts).

<sup>2</sup> The difference between the re-weighted and the aggregate GVA growth rates is mainly on account of the performance of the oil refining sector, where GVA fell sharply in 2018 Q1 (-36.5%) and rose substantially in 2019 Q1 (42.5%). This sector is over-represented in the quarterly sample, so the re-weighting (which assigns to this sector a relative share of the total non-financial corporations sector more in line with its real share) lessens the impact of these growth rates on the respective periods.

## Activity

GVA increased by 4% to March 2019, its year-on-year growth rate stepping up compared with a year earlier (2.5%) (see Table 1 and Chart 1). However, the behaviour of this variable is highly heterogeneous across the firms in the sample. Thus, for example, the GVA growth rate quickened very slightly in the median of the distribution, whereas for the 75th percentile the increase in this rate was significant (see Chart 2). The calculation of the re-weighted<sup>3</sup> rate of GVA according to the weight of the sectors in the National Accounts shows some slowdown in activity: the growth of this surplus dipped from 2.8% in 2018 Q1 to 2.2% in 2019 Q1.

This performance came about in a setting in which trading activity continued to grow, albeit at a moderate rate. Reflecting this was the 3.2% year-on-year increase in turnover to March 2019. In this period, activity in Spain was more buoyant than that abroad. This meant that, for the firms in the sample, the weight of both sales and purchases in Spain increased relative to total sales and purchases, standing at 79.3% and at 71.6%, respectively (see Table 2).

GVA grew in practically all sectors except information and communications, where the related change was virtually zero (see Table 3). Particularly of note were the increases in energy (8.6%) and in wholesale and retail trade and accommodation and food services activities (4.7%), although in both cases, these increases were lower than those posted the previous year (8.7% and 6.6%, respectively). In industry, GVA grew by 4.3%, a rate in contrast to the 7.2% decline a year earlier. This performance was influenced, however, by that of the refining sector which, greatly affected by the strong volatility of oil refining margins, turned round from a decline of 36.5% in 2018 Q1 to growth of 42.5% in the opening quarter of 2019.

## Employment and personnel costs

CBQ personnel costs increased by 2.7% year-on-year in 2019 Q1. This is due both to staff increases and, to a greater extent, to the rise in average employee compensation. Specifically, average headcounts at the firms in this sample rose by 0.7%, a more moderate rate than that of the previous year (2.1%) (see Table 3). This rise in employment was boosted by the 1.1% increase in permanent hires (see Table 4), while the CBQ figures show a 2% decline in temporary employment.

The percentage of firms that created employment stood at 50.1% in 2019 Q1, slightly down on the previous year (51.7%) (see Table 5). However, this figure remained clearly higher than the proportion of firms that destroyed jobs (35.5%).

The sectoral breakdown shows that employment growth was mainly in the services-related sectors. Average workforces increased in the wholesale and retail trade and accommodation and food service activities (1.1%), information and communications (1.4%), and in the area encompassing other activities (1.2%). By contrast, they fell in energy (1.4%), and in industry (0.5%).

Average compensation grew 2% year-on-year in 2019 Q1, almost 0.5 pp up on a year earlier (1.6%) (see Table 3). The sharper wage increases were witnessed in all sectors, except in information and communications, where remuneration fell by 0.6%, and in

<sup>3</sup> The re-weighted figure is obtained by applying, to the aggregate rate of each sector, the weight of such sector in the total non-financial corporations sector, 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 en el primer trimestre de 2018", *Economic Bulletin*, 2/2018.

Databases	CBI structure	CBI		CBQ		
	2017	2016	2017	2018 Q1-Q4 / 2017 Q1-Q4 (a)	2018 Q1 / 2017 Q1	2019 Q1 / 2018 Q1
Number of corporations		695,717	627,320	996	1.057	871
Total national coverage (% of GVA)		50.2	47.1	12.7	13.0	11.4
PROFIT AND LOSS ACCOUNT (rates of change, %)						
1 VALUE OF OUTPUT (including subsidies)	100.0	2.4	6.4	5.9	2.6	2.9
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	148.0	1.2	6.7	6.9	2.5	3.2
2 INPUTS (including taxes)	63.4	0.6	7.0	7.0	2.7	2.5
<i>Of which:</i>						
<i>Net purchases</i>	40.5	0.2	7.8	8.0	4.1	0.3
<i>Other operating costs</i>	23.1	1.1	5.0	3.3	4.5	3.2
S.1 GROSS VALUE ADDED AT FACTOR COST [1 - 2]	36.6	5.6	5.3	3.5	2.5	4.0
3 Personnel costs	23.5	4.7	5.8	3.0	3.7	2.7
S.2 GROSS OPERATING PROFIT [S.1 - 3]	13.2	7.3	4.3	4.0	1.2	5.4
4 Financial revenue	3.4	5.8	11.3	5.9	5.9	-8.9
5 Financial costs	2.2	-9.0	-9.2	-5.2	3.5	-5.1
6 Depreciation, impairment and operating provisions	5.5	1.9	0.7	1.7	0.1	2.1
S.3 ORDINARY NET PROFIT [S.2 + 4 - 5 - 6]	8.9	18.3	13.7	8.7	2.7	7.2
7 Gains (losses) from disposals and impairment	-0.8	—	—	—	—	—
7' As a percentage of GVA (7 / S.1)		0.0	-2.2	17.6	46.6	-1.3
8 Changes in fair value and other gains (losses)	-0.5	7.2	27.2	—	2.5	—
8' As a percentage of GVA (8 / S.1)		-1.4	-1.3	-4.0	-1.5	-5.2
9 Corporate income tax	1.5	162.8	-25.6	-6.5	-4.7	-2.3
S.4 NET PROFIT [S.3 + 7 + 8 - 9]	6.1	35.7	-3.1	90.9	—	-75.6
S.4' As a percentage of GVA (S.4 / S.1)		14.6	16.6	45.9	66.6	17.7
RATES OF RETURN (%)						
Formulas (b)						
R.1 Return on investment (before taxes)	(S.3 + 5.1) / NA	5.2	5.4	6.5	3.2	3.1
R.2 Interest on borrowed funds / interest-bearing borrowing	5.1 / IBB	2.8	2.6	2.2	2.3	2.1
R.3 Ordinary return on equity (before taxes)	S.3 / E	6.8	7.2	9.8	3.8	3.9
R.4 ROI - cost of debt (R.1 - R.2)	R.1 - R.2	2.3	2.8	4.3	0.8	1.0
MEMORANDUM ITEM: TOTAL SAMPLE REWEIGHTED (c)						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 - 2]		5.7	5.4	3.7	2.8	2.2
S.2 GROSS OPERATING PROFIT [S.1 - 3]		7.6	5.1	4.3	0.6	0.1

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).

c Rates calculated applying the sectoral weight obtained drawing on National Accounts.

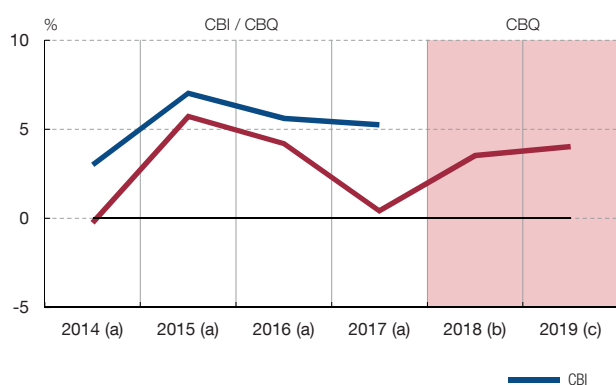
wholesale and retail trade and accommodation and food service activities, where they only increased by 1.2%, compared with growth of 4.7% a year earlier.

### Profits, rates of return and debt

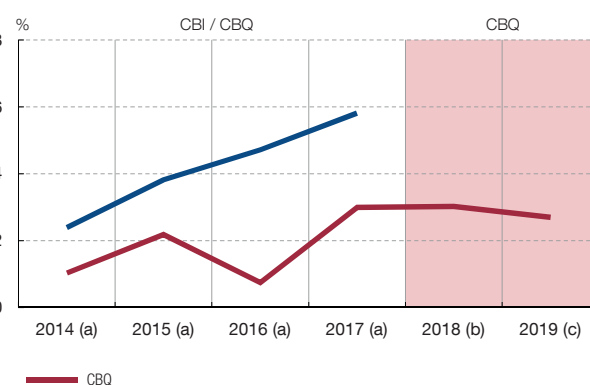
Gross operating profit (GOP) increased by 5.4% to March 2019, compared with the figure of 1.2% in the quarterly sample a year earlier (see Table 1 and Chart 1). However, as in the case of GVA, the re-weighted GOP rates were somewhat less favourable: the growth rate dipped from 0.6% in 2018 Q1 to 0.1% in the first three months of 2019. Along similar lines,

Corporate activity remained expansionary in 2019 Q1, giving rise to increases in ordinary profit. Employment continued to rise, albeit at a slower pace than in previous years, against a backdrop of minor growth in average compensation.

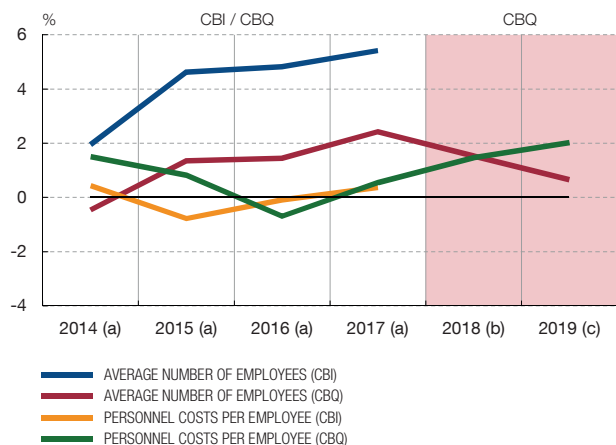
1 GROSS VALUE ADDED AT FACTOR COST  
Rate of change



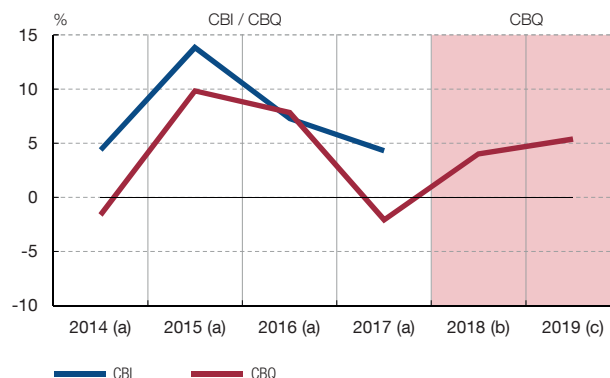
2 PERSONNEL COSTS  
Rate of change



3 EMPLOYMENT AND WAGES  
Rate of change



4 GROSS OPERATING PROFIT  
Rate of change



Reporting non-financial corporations		2014	2015	2016	2017	2018	2019
Number of corporations	CBI	688,853	711,056	695,717	627,320	—	—
	CBQ	884	983	982	991	996	871
% of GVA of the sector non-financial corporations	CBI	49.9	51.2	50.2	47.1	—	—
	CBQ	13.4	14.0	14.0	13.3	12.7	11.4

SOURCE: Banco de España.

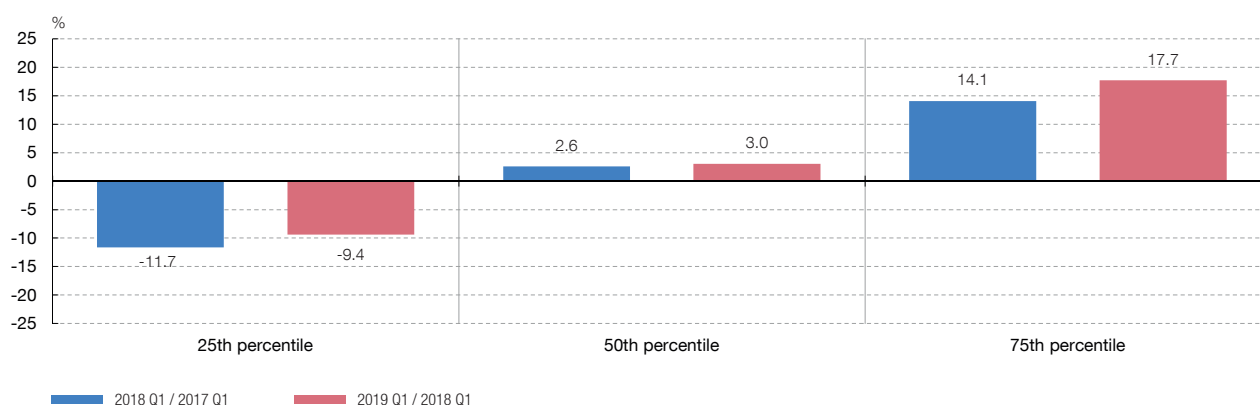
- a The 2014, 2015, 2016 and 2017 data, for the corporations reporting to the CBI, and the average data of the four quarters of each year in relation to the previous year (CBQ).  
b Average of the four quarters of 2018 relative to the same period of 2017.  
c 2019 Q1 data relative to the same period of 2018.

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the data published by the SAFE survey showed that the net percentage of small firms which reported having seen their final surplus increase also revealed a declining trend in recent quarters (see Box 1).

Financial revenue fell by 8.9% during the first quarter of the year. This was the consequence of lower dividend income (down almost 21%), a decline which was partly offset by the

The median GVA growth rate reflects, for 2019, a rather more moderate growth pattern than that suggested by the aggregate data.



SOURCE: Banco de España.



## FIRMS' DOMESTIC ACTIVITY CONTINUES TO GAIN WEIGHT

TABLE 2

		CBA	CBQ (a)		
		2017	2018 Q1-Q4 (a)	2018 Q1	2019 Q1
Total corporations		9,916	996	871	871
Corporations reporting source/destination		9,916	940	817	817
Percentage of net purchases according to source (structure)	Spain	65.6	69.8	68.0	71.6
	Total abroad	34.4	30.2	32.0	28.4
	EU countries	20.1	19.9	20.6	19.4
	Third countries	14.3	10.4	11.3	9.0
Percentage of net turnover according to destination (structure)	Spain	76.4	79.4	78.6	79.3
	Total abroad	23.6	20.6	21.4	20.7
	EU countries	15.4	14.1	14.2	14.4
	Third countries	8.2	6.5	7.2	6.3
Change in net external demand (exports less imports), rate of change	Industry	-2.2	0.9	1.5	2.1
	Other corporations	-9.3	36.0	38.0	—

SOURCE: Banco de España.

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

increase in interest received, which grew by 27.3%. Financial costs continued to decline, by 5.1%. This was driven by lower average financing costs for firms, which were partly offset by slight growth in interest-bearing debt (see Table 6).

Given the developments in ordinary revenue and costs, ONP showed growth of 7.2% in 2019 Q1 (see Chart 3). The behaviour of atypical costs and revenue adversely impacted the final surplus, owing mainly to the high gains arising in the previous year, whereas this year no significant operations have taken place. This translated into a most marked decline

**GVA INCREASED ACROSS THE BOARD, WHILE EMPLOYMENT GROWTH WAS CONCENTRATED IN THE SERVICE SECTOR**

**TABLE 3**

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBI		CBQ		CBI		CBQ		CBI		CBQ		CBI		CBQ	
Rates of change (%)	2017	2018 Q1- Q4 (a)	2018 Q1	2019 Q1	2017	2018 Q1- Q4 (a)	2018 Q1	2019 Q1	2017	2018 Q1- Q4 (a)	2018 Q1	2019 Q1	2017	2018 Q1- Q4 (a)	2018 Q1	2019 Q1
<b>TOTAL</b>	<b>5.3</b>	<b>3.5</b>	<b>2.5</b>	<b>4.0</b>	<b>5.4</b>	<b>1.5</b>	<b>2.1</b>	<b>0.7</b>	<b>5.8</b>	<b>3.0</b>	<b>3.7</b>	<b>2.7</b>	<b>0.4</b>	<b>1.5</b>	<b>1.6</b>	<b>2.0</b>
<b>SIZE</b>																
Small	8.8	—	—	—	6.8	—	—	—	8.5	—	—	—	1.6	—	—	—
Medium	6.3	5.8	3.2	0.8	5.4	4.3	4.0	3.7	6.9	6.2	5.5	3.8	1.5	1.9	1.4	0.1
Large	3.7	3.5	2.5	4.1	4.5	1.5	2.0	0.6	4.3	3.0	3.7	2.7	-0.2	1.5	1.6	2.1
<b>BREAKDOWN BY ACTIVITY</b>																
Energy	-4.5	6.6	8.7	8.6	3.2	0.9	1.7	-1.4	3.3	1.0	2.3	0.0	0.1	0.1	0.6	1.4
Industry	4.7	-0.1	-7.2	4.3	3.6	0.8	1.2	-0.5	4.5	2.7	3.3	2.4	0.9	1.9	2.1	2.9
Wholesale and retail trade and accommodation & food service activities	5.8	6.1	6.6	4.7	5.3	1.2	1.7	1.1	6.4	4.2	6.5	2.3	1.0	3.0	4.7	1.2
Information and communications	3.9	1.5	1.7	0.0	3.4	2.2	2.3	1.4	3.2	2.6	2.3	0.8	-0.3	0.4	0.0	-0.6
Other activities	7.8	3.5	3.6	2.2	6.6	2.2	2.9	1.2	6.9	3.2	3.1	4.9	0.2	1.0	0.2	3.6

SOURCE: Banco de España.

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

**EMPLOYMENT GROWTH WAS DRIVEN MAINLY BY THE INCREASE IN PERMANENT STAFF**

**TABLE 4**

	Total CBQ corporations 2019 Q1	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations	871	562	309
<b>NUMBER OF EMPLOYEES</b>			
Initial situation 2018 Q1 (000s)	761	391	371
2019 Q1 / 2018 Q1	0.7	5.8	-4.8
Permanent			
Initial situation 2018 Q1 (000s)	645	346	299
2019 Q1 / 2018 Q1 (rate)	1.1	4.5	-2.7
Non-permanent			
Initial situation 2018 Q1 (000s)	116	45	72
2019 Q1 / 2018 Q1 (rate)	-2.0	16.3	-13.5

SOURCE: Banco de España.

in profit, which fell by 75.6%. Expressed as a percentage of GVA, this figure was 17.7% in March 2019, compared with 66.6% the previous year.

The aggregate rates of return stood in 2019 Q1 at very similar levels to those of the previous year. The return on investment was 3.1%, 0.1 pp down on 2018 Q1, and the return on equity was 3.9%, against 3.8% a year earlier. However, the median values for these indicators show a more positive trend, in the case both of the return on investment, which edged up from 4.2% to 4.4%, and in that of the return on equity, up 0.9 pp to 6.4% (see Table 7). This table also shows the wide dispersion in the quarterly sample, as highlighted



THE PERCENTAGE OF FIRMS CREATING EMPLOYMENT CONTINUES TO EXCEED THE PERCENTAGE SHEDDING JOBS

TABLE 5

Structure (%)	CBI (a)		CBQ			
	2016	2017	2017 Q1-Q4 (b)	2018 Q1-Q4 (b)	2018 Q1	2019 Q1
Number of corporations	508,655	461,040	991	996	1,057	871
PERSONNEL COSTS	100	100	100	100	100	100
Falling	34.4	31.9	32.6	32.5	30.8	33.2
Constant or rising	65.6	68.1	67.4	67.5	69.2	66.8
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	28.6	28.2	34.3	33.4	33.3	35.5
Constant	27.5	27.7	15.1	14.9	15.0	14.5
Rising	43.9	44.1	50.6	51.7	51.7	50.1

SOURCE: Banco de España.

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

LOWER AVERAGE FINANCING COSTS DROVE DOWN FINANCIAL COSTS

TABLE 6

Rates of change and contribution (%)	CBI	CBQ	
	2016 / 2017	2018 Q1-Q4 / 2017 Q1-Q4	2019 Q1 / 2018 Q1
<b>Change in financial costs</b>	-9.2	-5.2	-5.1
A Interest on borrowed funds	-7.4	-5.3	-6.2
1 Due to the cost (interest rate)	-6.4	-6.4	-10.0
2 Due to the amount of interest-bearing debt	-1.0	1.1	3.8
B Other financial costs	-1.8	0.1	1.1

SOURCE: Banco de España.

by the high percentage of firms that continued in 2019 to post negative values for these indicators (26.1% in the case of the return on investment and over 30% in that of the return on equity). The different behaviour of the aggregate and median data for these indicators is explained by the heavy influence of large firms on the aggregate value. On this occasion, the returns of large firms have performed more negatively than that of the returns of the rest of the CBQ firms.

The sectoral breakdown of the aggregate return on investment reveals notable heterogeneity across the different sectors. Declines were posted in wholesale and retail trade and accommodation and food service activities (of 0.7 pp, to 7.4%), and in the area encompassing the rest of the activities (of 0.3 pp to 1.1%) (see Table 8). By contrast, there were increases in the energy sector (whose returns increased by 0.7 pp to 4.1%), and in industry (an increase of 0.9 pp to 6.7%).

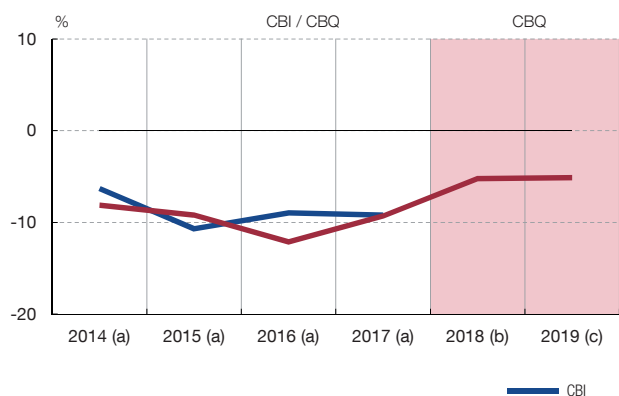
The average cost of borrowing fell by 0.2 pp in 2019 Q1 to 2.1%. This decline prompted a further widening (by 0.1 pp) of the spread between the return on investment and the cost

## AGGREGATE RETURNS REMAINED STEADY IN 2019 AND THE SPREAD OVER THE COST OF FINANCING WIDENED SLIGHTLY

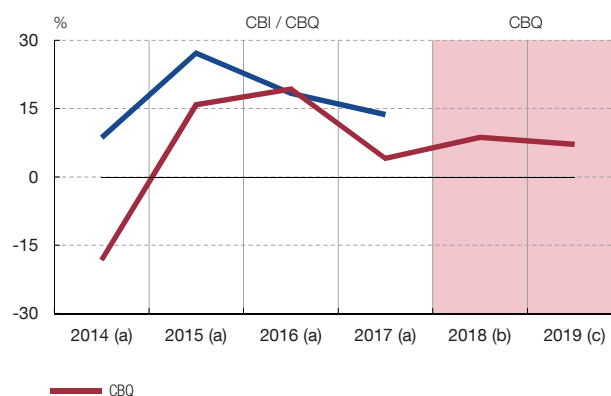
CHART 3

The dynamism of activity and the continuing decline in financial costs drove up ordinary profit. In this setting, returns held steady, but the spread between the two ratios widened slightly on account of the lower average financing costs.

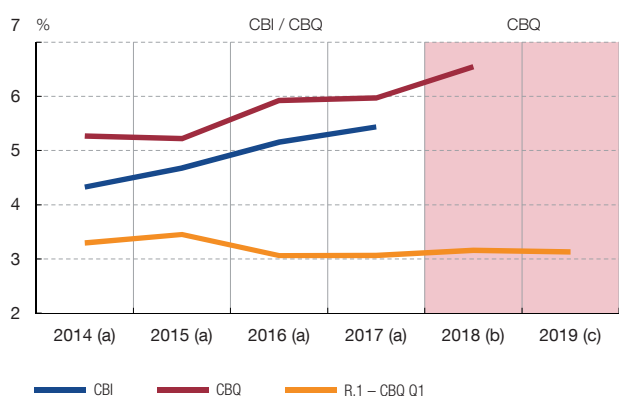
1 FINANCIAL COSTS  
Rate of change



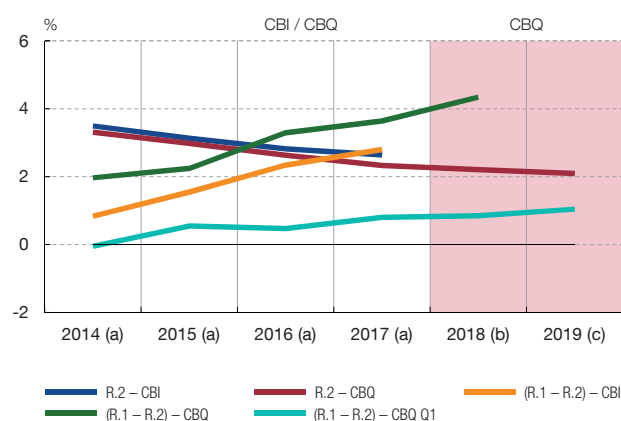
2 ORDINARY NET PROFIT  
Rate of change



3 RETURN ON INVESTMENT (R.1)  
Ratios



4 COST OF DEBT (R.2) AND ROI - COST OF DEBT (R.1-R.2)  
Ratios



Reporting non-financial corporations		2014	2015	2016	2017	2018	2019
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SOURCE: Banco de España.

- a The 2014, 2015, 2016 and 2017 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 Average of the four quarters of 2018. The rates are calculated relative to the same period of 2017.
- c 2019 Q1 data. The rates are calculated relative to the same period of 2018.

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of borrowing, to 1 pp. Nonetheless, this figure continues to be lower than that recorded in 2007, before the crisis broke.

Lastly, the E1 ratio, which measures debt as a proportion of net assets, rebounded slightly in 2019 Q1 to 43.4%, 0.6 pp up on the 2018 figure. The breakdown of the information by

MEDIAN RETURNS WERE MORE FAVOURABLE THAN THE AGGREGATE DATA SUGGEST

TABLE 7

	CBQ				
	Return on investment (R.1)		Return on equity (R.3)		
	2018 Q1	2019 Q1	2018 Q1	2019 Q1	
Number of corporations	1,057	871	1,057	871	
Percentage of corporations by profitability bracket	R <= 0%	26.5	26.1	30.3	30.1
	0% < R <= 5%	26.5	26.4	18.5	16.8
	5% < R <= 10%	15.8	14.4	11.7	11.3
	10% < R <= 15%	8.3	7.9	8.2	7.9
	15% < R	22.8	25.3	31.3	33.9
MEMORANDUM ITEM: Median return (%)	4.2	4.4	5.5	6.4	

SOURCE: Banco de España.

THE AGGREGATE RETURN ON INVESTMENT REMAINED STEADY, WITH CONSIDERABLE HETEROGENEITY BETWEEN SECTORS

TABLE 8

Rates of change and ratios (%)	Gross operating profit				Ordinary net profit				Return on investment (R.1)				ROI-cost of debt (R.1 - R.2)			
	CBI		CBQ		CBI		CBQ		CBI		CBQ		CBI		CBQ	
	2017	2018 Q1-Q4 (a)	2018 Q1	2019 Q1	2017	2018 Q1-Q4 (a)	2018 Q1	2019 Q1	2017	2018 Q1-Q4 (a)	2018 Q1	2019 Q1	2017	2018 Q1-Q4 (a)	2018 Q1	2019 Q1
<b>TOTAL</b>	<b>4.3</b>	<b>4.0</b>	<b>1.2</b>	<b>5.4</b>	<b>13.7</b>	<b>8.7</b>	<b>2.7</b>	<b>7.2</b>	<b>5.4</b>	<b>6.5</b>	<b>3.2</b>	<b>3.1</b>	<b>2.8</b>	<b>4.3</b>	<b>0.8</b>	<b>1.0</b>
<b>SIZE</b>																
Small	9.7	—	—	—	15.2	—	—	—	3.4	—	—	—	1.0	—	—	—
Medium	4.8	4.9	-3.0	-7.8	4.6	5.4	-17.7	-7.1	6.9	7.5	4.4	4.3	4.2	5.4	2.2	2.5
Large	2.9	4.0	1.2	5.4	14.1	8.8	2.9	7.2	6.0	6.5	3.2	3.1	3.3	4.3	0.8	1.0
<b>BREAKDOWN BY ACTIVITY</b>																
Energy	-7.9	9.0	11.7	11.7	-2.6	8.5	31.6	34.7	5.3	5.1	3.4	4.1	2.4	2.7	1.0	2.2
Industry	5.0	-3.1	-19.1	6.8	6.8	-1.4	-34.0	-1.7	8.7	9.7	5.8	6.7	5.9	7.2	3.6	4.3
Wholesale & retail trade and accommodation & food service activities	4.5	9.2	6.8	8.6	4.6	16.6	12.4	4.0	8.6	15.9	8.1	7.4	6.1	14.1	6.4	5.5
Information and communications	4.6	0.9	1.3	-0.5	7.1	1.2	5.1	-2.2	12.0	17.0	14.2	14.3	9.6	15.7	12.9	13.4
Other activities	10.1	4.1	4.7	-2.6	32.0	23.6	75.5	-42.5	3.9	5.0	1.4	1.1	1.3	2.8	-1.0	-1.1

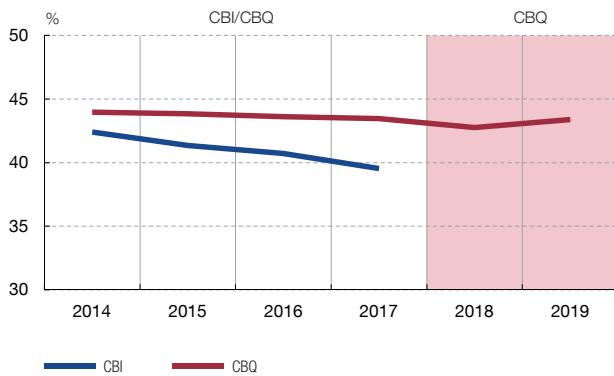
SOURCE: Banco de España.

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

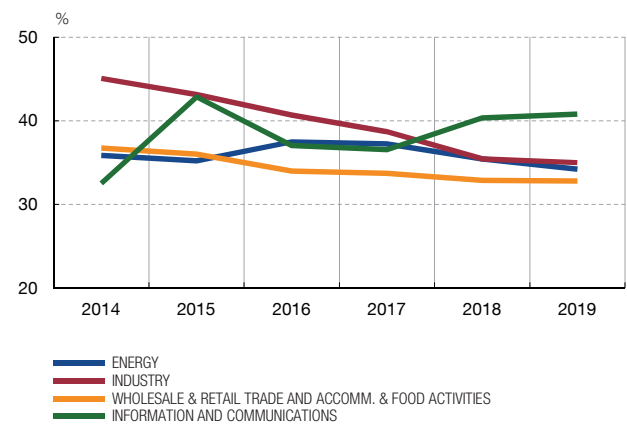
sector shows that this rise reflected the increase in the information and communication sector, which the slight falls in industry and energy were unable to offset (see Chart 4). The E2 ratio, which measures debt as a proportion of ordinary profit (obtained as the sum of GOP and financial revenue) also grew, to stand at 557% (compared with 525% in 2018 Q1). By sector, this indicator increased in energy and in information and communications, and fell slightly in wholesale and retail trade and accommodation and food service

Debt levels rose in 2019 Q1, slightly more sharply in the case of the debt to ordinary profit ratio. By contrast, the debt burden ratio continued to decline, albeit more moderately than in previous years.

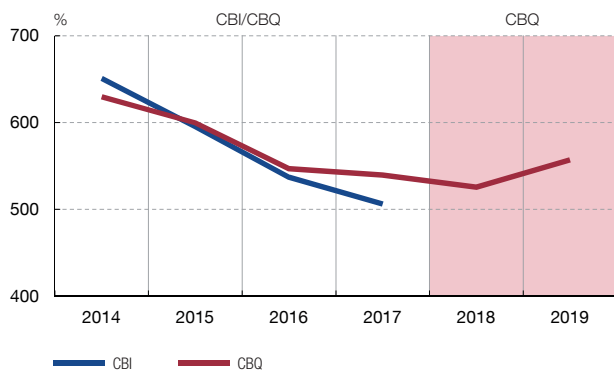
1 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)  
TOTAL CORPORATIONS  
Ratios



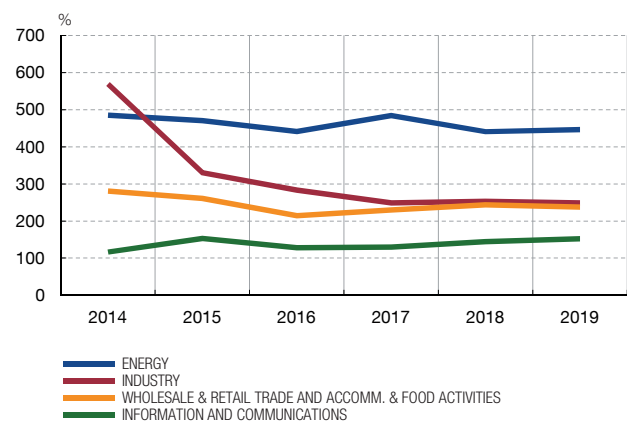
2 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)  
BREAKDOWN BY SECTOR. CBQ



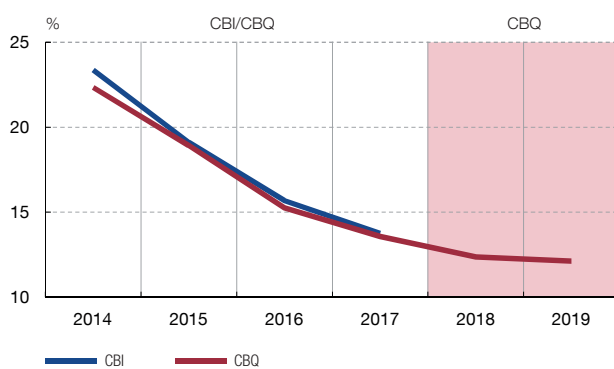
3 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)  
TOTAL CORPORATIONS  
Ratios



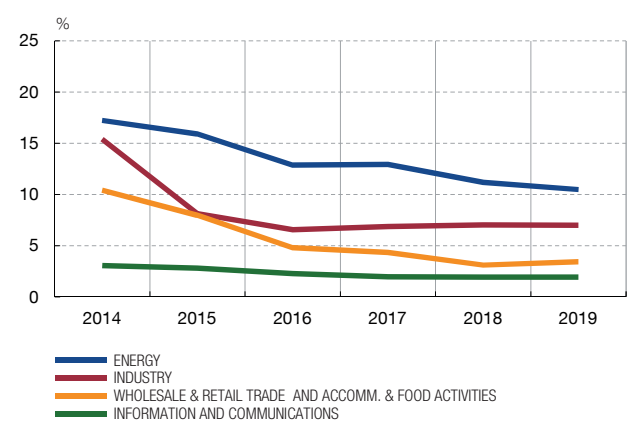
4 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)  
BREAKDOWN BY SECTOR. CBQ



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



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



SOURCE: Banco de España.

- a Ratio calculated from final balance sheet figures. Equity includes an adjustment to current prices.
- b 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.



activities, holding practically stable in industry. The ratio that measures the interest burden fell by 0.2 pp in 2019 to 12.2%, which was due both to the decline in financial costs and to the increase in ordinary profit. The sectoral breakdown shows a declining trend in energy and relative stability in the other sectors.

20.6.2019.

The CBQ sample allows analysis of the recent behaviour of the non-financial corporations sector. But it is centred on large corporations and lacks information on the SMEs segment. By contrast, in the SAFE (Survey on the Access to Finance for Enterprises), a qualitative survey conducted every six months by the ECB on a sample of non-financial corporations in the euro area, 90% of the firms are small or medium-sized. This box harnesses the information provided by the SAFE to analyse certain aspects relating to the recent economic situation of Spanish SMEs.<sup>1</sup> This information would thus complement the view offered by the CBQ<sup>1</sup> sample for large corporations up to 2019 Q1.

According to the SAFE, Spanish SMEs' sales and profits show a strongly procyclical profile. During the crisis, the percentage of firms reporting increases in their sales/profits was clearly lower than that of firms undergoing declines (in 2012, in net terms, almost 50% of firms reported declines in their sales, and more than 60% reductions in their profits). This trend progressively reversed with the start of the economic recovery and, in 2014 in the case of turnover and a year later in that of profits, the proportion of SMEs reporting increases in these variables exceeded the proportion of those reporting the opposite (see Chart 1). The latest data, covering the period from October 2018 to March 2019, show some easing in the buoyancy of sales; that said, the recorded value is in line with the average for recent years. By contrast, in the case of profits, it is seen how, for the first time since 2015, the number of Spanish SMEs at which profits fell exceeded the number of those perceiving the opposite, with a net negative percentage of -4% being recorded.

<sup>1</sup> See Box 7 ("Recent developments in access by Spanish SMEs to external financing according to the ECB half-yearly survey") of the forthcoming "Quarterly report on the Spanish economy", to be published on 27 June

Chart 1  
SALES AND PROFIT (a)

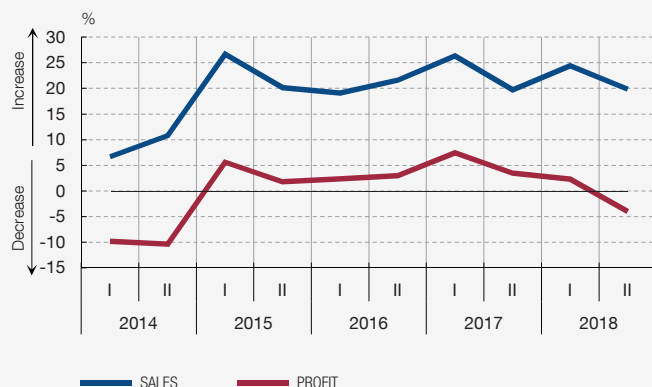


Chart 2  
DEBT TO TOTAL ASSETS) AND INTEREST EXPENSES (a)

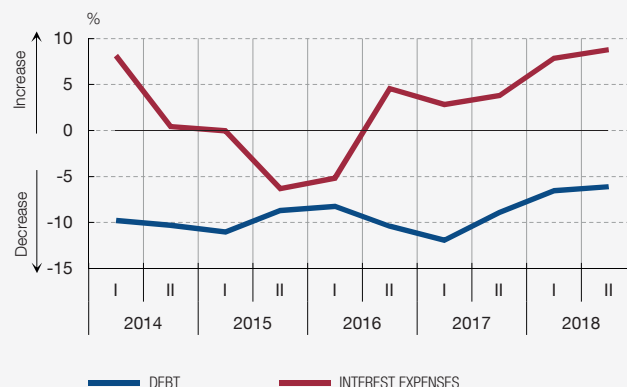


Chart 3  
SMEs WHOSE ECONOMIC SITUATION HAS IMPROVED AND WORSENEED AND THE DIFFERENCE BETWEEN THE TWO GROUPS (b)

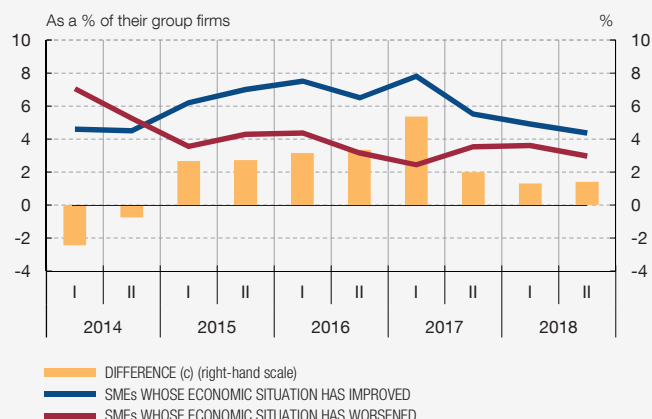
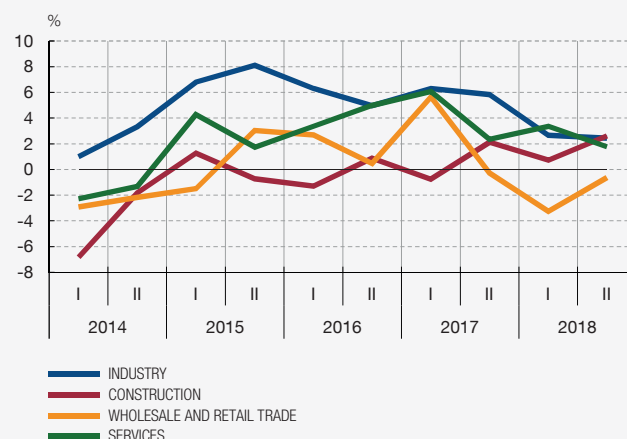


Chart 4  
DIFFERENCE BETWEEN SMEs WHOSE ECONOMIC SITUATION HAS IMPROVED AND WORSENEED. BREAKDOWN BY SECTOR (b) (c)



SOURCE: ECB.

- a Percentage of firms that report an increase minus the percentage that report a decrease.
- b Firms whose economic situation has worsened are defined as those that report, simultaneously, a drop in sales and profits, an increase in interest expenses and an increase or no change in debt. By contrast, firms whose economic situation has improved are defined as those that report an increase in sales and profits and a decline in interest expenses and debt. The gap is the difference between the two groups.
- c Percentage of firms that report an improvement minus the percentage that report a deterioration.

As to firms' financial situation, Chart 2 shows that the net percentage of SMEs reporting higher interest charges, positive since 2016, has been increasing in recent years. It stood at 9% in the recent period, the highest percentage since 2013. With regard to debt, the SAFE suggest that most Spanish SMEs have deleveraged in the past five years. However, this process appears to have slackened as from 2017, meaning that the net percentage of firms whose debt has fallen in the recent period is the lowest recorded by this survey since 2013.

Combining the information on the four foregoing variables, it is possible to calculate a composite indicator of each SME's economic and financial situation. Such situation would be considered to have improved if, in the same period, the SME were to report an increase in its sales and profits, and a decline in its interest charges and level of debt. Conversely, if it reported lower sales and profits, and higher interest on debt, its economic and financial situation would be deemed to have worsened. As Chart 3 shows, the year 2015 was the first, following the crisis, in which the percentage of SMEs with an improved economic and financial situation exceeded that of firms

showing a deterioration. This difference has progressively risen in the following years, reaching a peak of 5.4% in 2017. Thereafter, there has been a progressive narrowing of the distance between both groups, standing at only 1.4% in the most recent period. This has been due both to a slight increase in SMEs whose economic and financial situation has worsened and, above all, to the reduction in the number of firms for which this situation has improved. Finally, the breakdown by sector reveals that the decline in the difference was practically across all sectors, except in construction. This was the sole sector to have improved on its 2017 level. Of particular note is the decline in the difference in the wholesale and retail trade, which fell from a peak of 5.6% in 2017 to -0.6% in the period from October 2018 to March 2019.

In sum, the latest SAFE data show a somewhat less favourable trend in SMEs' sales and profits, against a background in which the proportion of these firms with higher interest charges and a higher level of debt increased. The upshot of these developments was a decline in the proportion of SMEs reporting, overall, an improvement in their economic and financial situation.