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Results of non-financial corporations to 2017 Q4: preliminary year-end data

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Non-financial corporations continued to create employment in 2017, with the trend extensive to all sectors according to the CBSO quarterly sample. As to business activity, although both gross value added and ordinary net profit continued to grow, they did so at a more moderate pace than the previous year, largely owing to the negative performance of certain large corporations with a high weight in the quarterly sample. The non-recurrent items had an unfavourable impact on the final surplus, leading it to shrink significantly. Lastly, the returns on ordinary activities rose and the debt and debt burden ratios declined, suggesting a further improvement in firms' economic and financial situation. The article also analyses recent developments in trade credit, where there was evidence last year of a pick-up in this financing arrangement, accompanied by reductions in average payment and collection periods.

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2017 Q4: PRELIMINARY YEAR-END DATA

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Overview[1]

The information compiled by the Central Balance Sheet Data Office Quarterly Survey (CBQ) shows that firms' activity continued expanding in 2017, albeit at a more moderate pace than the previous year. Hence, during this period, GVA for the sample as a whole grew, in nominal terms, by 1%, compared with the 3.4% increase posted in 2016. However, as had been the case in previous quarters, aggregate GVA was influenced adversely by the unfavourable performance last year of certain very large corporations with a notable weight in this sample, concentrated above all in the energy sector, where a narrowing of commercial margins was observed against a background of rising production costs. Excluding the energy sector, GVA grew more sharply, by 3.8%, though down on the increase in this same aggregate the previous year (4.2%). Further, the median for the distribution of this variable, with an increase of 3%, also evidences a more favourable trend than that inferred by the aggregate figure.

Employment held on a clearly positive path in 2017 with an increase of 2.2%, 0.8 pp up on a year earlier. By type of contract, it was temporary employment that grew most sharply (6.8%), although permanent employment also increased (1.2%).

Ordinary net profit (ONP) grew in 2017 by 7.4%, a rate more moderate, nonetheless, than that of the previous year (17%). Assisting the increase in this surplus was the rise in financial revenue, which increased by 11.7 %, thanks above all to higher dividends received, and to lower financial costs, which fell by 11.8% as a result of the continuing declining trend of the average costs of external financing in recent years. Extraordinary costs and revenue had an adverse impact on final profit, leading this latter variable to record a fall of 23.8% in 2017.

The course of ordinary profits enabled ordinary profitability ratios to grow slightly in 2017 relative to the levels attained the previous year. And this, combined with the decline in the average cost of financing, led the spread between the two related ratios to widen to 3.5 pp, 0.4 pp up on the previous year.

Finally, reporting firms' borrowed funds fell slightly in 2017, year-on-year, which translated into a slight decline in the debt-to-assets ratio (E1). Both the debt-to-operating profit ratio (E2) and the debt burden ratio, which is calculated as the ratio of financial costs to operating profit, also moved on a declining course in 2017, though more markedly so than in the case of the E1 ratio. This is due both to the expansion of operating profit, which is the denominator of both indicators, and – in the second case – to the decline in financial costs (the numerator of the debt burden ratio). As a result, the average degree of financial pressure borne by Spanish firms has fallen once again last year.

Activity

The CBQ information for 2017 shows a continuation of the growth trend of business activity, albeit at a more moderate rate. Specifically, GVA increased by 1% in this period,

1 This article draws on the information on the 944 firms which, to 14 March, had reported their data to the CBQ. This sample represents, in terms of GVA, 12.8% of the total for the non-financial corporations sector, according to the information furnished by National Accounts.

compared with 3.4% a year earlier (see Table 1 and Chart 1). The scale of this slowdown is, however, greatly influenced by the negative performance of certain large corporations, highly concentrated in the energy sector. Excluding this sector, GVA grew by 3.8%, a rate that nevertheless remains somewhat down on that recorded a year ago by this same aggregate (4.2%).

This performance came about in a setting of greater buoyancy of trading activity, reflected in a 7.4% increase in turnover. In line with these developments, customer and supplier balances rose, while average collection and payment periods declined (see Box 1). Domestic demand grew more sharply than external demand, meaning that both sales and purchases in Spain gained somewhat in weight relative to the total for both headings, standing in 2017 at 79.4% and at 70.2%, respectively, some tenths of a percentage point up on 2016 (see Table 2).

A more detailed sector-by-sector analysis shows that in most, excepting energy, increases in GVA of varying intensity were recorded (see Table 3). The surplus in the energy sector fell by 9.6%, against the background of a strong rise in production costs that did not feed through to sales prices. In industry, GVA climbed 4.7%, less sharply than in 2016 (6.6%), with a degree of heterogeneity being observed across the different sub-sectors. Thus, while in some, such as the manufacture of mineral and metallic products, chemicals and other manufacturing, it grew strongly (9.2%, 10.3% and 9.4%, respectively), in others such as food, beverages and tobacco, and the manufacture of computer and electronic products and of electrical material and equipment, significant declines were posted (5.3% and 4.5%, respectively). In the wholesale and retail trade and accommodation and food services activities sector the increase was moderate (1.5%), slightly down on the previous year (1.7%). The information and communication sector performed positively in 2017, with a 3.7% increase in GVA. Finally, in the group aggregating other activities, there was a rise of 4.9%, assisted in particular by the sound performance of firms in the transport sector.

Chart 2, which offers the distribution of firms in terms of GVA growth, shows that 2017 saw lower growth rates, both in the median and in the outermost percentiles, suggesting an across-the-board tendency towards somewhat lower values than a year earlier. Also, the median of the distribution, which stood at 3%, is far above the value obtained from the sample as a whole (1%), reflecting the fact that this latter value was adversely influenced, as earlier indicated, by the less favourable performance of certain large corporations.

Employment and personnel costs

Personnel costs increased by 2.4% in 2017 (see Table 3). The growth of this item is mainly as a result of the favourable performance of employment, in a setting in which average compensation edged up very slightly (0.2%).

The growth of employment in 2017 was 2.2%, up significantly on the figure of 1.4% recorded a year earlier in this sample. The data in Table 4 reveal how in 2017 the proportion of firms increasing their staff numbers stood at 46.4%, exceeding, for the third year running, that of those destroying jobs (37.6%), with both percentages very similar to those recorded a year earlier.

Analysis by type of contract shows that the recovery in employment continues to be sharper among temporary jobs, which grew by 6.8% (see Table 5). Permanent jobs also increased, albeit less markedly at a rate of 1.2%, which is nevertheless the highest such growth in the CBQ sample for this type of contract since 2007.

PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES AND PROFIT RATIOS
Growth rates of the same corporations on the same period a year earlier

TABLE 1

	CBI structure	CBI		CBQ (a)		
Databases	2016	2015	2016	2015 Q1-Q4 / 2014 Q1-Q4	2016 Q1-Q4 / 2015 Q1-Q4	2017 Q1-Q4 / 2016 Q1-Q4
Number of corporations		660,336	500,398	986	982	944
Total national coverage (% of GVA)		49.7	41.3	14.0	13.9	12.8
PROFIT AND LOSS ACCOUNT						
1 VALUE OF OUTPUT (including subsidies)	100.0	2.8	1.6	-4.0	-0.7	5.9
Of which:						
Net amount of turnover and other operating income	*146.5*	*1.7*	*0.5*	*-2.4*	*-3.6*	*7.4*
2 INPUTS (including taxes)	63.4	0.6	-0.2	-8.5	-2.7	8.3
Of which:						
Net purchases	*40.4*	*-1.3*	*-0.2*	*-13.8*	*-1.1*	*11.7*
Other operating costs	*23.2*	*4.0*	*0.6*	*4.3*	*-2.9*	*-0.3*
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	36.6	6.9	4.9	6.3	3.4	1.0
3 Personnel costs	23.2	3.7	4.3	2.2	0.7	2.4
S.2 GROSS OPERATING PROFIT [S.1 – 3]	13.5	13.7	6.0	11.0	6.2	-0.4
4 Financial revenue	3.6	-9.9	2.4	-13.7	1.7	11.7
5 Financial costs	2.9	-10.0	-8.7	-10.3	-12.6	-11.8
6 Depreciation, impairment and operating provisions	5.6	1.9	1.3	0.2	-0.3	1.4
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	8.5	25.6	14.0	16.9	17.0	7.4
7 Gains (losses) from disposals and impairment	0.6	—	—	—	—	—
7' As a percentage of GVA (7 / S.1)		-5.5	1.6	-12.1	14.9	-4.4
8 Changes in fair value and other gains (losses)	-0.3	—	61.9	-77.8	19.5	40.1
8' As a percentage of GVA (8 / S.1)		-1.0	-0.7	-4.9	-3.8	-1.6
9 Corporate income tax	2.4	19.4	—	—	—	-50.0
S.4 NET PROFIT [S.3 + 7 + 8 - 9]	6.4	-14.1	56.6	-53.2	182.0	-23.8
S.4' As a percentage of GVA (S.4 / S.1)		10.0	17.5	10.9	33.6	24.9
PROFIT RATIOS	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / NA	4.6	4.9	5.3	5.8	5.9
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / IBB	3.2	2.8	3.0	2.7	2.4
R.3 Ordinary return on equity (before taxes)	S.3 / E	5.7	6.3	7.1	8.2	8.6
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	1.5	2.1	2.3	3.1	3.5
MEMORANDUM ITEM: TOTAL SAMPLE WITHOUT ENERGY SECTOR						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]		7.6	5.4	8.9	4.2	3.8
S.2 GROSS OPERATING PROFIT [S.1 – 3]		16.8	7.3	18.8	8.6	5.4

SOURCE: Banco de España.

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).

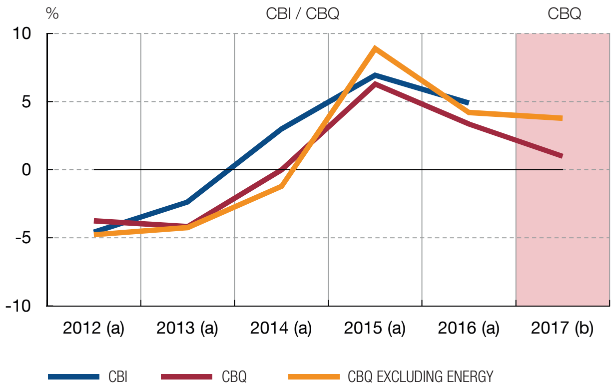
NOTE: In calculating rates, internal accounting movements have been edited out of items 4, 5, 7 and 8.

A more detailed sectoral breakdown shows that the favourable performance of employment affected all sectors, albeit with differing intensity. The most moderate increase was in the information and communication sector (0.2%); however, this rate was in contrast to the decline of 3.5% a year ago. In industry, employment rose by 1.5%, slightly below the related 2016 figure (1.9%). Sharper increases were recorded in the

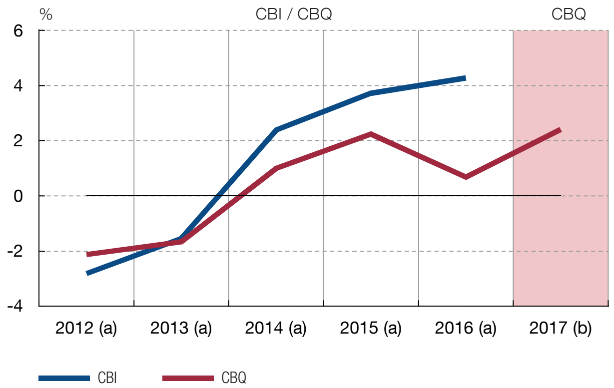
NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE

CHART 1

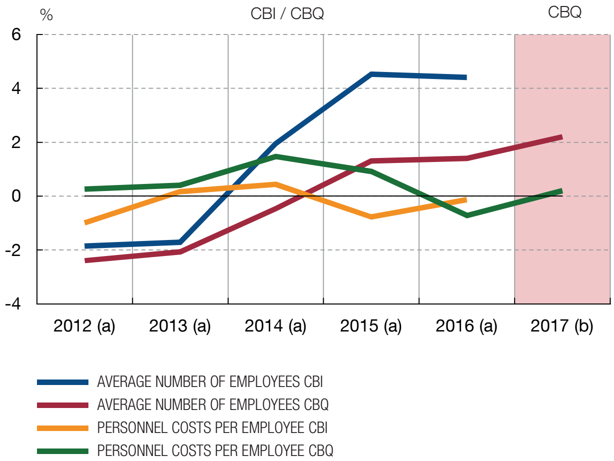
1 GROSS VALUE ADDED AT FACTOR COST
Rate of change



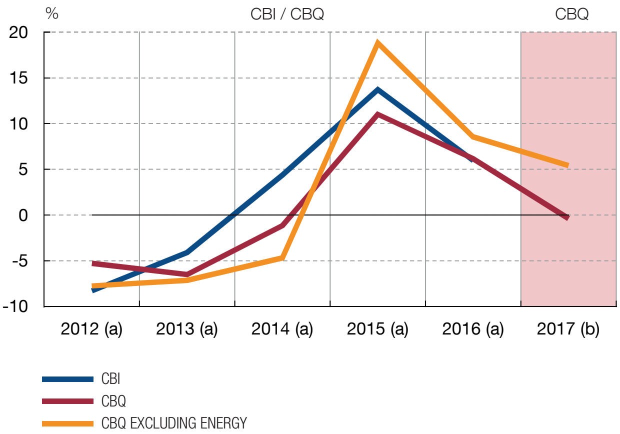
2 PERSONNEL COSTS
Rate of change



3 EMPLOYMENT AND WAGES
Rate of change



4 GROSS OPERATING PROFIT
Rate of change



Reporting non-financial corporations		2012	2013	2014	2015	2016	2017
Number of corporations	CBI	629,926	627,102	688,853	660,336	500,398	—
	CBQ	840	842	888	986	982	944
% of GVA of the sector non-financial corporations	CBI	47.9	48.0	49.9	49.7	41.3	—
	CBQ	12.2	11.9	13.4	14.0	13.9	12.8

SOURCE: Banco de España.

a The 2012, 2013, 2014, 2015 and 2016 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 2017 relative to the same period in 2016.

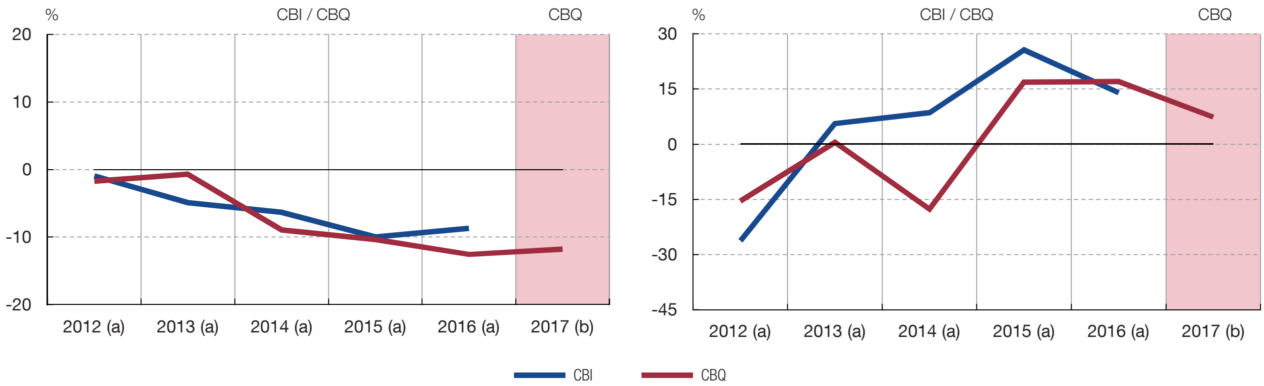
other sectors, at over 2% in all cases and exceeding the rates of increase of the previous year. Thus, in energy, there was an increase of 2.1%; in the sector aggregating other activities, 2.6%; and in the wholesale and retail trade and accommodation and food services activities sector, 2.7%.

Average compensation grew slightly in 2017 by 0.2% (see Table 3), compared with the decline of 0.7% a year earlier. However, this aggregate figure is the outcome of sector-by-sector developments that are somewhat uneven. Hence, while average cost per employee in the information and communication sector fell by 0.6%, in industry they increased by 1.3%. In the other sectors the changes were less significant, hovering between 0% and 0.6%.

NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE (cont'd) CHART 1

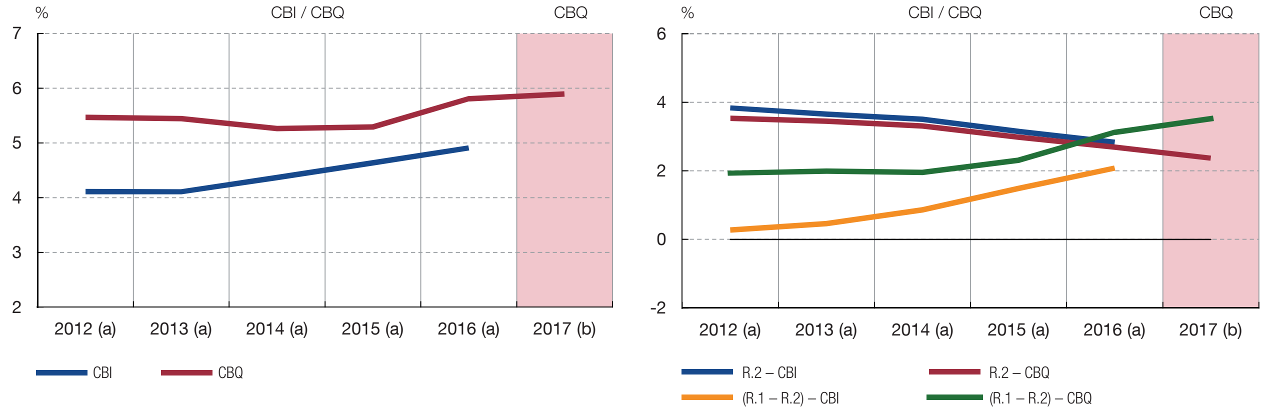
5 FINANCIAL COSTS
Rate of change

6 ORDINARY NET PROFIT
Rate of change



7 RETURN ON INVESTMENT (R.1)
Ratios

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



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	CBQ	12.2	11.9	13.4	14.0	13.9	12.8

SOURCE: Banco de España.

a The 2012, 2013, 2014, 2015 and 2016 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 2017. The rates are calculated relative to the same period in 2016.

Profit, rates of return and debt

The CBQ information shows that Gross Operating Profit (GOP) fell slightly by 0.4% in 2017, compared with the 6.2% increase recorded a year earlier. As indicated, the latest developments have been much influenced by the contractionary behaviour of certain large corporations, concentrated in the energy sector. Thus, if this sector were excluded, GOP would have increased by 5.4% (see Table 1 and Chart 1).

The trend of GOP in 2017 was highly uneven. In the energy and in the wholesale and retail trade and accommodation and food services activities sectors there were respective declines of 14.1% and 1.4%, while in the remaining sectors there were increases of varying intensity (see Table 6).

PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING SOURCES AND SALES DESTINATIONS **TABLE 2**
Structure and rate of change, percentages

		CBA		CBQ (a)	
		2015	2016	2016 Q1-Q4	2017 Q1-Q4
Total corporations		8,630	8,630	944	944
Corporations reporting source/destination		8,630	8,630	871	871
Percentage of net purchases according to source	Spain	65.6	65.3	69.1	70.2
	Total abroad	34.4	34.7	30.9	29.8
	EU countries	18.5	19.3	21.3	20.2
	Third countries	15.9	15.4	9.6	9.6
Percentage of net turnover according to destination	Spain	76.7	76.3	78.9	79.4
	Total abroad	23.3	23.7	21.1	20.6
	EU countries	14.9	15.4	14.9	14.2
	Third countries	8.4	8.2	6.2	6.4
Change in net external demand (exports less imports), rate of change	Industry	29.5	9.2	5.7	3.5
	Other corporations	49.3	18.3	-62.7	-67.6

SOURCE: Banco de España.

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

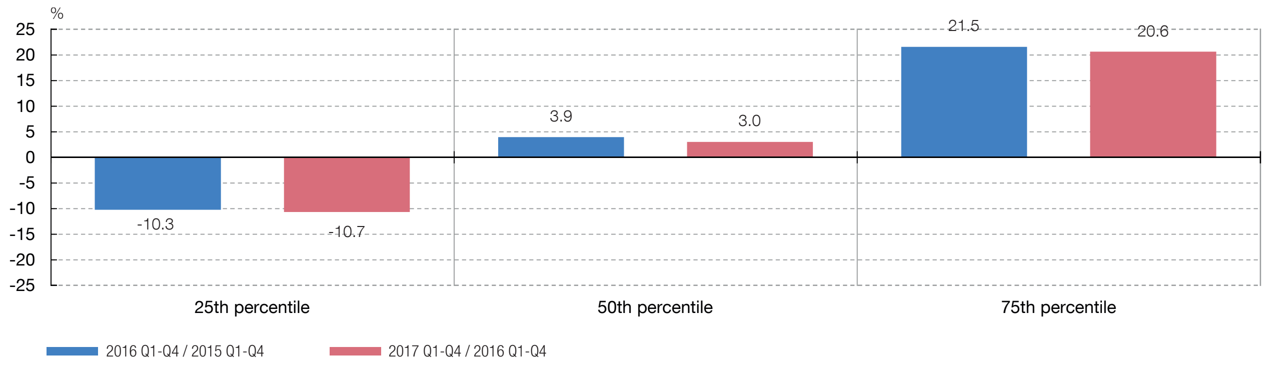
	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)	
	2015	2016	2016 Q1-Q4	2017 Q1-Q4	2015	2016	2016 Q1-Q4	2017 Q1-Q4	2015	2016	2016 Q1-Q4	2017 Q1-Q4	2015	2016	2016 Q1-Q4	2017 Q1-Q4
Total	**6.9**	**4.9**	**3.4**	**1.0**	**4.5**	**4.4**	**1.4**	**2.2**	**3.7**	**4.3**	**0.7**	**2.4**	**-0.8**	**-0.1**	**-0.7**	**0.2**
SIZE																
Small	8.1	8.1	—	—	5.7	6.5	—	—	4.9	7.4	—	—	-0.8	0.8	—	—
Medium	6.5	6.4	3.5	6.6	4.6	4.4	3.2	5.5	4.6	5.4	4.2	5.8	0.0	0.9	1.0	0.3
Large	6.5	3.6	3.4	0.9	3.7	3.0	1.4	2.1	3.0	2.7	0.6	2.4	-0.6	-0.3	-0.7	0.2
BREAKDOWN BY ACTIVITY																
Energy	0.3	-0.6	0.0	-9.6	0.6	2.1	0.9	2.1	0.9	0.0	-1.4	2.3	0.4	-2.1	-2.3	0.2
Industry	11.0	4.8	6.6	4.7	3.4	3.4	1.9	1.5	2.8	4.2	2.7	2.8	-0.6	0.7	0.8	1.3
Wholesale and retail trade and accommodation & food service activities	7.9	6.7	1.7	1.5	4.4	4.8	2.3	2.7	4.3	5.2	2.0	3.3	-0.1	0.4	-0.4	0.6
Information and communications	2.7	4.3	3.1	3.7	5.2	2.0	-3.5	0.2	2.5	1.0	-2.4	-0.5	-2.6	-1.0	1.2	-0.6
Other activities	6.3	5.3	5.0	4.9	5.3	5.0	1.6	2.6	4.4	4.8	0.4	2.6	-0.8	-0.2	-1.2	0.0

SOURCE: Banco deEspaña.

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

PERCENTILES OF THE DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE IN GROSS VALUE ADDED

CHART 2



SOURCE: Banco de España.

PERSONNEL COSTS AND EMPLOYEES
Percentage of corporations in specific situations

TABLE 4

	CBI (a)			CBQ (b)		
	2014	2015	2016	2015 Q1-Q4	2016 Q1-Q4	2017 Q1-Q4
NUMBER OF CORPORATIONS	499,417	480,109	369,953	986	982	944
PERSONNEL COSTS	100	100	100	100	100	100
Falling	41.2	39.6	34.4	35.8	38.2	32.7
Constant or rising	58.8	60.4	65.6	64.2	61.8	67.3
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	32.3	30.9	28.6	39.2	37.6	37.6
Constant	29.6	26.1	27.8	15.6	15.4	16.0
Rising	38.1	43.0	43.6	45.2	47.0	46.4

SOURCE: Banco de España.

a. To calculate these percentages, corporations that did not have any staff in 2014 and in 2015 were excluded.
b. Weighted average of the relevant quarters for each column.

EMPLOYMENT

TABLE 5

		Total CBQ corporations 2017 Q1-Q4	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
NUMBER OF CORPORATIONS		944	626	318
NUMBER OF EMPLOYEES				
Initial situation 2016 Q1-Q4 (000s)		909	550	359
Rate 2017 Q1-Q4/ 2016 Q1-Q4		2.2	7.2	-5.5
Permanent	Initial situation 2016 Q1-Q4 (000s)	740	448	292
	Rate 2017 Q1-Q4/ 2016 Q1-Q4	1.2	4.8	-4.4
Non-permanent	Initial situation 2016 Q1-Q4 (000s)	169	102	67
	Rate 2017 Q1-Q4/ 2016 Q1-Q4	6.8	17.8	-10.0

SOURCE: Banco de España.

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND ROI-COST OF DEBT (R.1–R.2). BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS

TABLE 6

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)	
	2015	2016	2016 Q1-Q4	2017 Q1-Q4	2015	2016	2016 Q1-Q4	2017 Q1-Q4	2015	2016	2016 Q1-Q4	2017 Q1-Q4	2015	2016	2016 Q1-Q4	2017 Q1-Q4
Total	**13.7**	**6.0**	**6.2**	**-0.4**	**25.6**	**14.0**	**17.0**	**7.4**	**4.6**	**4.9**	**5.8**	**5.9**	**1.5**	**2.1**	**3.1**	**3.5**
SIZE																
Small	19.9	10.2	—	—	66.0	18.0	—	—	2.8	3.0	—	—	-0.1	0.4	—	—
Medium	11.8	9.1	2.2	8.2	29.9	13.6	4.5	19.2	6.5	6.9	6.9	7.5	3.3	4.1	4.6	5.4
Large	12.3	4.8	6.2	-0.4	19.4	13.3	17.1	7.3	5.1	5.4	5.8	5.9	1.9	2.5	3.1	3.5
BREAKDOWN BY ACTIVITY																
Energy	0.1	-0.9	0.6	-14.1	11.9	16.7	22.2	-13.9	5.0	5.5	5.7	5.2	1.4	2.4	2.8	2.6
Industry	28.1	5.8	11.2	6.7	41.3	13.0	17.4	4.1	7.7	8.3	9.6	10.2	4.6	5.5	7.2	7.4
Wholesale & retail trade and accommodation & food service activities	17.9	10.3	1.4	-1.4	32.5	23.6	16.1	2.2	7.3	8.0	13.0	12.7	4.0	5.2	10.8	10.7
Information and communications	2.9	7.8	6.7	6.3	0.7	27.6	24.2	7.3	10.5	11.8	18.4	17.5	8.1	9.7	16.7	15.9
Other activities	12.1	6.8	14.3	8.6	10.3	6.5	4.7	28.2	3.1	3.1	3.9	4.1	0.0	0.3	1.1	1.7

SOURCE: Banco de España.

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

Financial revenue grew by 11.7% in 2017, driven by the increase in dividends received (16.7%). Financial costs, for their part, continued to fall (down 11.8% in this case), holding on a declining trend for the sixth year running. This was essentially the outcome of lower average financing costs, while interest-bearing debt had a residual impact (see Table 7).

The favourable performance of financial revenue and costs boosted the increase in GOP, which grew by 7.4%, a rate nevertheless down on that of the previous year (17%). Extraordinary costs and revenue had an adverse impact on the final surplus, owing chiefly to the fact that whereas in 2016 certain firms recorded sizeable gains on sale transactions and income from the reversal of impairments, in 2017 capital losses and value-adjustment expenses were recorded, in all cases in association with financial assets. That led to profit for the year falling by 23.8% which, expressed as a percentage of GVA, placed it at 24.9%, almost 9 pp down on the previous year.

The rise in ordinary profits enabled the aggregate ordinary profit ratios to grow somewhat in 2017. Specifically, the return on investment ratio stood at 5.9%, compared with 5.8% the previous year, and the return on equity ratio rose by 0.4 pp to 8.6%. The information in Table 8, which shows the distribution of firms in terms of their profitability ratios, evidences a slight increase in the number of firms in the higher-profitability segments (higher than 5%), and an increase in the median values of this indicator, an increase which was even sharper than that observed with the aggregate data. In any event, this table also reveals how somewhat more than 20% of the reporting firms still posted negative profitability ratios.

As regards the breakdown of profitability by sector, the performance was uneven in 2017. Thus, some sectors posted moderate increases in this indicator, such as industry (up from

FINANCIAL COSTS
Percentages

TABLE 7

	CBI	CBQ	
	2016/2015	2016 Q1-Q4 / 2015 Q1-Q4	2017 Q1-Q4 / 2016 Q1-Q4
Change in financial costs	-8.7	-12.6	-11.8
A Interest on borrowed funds	-10.7	-12.4	-10.9
1 Due to the cost (interest rate)	-10.2	-9.4	-11.1
2 Due to the amount of interest-bearing debt	-0.5	-3.0	0.2
B Other financial costs	2.0	-0.1	-0.9

SOURCE: Banco de España.

STRUCTURE OF REPORTING CORPORATIONS' RETURN ON INVESTMENT AND ORDINARY RETURN ON EQUITY

TABLE 8

		CBQ			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		2016 Q1-Q4	2017 Q1-Q4	2016 Q1-Q4	2017 Q1-Q4
Number of corporations		982	944	982	944
Percentage of corporations by profitability bracket	R <= 0%	23.4	23.8	27.7	26.1
	0% < R <= 5%	24.1	23.0	15.8	15.7
	5% < R <= 10%	15.1	15.6	11.5	11.3
	10% < R <= 15%	9.7	10.2	8.6	9.1
	15% < R	27.7	27.4	36.4	37.8
Memorandum item: Median return (%)		5.7	5.9	7.9	8.7

SOURCE: Banco de España.

9.6% to 10.2%) or that aggregating other activities (which was up 0.2 pp to 4.1%; see Table 6). Conversely, in others such as energy and wholesale and retail trade and accommodation and food services, profits fell by several tenths of a point, standing at 5.2% and 12.7%, respectively. Lastly, information and communication was the sector that posted the most marked decline, falling by almost 1 pp to 17.5%.

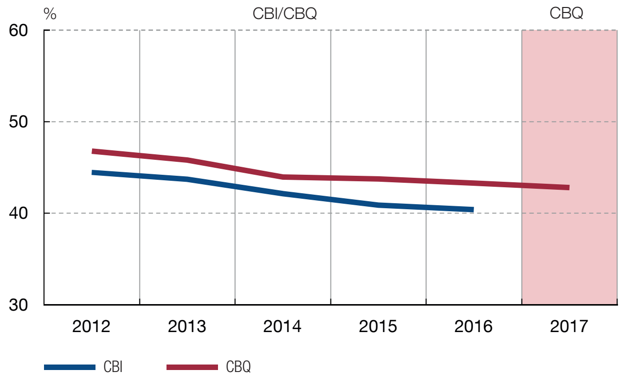
The average cost of debt decreased by 0.3 pp to 2.4% in 2017. This, in combination with the rising course of aggregate profitability, enabled the spread between both ratios to widen to 3.5 pp, 0.4 pp up on the previous year.

Lastly, financial debt fell slightly in 2017 in year-on-year terms, leading the E1 debt ratio (calculated as interest-bearing debt as a proportion of net assets) to fall somewhat in 2017 to stand at 42.8%, 0.5 pp less than the previous year (see Chart 3). Sector by sector, there was a declining trend in industry and in wholesale and retail trade and accommodation and food services, and a degree of stability both in the energy and the information and communications sectors. The E2 ratio (defined as the ratio of interest-bearing debt to the sum of GOP and financial revenue), and the ratio which measures the interest burden, fell more sharply than E1 in 2017. Behind this trend were both the increase in ordinary profits, which are the denominator of these two indicators, and, in the latter case, the decline in financial costs, the numerator of the debt burden ratio. In terms of sectors, in energy there was a decline in profits that led to a significant increase in the E2 ratio. Conversely, the debt burden continued to decline in this same sector

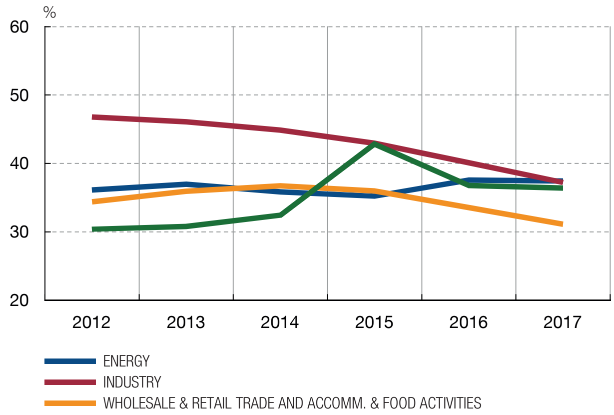
FINANCIAL POSITION RATIOS

CHART 3

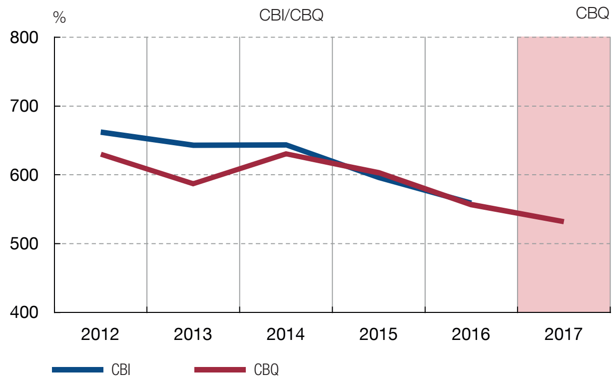
1 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
BREAKDOWN BY SECTOR. CBQ



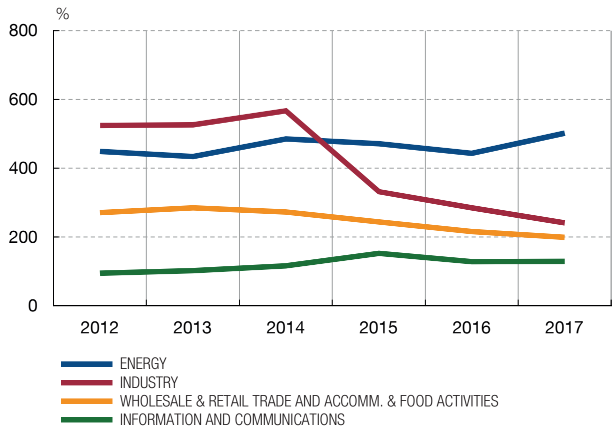
2 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
TOTAL CORPORATIONS
Ratios



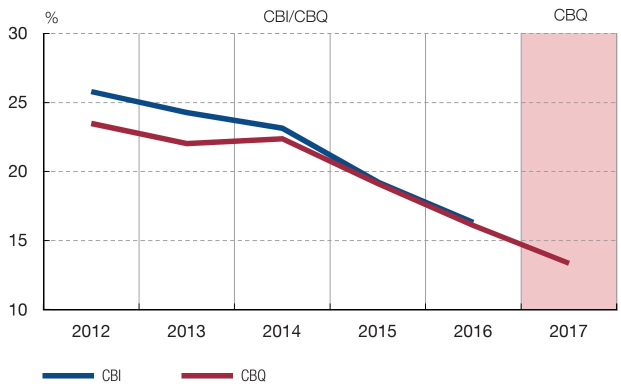
3 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)
BREAKDOWN BY SECTOR. CBQ
Ratios



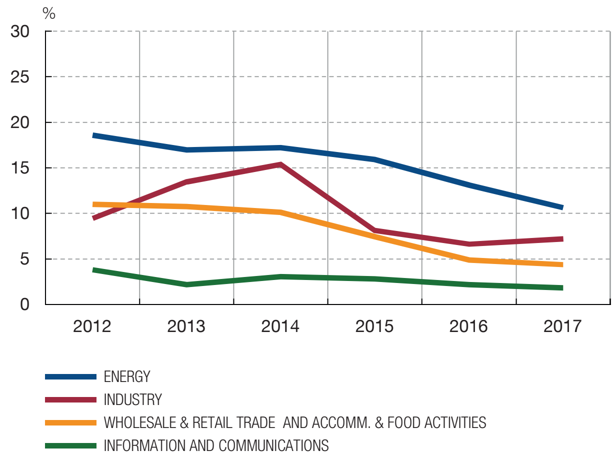
4 E2. INTEREST-BEARING BORROWING (b) / (GOP + FR) (c)
TOTAL CORPORATIONS



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



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



SOURCE: Banco de España.

a Ratio calculated from final balance sheet figures. Own funds 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).
c The expenditure and revenue included in these ratios are calculated on the basis of cumulated four-quarter amounts.

thanks to the reduction in financial costs. In the other sectors, the changes were relatively insignificant and of the opposite sign. Overall, developments in the three indicators reveal that the average degree of financial pressure borne by firms continued to decrease last year.

14.3.2018.

Trade credit is a financing instrument that arises from the deferral of payment in a transaction for the sale of goods or the provision of services. This box analyses recent developments in trade credit and in indicators that approximate the 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] These indicators can help to identify, for example, the existence of possible liquidity problems (if supplier payment periods are lengthened) or tensions associated with extensions in customer collection periods, and to assess the degree of financial pressure to which non-financial corporations are subject, which may influence their investment and hiring decisions. The analysis is based on the Central Balance Sheet Date Office's annual (CBA) and quarterly (CBQ) databases.

Charts 1 and 2 show that, since 2014, with the onset of the economic recovery, the balances of customers and suppliers have tended to be more buoyant, as a consequence of the improvement in the productive activity of non-financial corporations. This tendency is more pronounced in the case of SMEs than in that of large corporations, in line with the greater strength of the recovery among the former. In the case of large corporations, customer balances continued to contract during this expansionary period, although the declines have been moderating. With regard to the balance of suppliers of this group of firms, positive and rising growth rates began to be recorded from 2015. According to the CBQ sample of corporations, in which large corporations have a significant weight, the trend of previous years continued in 2017, with strong growth recorded in both balances.

The above-mentioned developments in trade credit have been accompanied by a reduction in SMEs' average supplier payment and customer collection periods (of around three days in both cases) from 2014 to 2016 (see Chart 3). As a result, there was an extension of the declining trend witnessed from 2009 to 2013 which, during those years, had been assisted both by the reduction in legal maximum periods and by the supplier payment plans introduced by the government in 2012.[2] At large corporations, by contrast, there has been a slight increase in the average payment period in the years of economic recovery, while collection periods have held stable. However, on the latest information from the quarterly sample, both ratios are estimated to have resumed a declining path in 2017.

The average term for net trade finance received (which indicates the number of days that the firm grants – or receives, if the figure is negative – funds, in net terms, as a result of its purchase and sale transactions)[3] highlights the fact that firms, as a whole, usually grant finance to other companies and institutional sectors. The recent course of this indicator reveals that it has held very stable throughout the period in question, with average credit-granting periods ranging from 18 to 20 days (see Chart 4). Conversely, at larger corporations, where this ratio evidences much lower values, a slightly declining trend was observed from 2013, settling in 2016 at an average fund-granting period of scarcely two days. Drawing on information from the CBQ, this trend is estimated to have continued in 2017 (see Chart 4).

As a complement to the aggregate information, it is useful to know the distribution of the net trade finance ratio in order to identify the existence of possible heterogeneities in the sample of firms. The information in Chart 5 shows that although non-financial corporations at the aggregate level grant finance to other sectors, a significant portion of them obtained funds, in net terms, as a result of their trading transactions. Thus, in terms of weight in sales, around 36% of SMEs obtained finance (a weight that held stable throughout the period of analysis), while at large corporations this proportion is comparatively higher and has increased somewhat during the years of economic recovery (from 45% in 2014 to 52% in 2016). Chart 6 offers, by firm size, the 25th and 75th percentiles of the distribution of this ratio. In the SME group, the behaviour of net trade finance, in respect both of those granting it over lengthier periods and of those who receive it, has not shown significant changes in the most recent years. In the case of large corporations, there was a decline in the lower part of the distribution (25th percentile) of four days, between 2014 and 2016, with the 75th percentile remaining practically stable. Comparing this with the situation in 2009, the heterogeneity of this indicator can be seen to have lessened somewhat in both the SME and large corporations segments.

In sum, the evidence offered in this box highlights the fact that in recent years, in line with the pick-up in firms' activity, trade finance has been more dynamic. These developments have been accompanied by fresh reductions in average collection and payment periods in the case of SMEs, furthering the trend of the preceding years. That would be a sign that liquidity tensions in this group of companies have tended to be progressively less significant. At large corporations, by contrast, these periods, which are in any event at lower levels, did not diminish between 2014 and 2016, although the latest information, drawn from the CBQ, suggests that both indicators declined in 2017.

1 Specifically, the average supplier payment period is calculated as the ratio of this variable to annual purchases, multiplied by 365. The average customer collection period is calculated in an equivalent fashion (customers over annual sales multiplied by 365).

2 With the aim of restricting supplier payment periods, a European Directive (2000/35/EC) was promulgated in 2000. It proposed means for combating late payments in trading transactions. The Directive was transposed into Spanish law by means of Law 15/2010 (amending Law 3/2004), which established, as the ultimate aim by 1 January 2013, a maximum payment period in trading transactions entered into both between companies and with the general government sector. In this connection, a transitory period was set, in which progressive reductions were set until attaining in 2013 a maximum supplier payment period of 60 days, in the case of transactions between companies, and of 30 days, if the general government sector is involved. As regards supplier payment plans, an extraordinary financing mechanism was established for the payment and settlement of trade debts incurred with suppliers of local and regional government entities, where significant delays in payments were being recorded.

3 Specifically, the average period for net trade finance granted is obtained as the difference between the balance of customers and that of suppliers, divided by total annual sales, multiplied by 365.

Chart 1
GROWTH OF CUSTOMER BALANCE

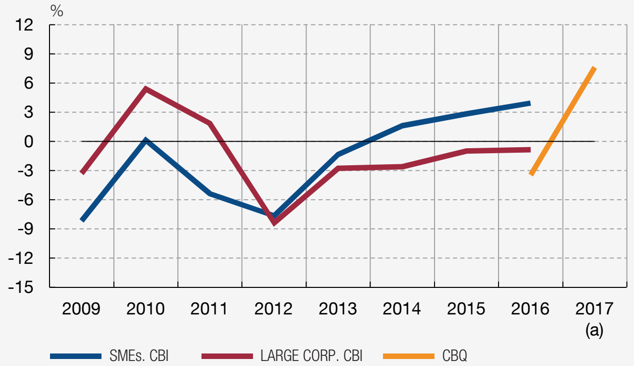


Chart 2
GROWTH OF SUPPLIERS BALANCE

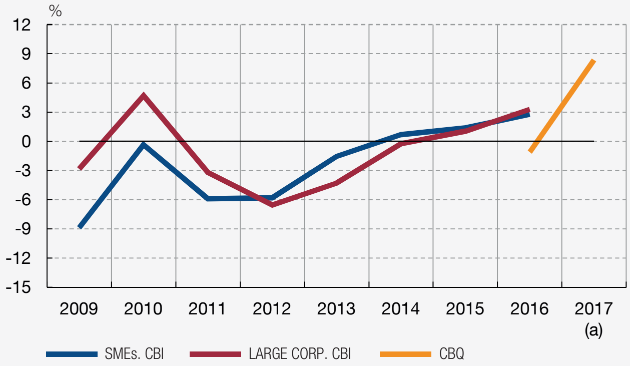


Chart 3
AVERAGE SUPPLIER PAYMENT AND CUSTOMER COLLECTION PERIOD. WEIGHTED AVERAGE (b)

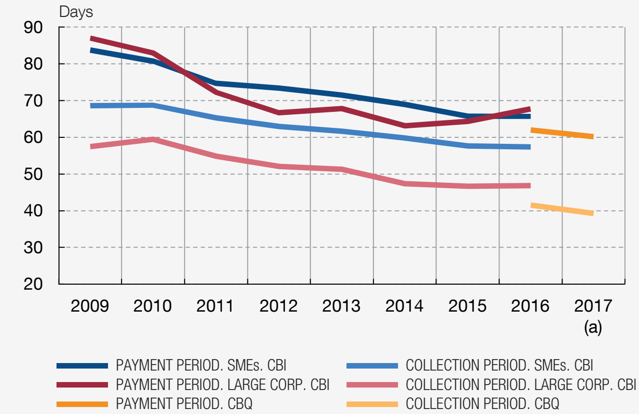


Chart 4
NET TRADE FINANCE. WEIGHTED AVERAGE (c)

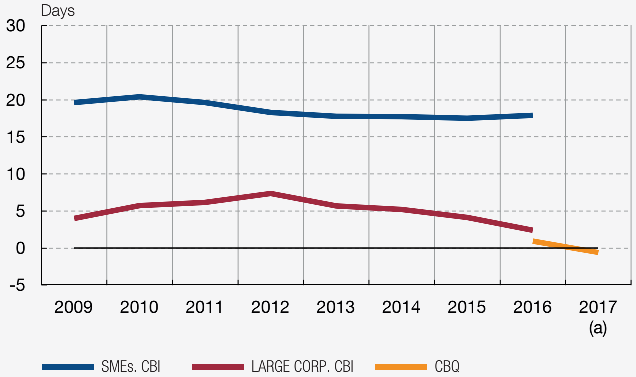


Chart 5
WEIGHT IN SALES ACCORDING TO SIGN IN NET TRADE FINANCE (c)

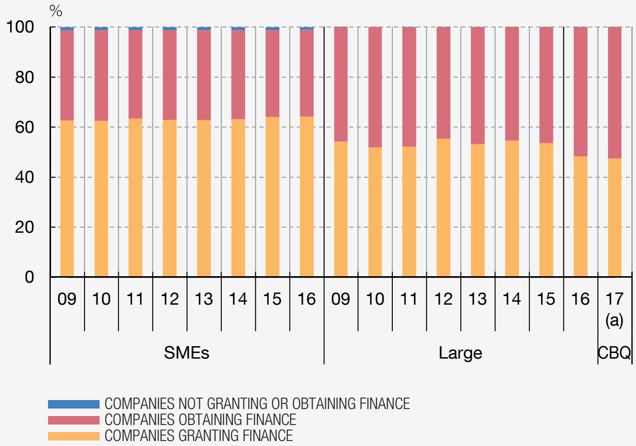
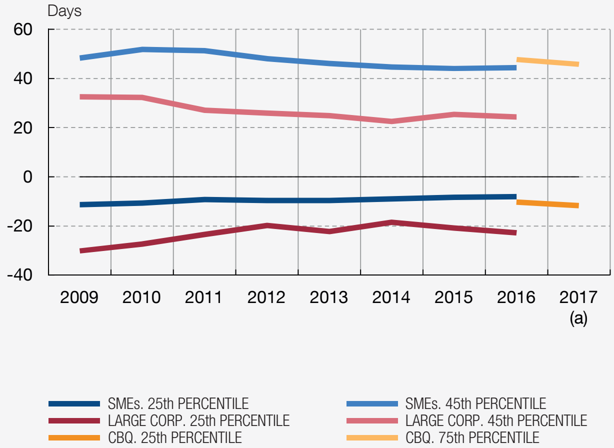


Chart 6
NET TRADE FINANCE. DISTRIBUTION (c)



SOURCE: Banco de España.

a CBQ data. Average of four quarters. In the case of Chart 5, the data are the outcome of adding, to the previous year's figure, the change in the annual average of the weight of sales.
b The supplier payment period is defined as the ratio of suppliers to annual purchases multiplied by 365. The customer collection period is defined as the ratio of customers to annual sales multiplied by 365.
c Defined as the ratio of customers minus suppliers to annual sales multiplied by 365.