

RESULTS OF NON-FINANCIAL CORPORATIONS IN 2013 AND THE FIRST THREE QUARTERS OF 2014

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Overview¹

This article presents the results for 2013, based on the sample of non-financial corporations responding to the Integrated Central Balance Sheet Data Office Survey (CBI), which includes the data reported to the Annual Survey (CBA) and the data from the accounts filed with the mercantile registries (CBB). It also analyses the latest data – for the first nine months of 2014 – obtained from the Central Balance Sheet Data Office Quarterly Survey (CBQ), a more limited sample in which large corporations are over-represented.

The CBI data for 2013 confirm the broad trends anticipated by the CBQ (see the March 2014 issue of the Economic Bulletin), especially in the case of large corporations. Thus, over the past year, and in keeping with the main macroeconomic indicators, the rate of contraction of activity eased in comparison with the previous year. More specifically, gross value added (GVA) declined by 3.1%, some two percentage points (2 pp) less than in 2012 (5.2%). This pattern was seen in almost all the sectors analysed, with a few exceptions, notably energy where activity was adversely affected by exceptional circumstances.² The breakdown by corporation size shows that the decline in the rate of contraction of GVA was more pronounced in SMEs than in large firms (see Box 1).

The CBQ data show that during the first nine months of 2014 activity continued to improve at firms in all productive sectors, except for information and communications where the contraction was greater than in the previous year. Thus, in the period to September, the overall GVA of the quarterly sample rose by 0.2% year-on-year, compared with a fall of 4.6% a year earlier.

Personnel costs declined by 2.1% in 2013, 0.7 pp less than in 2012, while in the first nine months of 2014 they rose slightly (0.4%). This increase was essentially due to the stronger employment performance, although there was no growth in average headcount between January and September owing to the particular composition of this sample, as certain large corporations that have undertaken large-scale workforce structuring account for a considerable weight. In turn, average compensation rose moderately, both in 2013 and in the first three quarters of 2014.

As a result of the performance both of productive activity and personnel costs, gross operating profit (GOP) declined in 2013 by 4.9% (approximately half the fall in 2012), and was virtually flat in the first nine months of 2014.

In turn, financial revenue rose by 9.2% in 2013 but fell by 8.9% between January and September 2014, in both cases largely as a result of the performance of dividends received.

¹ This article has been prepared on the basis of the information supplied by the CBI for 2013 and by the CBQ for the first three quarters of 2014. The 2013 data are drawn from a sample of 198,416 reporting corporations which account, in terms of GVA, for 29.5% of the sector non-financial corporations. In turn, the quarterly sample is made up of the 799 corporations that had reported information to the CBQ by 12 November 2014 and which account for 12.4% of the GVA generated by the sector, according to National Accounts figures for the period.

² In particular, the contraction in the GVA of the electricity, gas and water utilities sub-sector was mainly due to the performance of certain gas companies, whose activity was affected by the temporary shutdown of their operations in Egypt as a consequence of the geopolitical tensions in that country.

This box analyses how the activity and results of SMEs¹ evolved in 2013, the last year for which CBI data is available, with data on just under 200,000 firms.² On the basis of these data, the

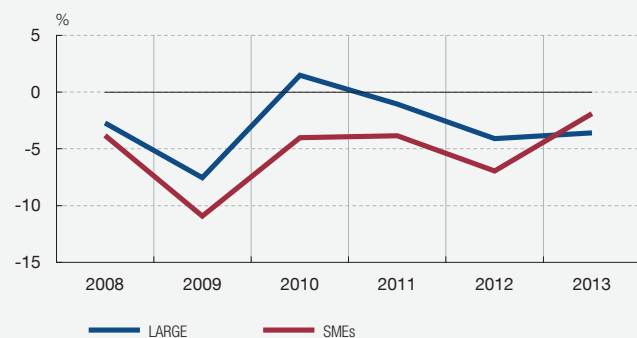
- 1 According to the criteria currently used by the Central Balance Sheet Data Office (CBSO), in keeping with the definition contained in Commission Recommendation 2003/361/EC, an enterprise is considered an SME if it has no more than 250 employees and its assets or net turnover do not exceed a certain threshold (currently €50 and €43 million, respectively). In addition, irrespective of the above criteria, neither state-owned enterprises nor firms belonging to a group that exceeds the above thresholds are considered SMEs.
- 2 The 2013 data are considered preliminary estimates, as there are still data to be included both in the CBA and the CBB; the final sample will include almost 600,000 firms.

GVA of Spanish SMEs continued to decline in 2013, although at a slower pace than in 2012. Thus GVA contracted by 1.9%, which is 5 pp less than in 2012 and the lowest rate of decline recorded since the onset of the crisis. Moreover, for the first time since 2008, the pace of decline of GVA was lower for SMEs than for large corporations (see Panel 1). This less adverse performance was seen in almost all sectors, with just a few exceptions, such as electricity and real estate activities, which were the only ones to see GVA decline at a faster pace than in the previous year.

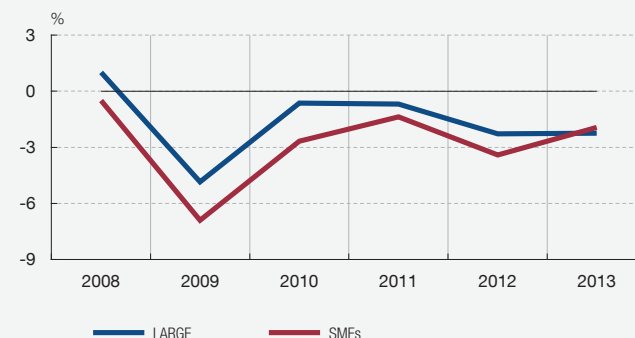
Personnel costs at SMEs fell by 2.4%, almost 1.5 pp less than in 2012 (3.8%). The explanation lies in the moderation in workforce

RESULTS OF SMALL AND MEDIUM-SIZED CORPORATIONS

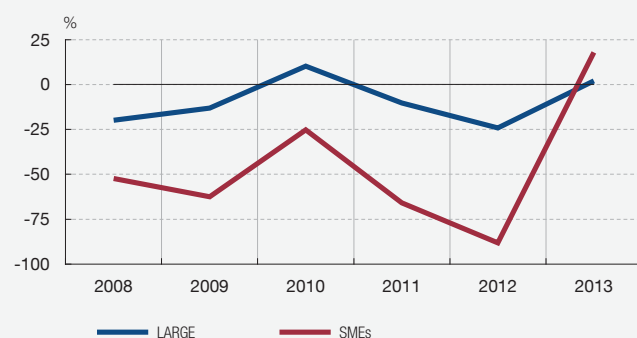
1 GROSS VALUE ADDED AT FACTOR COST
Rate of change



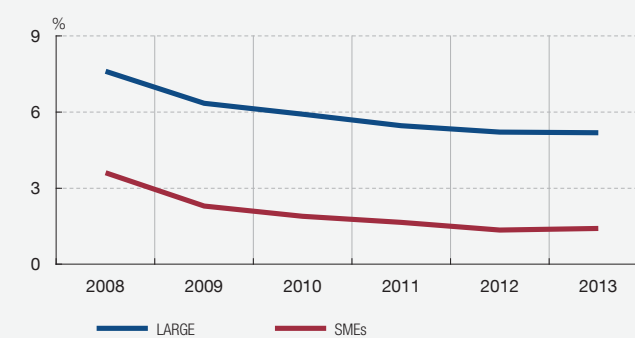
2 EMPLOYMENT
Rate of change



3 ORDINARY NET PROFIT



4 RETURN ON INVESTMENT (R.I.)
Ratio



		2008	2009	2010	2011	2012	2013
Number of corporations	Large	10,489	12,403	13,208	16,057	16,455	7,195
	SMEs	412,490	548,876	547,419	578,630	580,383	191,198
% of GVA of sector non-financial corporations	Large	27.2	26.4	27.9	27.7	27.5	22.8
	SMEs	14.6	17.0	16.8	17.0	16.1	6.4

SOURCE: Banco de España.

restructuring in 2013, in a setting in which average wages edged down slightly (by 0.4%), a very similar figure to 2012. The average number of workers fell by 1.9%, somewhat less than for large corporations (2.2%) and 1.5 pp lower than the drop of 3.4% for SMEs in 2012 (see Panel 2). The breakdown by type of employment contract shows that in 2013 the decline in employment was once again more pronounced among temporary workers (3.2%, compared with 1.6% for workers with permanent contracts), although the pace of contraction of temporary employment moderated more sharply than in the case of permanent employment. Sector by sector the employment picture was more favourable than in 2012 in almost all cases. Nevertheless, there were still net job losses in most sectors, with manufacturing, construction, and wholesale and retail trade firms posting the sharpest falls (1.6%, 6.6% and 1.9%, respectively). The drop in

the average number of workers in these sectors accounts for almost 80% of the figure for all the SMEs in the sample.

The financial costs of SMEs fell by 10.5% in 2013, a much larger decrease than in 2012 (3.1%), reflecting not only the deleveraging undertaken by these firms but also the drop in the average cost of debt (0.3 pp to 3.6%). Ordinary net profit at SMEs rose by 18% in 2013, the first time since 2007 that SMEs had seen growth in ordinary profit (see Panel 3). As a result, return on investment held steady at a similar level to 2012, halting the downward pattern seen in recent years, although it remained at a very low level of 1.4% (see Panel 4). The breakdown by sector shows that, in most cases, profitability levels were similar to or slightly higher than in 2012. There were also some sectors where the return on investment declined, with the highest rate of contraction seen in electricity and real estate activities.

Financial costs fell by 3.5% in 2013 and by 1% in the first nine months of 2014 as a consequence of the gradual decrease in indebtedness and also, especially in 2013, the lower cost of borrowing.

The decrease in liabilities translated into a decline in the debt ratio E1 (interest-bearing debt to net assets) both in 2013 and in the first three quarters of 2014. Both the ratio E2 (debt to the sum of GOP and financial revenue) and the financial burden ratio (financial expenses to the sum of GOP and financial revenue) also fell in 2013, but in the first nine months of 2014 they remained virtually unchanged, as the decline in the numerator was roughly offset by the decline in the denominator.

After falling sharply in the previous two years, ordinary net profit (ONP) rose slightly (3.4%) in 2013. It then contracted, by 2.9%, in the first nine months of 2014, although this variable should be assessed taking into account its performance over all four quarters. In view of the fact that this contraction was much lower than that reported to the CBQ in the same period last year (13.7%), in 2014 as a whole ONP could foreseeably grow at a pace similar to or stronger than last year. As a result of this ordinary profit performance, profitability stabilised, both in 2013 and in the first nine months of 2014. This, together with the decrease in the average cost of borrowing, caused the spread between the return on investment and the cost of debt to widen slightly, standing at 0.7% between January and September 2014, 0.1 pp higher than a year earlier, and thus breaking out of the downward pattern seen to 2012.

Lastly, profit for the year recovered in 2013, on the back of fewer extraordinary losses in comparison with the previous year. In view of the shift away from losses into profit, it is not possible to calculate the rate of change for the year. Between January and September 2014 the net profit performance remained positive, growing by 62.4% as a result of the added favourable impact of extraordinary gains in the period. As a percentage of GVA, net profit amounted to 4.5% in 2013 (compared with a negative figure of 5.4% in 2012). In the first nine months of 2014 it amounted to 22.3% for the corporations reporting to the CBQ, compared with 15.8% in the same period of 2013 and 15.2% at end-2013 for those corporations.

Activity

The GVA of the non-financial corporations reporting to the CBI fell by 3.1% in 2013 (see Table 1 and Chart 1), which was lower than the drop of 5.2% recorded in 2012. The decline in the rate of contraction was particularly pronounced in small and medium-sized companies, where GVA declined by 1.9% in 2013 (2.2% in small companies and 1.2% in medium-sized ones) (see Table 2 and Box 1), compared with a drop of 6.9% in 2012. Moreover, for the first time since the onset of the crisis, the rate of decline of GVA was lower at SMEs than at large corporations.

The CBQ data for the first nine months of 2014 show that activity levels continued their gradual recovery, resulting in a significant improvement in all sectors save for information and communications which alone posted a more pronounced decline in GVA than in the same period of 2013. For the sample overall, GVA rose slightly – 0.2% – in comparison with a fall of 4.6% a year earlier. All this, against a backdrop of renewed domestic demand and sustained momentum in exports which continued to boost growth in activity. In keeping with this pattern, Table 3 illustrates how in the first three quarters of 2014 exports, especially to EU countries, continued to grow as a proportion of net turnover.

An analysis at the sectoral level (see Table 2) shows that although GVA declined in all aggregates in 2013, the contraction was more moderate than in 2012, save in the energy sector. Conversely, in the first nine months of 2014, GVA rose in almost all sectors, save in information and communications where it fell by 7.1% (compared with a more moderate decline of 4.7% a year earlier), and in wholesale and retail trade and accommodation and food service activities where it dipped by 0.6% (compared with a sharper decline of 4.8% a year earlier). The most striking improvements were in energy and industry: thus, in the first nine months of the year, GVA rose by 3.1% in energy, compared with a drop of 5.7% in the same period of 2013, and by 2% in industry, compared with a fall of 8.6% a year earlier. The performance was particularly positive in certain sub-sectors of industry, such as manufacture of transport equipment, manufacture of mineral and metal products, and chemicals and chemical products, where GVA rose by 11.7%, 4.4% and 3.6%, respectively. In other sub-sectors GVA declined, although in almost all cases less markedly than a year earlier (for instance, in coke and refined petroleum products, where GVA contracted by 10.6%, compared with 42.3% in the same period of 2013). Lastly, in “Other activities”, GVA rose by 2.6% in the first three quarters of 2014.

Chart 2 shows the quartiles of the distribution of corporations reporting to the CBQ according to the rate of change in GVA in the first three quarters of 2014. It depicts an increase in all of them of between 4 and 7 pp compared with the figures of a year earlier, which suggests a stronger performance across the sample overall.

Employment and personnel costs

Personnel costs decreased in 2013 by 2.1% among the corporations reporting to the CBI, while on CBQ data they rose slightly (0.4%) during the first nine months of 2014 (see Table 2). This is a consequence of two opposite effects: the decline in employment, which has gradually eased over the last two years, and the growth in average compensation, which has remained moderate in both years.

Average headcount declined by 2.1% in 2013 for the sample of CBI corporations. For the first nine months of 2014 the CBQ still records a fall in employment, although on a much smaller scale (0.5%). This is not consistent with the recovery in the figures for the economy overall because of the specific circumstances of the sample, as certain large corporations that have recently undertaken large-scale workforce structuring account for a considerable weight. Nevertheless, the CBQ data for Q3 reflect a small increase (0.6%) in employment

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

TABLE 1

DATABASES	CBI Structure	CBI		CBQ (a)		
	2013	2012	2013	2013 Q1-Q4/ 2012 Q1-Q4	2013 Q1-Q3/ 2012 Q1-Q3	2014 Q1-Q3/ 2013 Q1-Q3
Number of corporations		596,876	198,416	832	847	799
Total national coverage (% of GVA)		43.80%	29.50%	11.6	11.9	12.4
PROFIT AND LOSS ACCOUNT						
1 VALUE OF OUTPUT (including subsidies)	100.0	-3.0	-2.5	-2.8	-2.6	-1.4
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	148.5	-1.9	-2.3	-3.4	-4.3	1.3
2 INPUTS (including taxes)	67.6	-1.9	-2.2	-2.4	-1.7	-2.1
<i>Of which:</i>						
<i>Net purchases</i>	93.4	-1.5	-2.9	-5.0	-3.8	0.7
<i>Other operating costs</i>	22.7	-1.8	-0.1	1.1	-0.2	-2.4
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	32.4	-5.2	-3.1	-3.9	-4.6	0.2
3 Personnel costs	20.5	-2.8	-2.1	-1.6	-1.9	0.4
S.2 GROSS OPERATING PROFIT [S.1 – 3]	11.9	-9.9	-4.9	-5.9	-7.1	0.0
4 Financial revenue	5.5	-2.0	9.2	12.4	-0.1	-8.9
5 Financial costs	4.2	-0.9	-3.5	-0.8	-4.5	-1.0
6 Depreciation, impairment and operating provisions	6.5	7.1	-3.1	-0.1	3.7	-2.1
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	6.6	-30.1	3.4	-1.0	-13.7	-2.9
7 Gains (losses) from disposals and impairment	-3.7	—	21.7	32.3	4.4	—
7' As a percentage of GVA (7 / S.1)		-12.0	-11.5	-14.8	-7.2	4.0
8 Changes in fair value and other gains (losses)	-1.0	-55.5	19.8	-1.1	99.2	-53.9
8' As a percentage of GVA (8 / S.1)		-4.0	-3.0	-5.5	-0.1	-0.7
9 Corporate income tax	0.4	-57.5	47.3	—	-21.2	94.2
S.4 NET PROFIT [S.3 + 7 + 8 – 9]	1.5	—	—	112.4	31.9	62.4
S.4' As a percentage of GVA (S.4 / S.1)		-5.4	4.5	12.2	15.8	22.3
PROFIT RATIOS						
	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / NA	4.0	4.0	5.9	4.1	4.1
R.2 Interest on borrowed funds / interest-bearing borrowing	5.1 / IBB	3.9	3.8	3.5	3.5	3.5
R.3 Return on equity (before taxes)	S.3 / E	4.1	4.1	8.0	4.7	4.6
R.4 ROI – Cost of debt (R.1 – R.2)	R.1 – R.2	0.1	0.2	2.4	0.6	0.7

SOURCE: Banco de España.

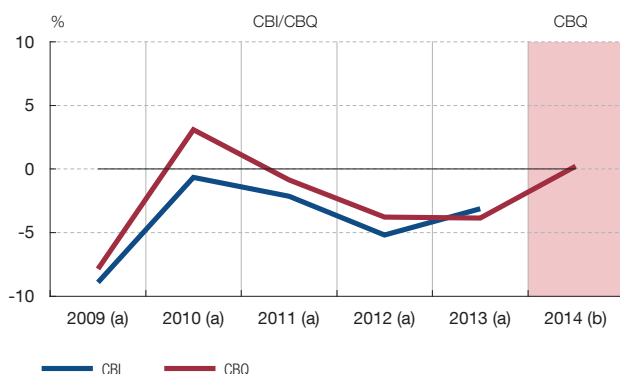
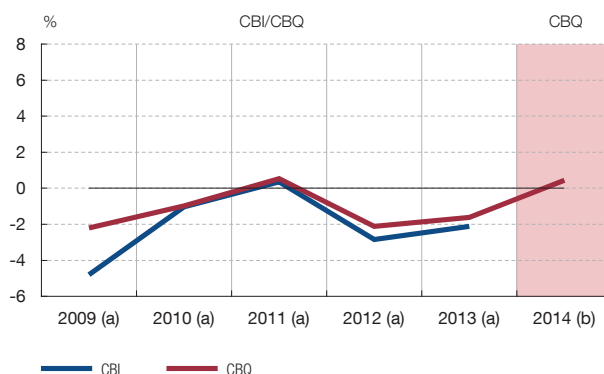
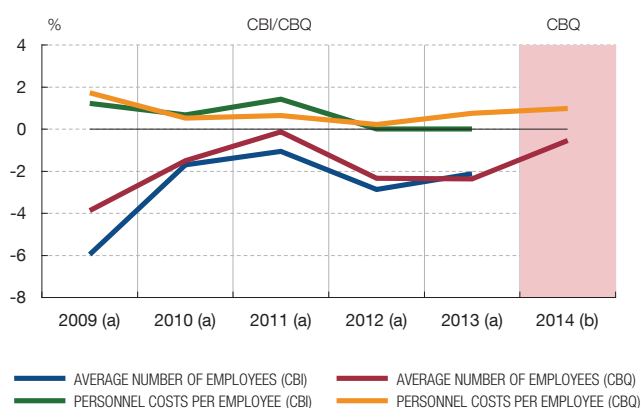
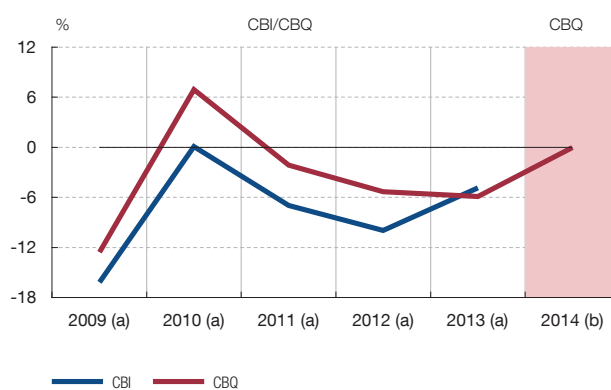
NOTE: In calculating rates, internal accounting movements have been edited out of items 4, 5, 7 and 8.

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) and not other financial costs (5.2).

year-on-year. In this vein, Table 4 shows that in 2013 the percentage of corporations where the average number of workers fell declined slightly, to 28.2% from 29.4% a year earlier. On the CBQ data, this pattern continued and intensified in the first nine months of 2014, so that the percentage of firms with a lower average number of workers fell by 4.5 pp compared with a year earlier.

In 2013 the adjustment continued to affect mainly temporary employment, which declined by 3.6% (although this is, in any event, considerably less than the drop of 6.5% in 2012),

GROSS VALUE ADDED AT FACTOR COST
Rate of changePERSONNEL COSTS
Rate of changeEMPLOYMENT AND WAGES
Rate of changeGROSS OPERATING PROFIT
Rate of change

Non-financial corporations	2009	2010	2011	2012	2013	2014
Number of corporations	CBI 561,279	560,627	594,687	596,876	198,416	—
	CBQ 790	799	813	833	832	799
% of GVA of sector non-financial corporations	CBI 41.8	43.4	44.7	43.8	29.5	—
	CBQ 10.8	11.6	12.0	12.0	11.6	12.4

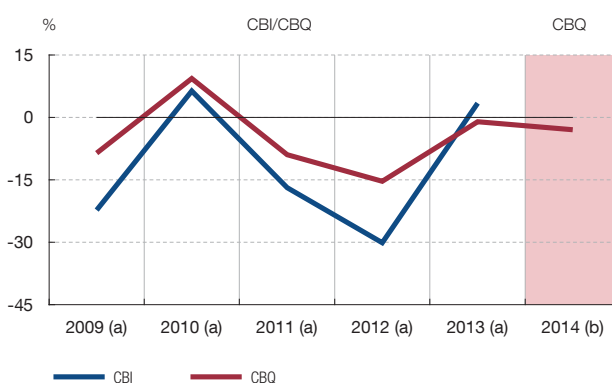
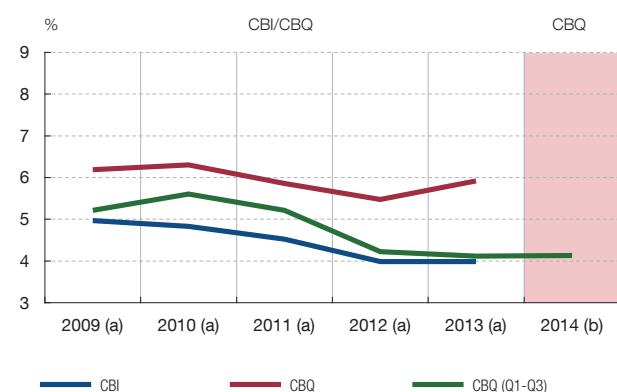
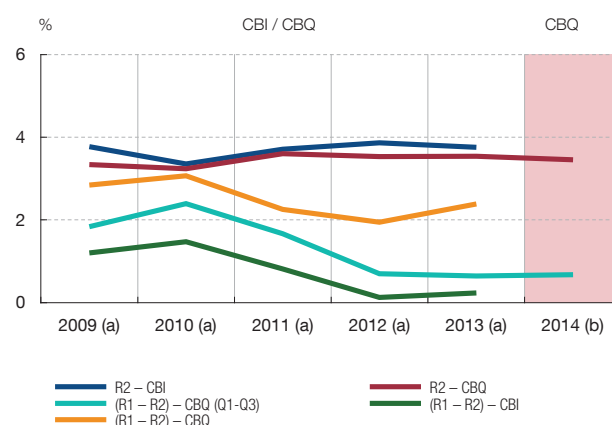
SOURCE: Banco de España.

a The 2009, 2010, 2011, 2012 and 2013 data, for the corporations reporting to the annual survey (CBI), and the average data of the four quarters of each year in relation to the previous year (CBQ).

b Data for 2014 Q1-Q3 relative to the same period in 2013.

while the number of permanent contracts fell by 1.8%. Conversely, in 2014, the CBQ shows that temporary employment grew – by 3.2% – in the first nine months of the year (see Table 5), for the first time since 2006. In turn, the number of workers with permanent contracts continued to decline (by 1.2%), affected by workforce restructuring at certain large corporations which are over-represented in the sample.

An analysis by sector of activity shows that almost all sectors continued to shed workers, although in most areas job losses were fewer than in the previous year. The strongest performance was in wholesale and retail trade and accommodation and food service

FINANCIAL COSTS
Rate of changeORDINARY NET PROFIT
Rate of changeRETURN ON INVESTMENT (R.1)
RatiosCOST OF DEBT (R.2) AND ROI - COST OF DEBT (R.1-R.2)
Ratios

Non-financial corporations		2009	2010	2011	2012	2013	2014
Number of corporations	CBI	561,279	560,627	594,687	596,876	198,416	—
	CBQ	790	799	813	833	832	799
% of GVA of sector non-financial corporations	CBI	41.8	43.4	44.7	43.8	29.5	—
	CBQ	10.8	11.6	12.0	12.0	11.6	12.4

SOURCE: Banco de España.

a The 2009, 2010, 2011, 2012 and 2013 data, for the corporations reporting to the annual survey (CBI), and the average data of the four quarters of each year (CBQ). In the case of rates, the calculation is made relative to the previous year.

b Data for 2014 Q1-Q3. In the case of rates, the calculation is made relative to the same period of 2013.

activities, and in industry, where employment declined by 0.8% and 0.2% respectively, and especially in “Other activities” where it increased slightly (0.8%).

The rate of growth of average compensation was stable in 2013, with the rate of change almost flat. In the first nine months of 2014, personnel costs in the corporations reporting to the CBQ rose by 1%, a rate of change very similar to the same period of 2013 (see Table 2). The latest data show that this pattern of greater wage restraint extended to almost all sectors of activity, except for wholesale and retail trade and accommodation and food

**VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND PERSONNEL COSTS PER EMPLOYEE.
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS**
Rate of change of the same corporations on the same period a year earlier, percentages

TABLE 2

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Personnel costs per employee			
	CBI			CBQ (a)	CBI			CBQ (a)	CBI			CBQ (a)	CBI			CBQ (a)
	2013	2013 Q1- Q4	2013 Q1- Q3	2014 Q1- Q3	2013	2013 Q1- Q4	2013 Q1- Q3	2014 Q1- Q3	2013	2013 Q1- Q4	2013 Q1- Q3	2014 Q1- Q3	2013	2013 Q1- Q4	2013 Q1- Q3	2014 Q1- Q3
Total	-3.1	-3.9	-4.6	0.2	-2.1	-2.4	-2.7	-0.5	-2.1	-1.6	-1.9	0.4	0.0	0.8	0.9	1.0
Size (b)																
Small	-2.2	—	—	—	-2.0	—	—	—	-2.7	—	—	—	-0.8	—	—	—
Medium	-1.2	-0.8	-1.6	6.6	-1.9	-4.1	-4.3	1.3	-1.3	-2.0	-2.8	2.7	0.6	2.1	1.5	1.3
Large	-3.5	-3.9	-4.7	0.1	-2.2	-2.3	-2.7	-0.6	-2.0	-1.6	-1.8	0.4	0.2	0.7	0.8	1.0
Breakdown by activity																
Energy	-4.5	-5.2	-5.7	3.1	-2.7	-2.0	-2.3	-4.3	-1.4	-0.2	0.3	-2.1	1.4	1.8	2.6	2.2
Industry	-2.8	-11.1	-8.6	2.0	-1.8	-2.3	-2.3	-0.2	-1.1	-0.6	-0.9	0.8	0.7	1.8	1.4	0.9
Wholesale & retail trade and accommodation & food service activities	-0.7	2.5	-4.8	-0.6	-2.3	-3.0	-3.3	-0.8	-1.6	-1.8	-2.8	2.8	0.8	1.3	0.6	3.7
Information and communications	-5.8	-5.1	-4.7	-7.1	-3.4	-4.2	-4.4	-2.2	-5.9	-4.3	-5.4	-0.7	-2.5	-0.1	-1.0	1.5
Other activities	-3.4	-1.6	-1.0	2.6	-1.9	-1.4	-2.0	0.8	-2.3	-1.6	-1.3	0.1	-0.4	-0.2	0.7	-0.7

SOURCE: Banco de España.

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

b Size definition according to Commission Recommendation 2003/361/EC whereby an enterprise is considered an SME if it has no more than 250 employees and its assets or net turnover do not exceed a certain threshold. In addition, irrespective of the above criteria, neither state-owned enterprises nor firms belonging to a group that exceeds those thresholds are considered SMEs. All firms that are not classed as SMEs are included in the group of large corporations.

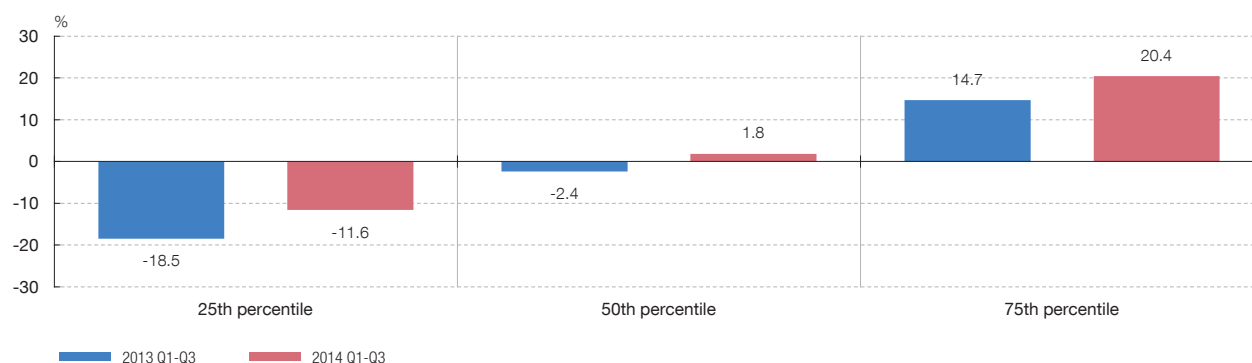
**PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING
SOURCES AND SALES DESTINATIONS**
Structure and rate of change, percentages

TABLE 3

		CBA		CBQ (a)	
		2012	2013	2013 Q1-Q3	2014 Q1-Q3
Total corporations		7,476	7,476	799	799
Corporations reporting source/destination		7,476	7,476	743	743
Percentage of net purchases according to source	Spain	65.1	64.2	73.0	69.9
	Total abroad	34.9	35.8	27.0	30.1
	EU countries	14.3	15.4	21.2	23.6
	Third countries	20.6	20.4	5.7	6.5
Percentage of net turnover according to destination	Spain	79.5	78.0	78.8	77.9
	Total abroad	20.5	22.0	21.2	22.1
	EU countries	12.4	13.1	15.6	16.8
	Third countries	8.1	8.9	5.6	5.4
Change in net external demand (exports less imports), rate of change	Industry	–	–	9.7	0.9
	Other corporations	72.7	–	53.4	-48.4

SOURCE: Banco de España.

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



SOURCE: Banco de España.

PERSONNEL COSTS AND EMPLOYEES
 Percentage of corporations in specific situations

TABLE 4

	CBI		CBQ (a)			
	2012	2013	2012 Q1-Q4	2013 Q1-Q4	2013 Q1-Q3	2014 Q1-Q3
Number of corporations	596,876	198,416	833	830	847	769
Personnel costs	100	100	100	100	100	100
Falling	38.8	37.3	55.2	49.6	51.2	42.3
Constant or rising	61.2	62.7	44.8	50.4	48.8	57.7
Average number of employees	100	100	100	100	100	100
Falling	29.4	28.2	56.4	54.3	54.1	49.6
Constant or rising	70.6	71.8	43.6	45.7	45.9	50.4

SOURCE: Banco de España.

a Weighted average of the relevant quarters for each column.

service activities which posted the highest increases in personnel costs (3.7%), affected by the growth in the variable component of compensation.

Profits, rates of return and debt

In keeping with the slowdown in the rate of contraction of productive activity, in 2013 the decline in gross operating profit (GOP) also eased at the corporations reporting to the CBI, to 4.9% from 9.9% in 2012. On CBQ data, GOP was virtually flat year-on-year in the first three quarters of 2014.

Financial revenue grew by 9.2% in 2013, on the back of higher dividend receipts (which rose by 15.5%), while in the CBQ it fell by 8.9% year-on-year between January and September 2014, on the back of lower dividend income (which declined by almost 15.5%), while interest receipts rose by 7.1%.

Financial costs fell by 3.5% in 2013 and, in the quarterly sample, by 1% in the first nine months of 2014. This decrease was due to the lower indebtedness and, especially in 2013, to the drop in the average cost of borrowing (see Table 6). The downward pattern of

EMPLOYMENT

TABLE 5

	Total CBQ corporations 2014 Q1-Q3	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations	799	403	396
Number of employees			
Initial situation 2013 Q1-Q3 (000s)	814	278	536
Rate 2014 Q1-Q3 / 2013 Q1-Q3	-0.5	7.1	-4.5
Permanent			
Initial situation 2013 Q1-Q3 (000s)	693	218	475
Rate 2014 Q1-Q3 / 2013 Q1-Q3	-1.2	5.1	-4.1
Non-permanent			
Initial situation 2013 Q1-Q3 (000s)	121	60	61
Rate 2014 Q1-Q3 / 2013 Q1-Q3	3.2	14.7	-8.0

SOURCE: Banco de España.

FINANCIAL COSTS
Percentages

TABLE 6

	CBI	CBQ	
	2013 / 2012	2013 Q1-Q4/ 2012 Q1-Q4	2014 Q1-Q3/ 2013 Q1-Q3
Change in financial costs	-3.5	-0.8	-1.0
A Interest on borrowed funds	-4.2	-1.6	-2.8
1 Due to the cost (interest rate)	-3.1	2.2	-0.1
2 Due to the amount of interest-bearing debt	-1.1	-3.8	-2.7
B Other financial costs	0.7	0.8	1.8

SOURCE: Banco de España.

financial debt traced by the aggregate data in recent years is the result of two opposite effects, since although a number of companies have deleveraged at a faster pace than the sector overall, there are also many companies whose debt levels have not decreased. A more detailed analysis of balance-sheet flows in these two groups of companies reveals very different patterns in the balance-sheet items, and connections between the two groups, such as, for example, how companies that have increased their leverage have financed – through trade credit – those most in need of reducing their financial debt levels (see Box 2).

In this setting, the debt ratio E1 (interest-bearing borrowing to net assets) declined in 2013, a pattern which continued, on CBQ data, in the first nine months of 2014, with a fall of slightly more than 3 pp to 43.6% (see Chart 3). By sector, between January and September 2014 the ratio E1 decreased in almost all cases, save in information and communications where it rose slightly. In turn, both the ratio E2 (interest-bearing borrowing to the sum of GOP and financial revenue) and the financial burden ratio (calculated using the same denominator) also declined in 2013 while, in accordance with the CBQ, in the first nine months of 2014 they remained virtually unchanged, as the decrease both in indebtedness and financial costs was roughly offset by the decrease in the denominator. In general, the breakdown by sector shows few significant changes in both ratios (interest burden and E2), while the three indicators overall show that the degree of financial pressure on firms is declining somewhat, although it remains high.

The overall level of indebtedness of non-financial corporations has, since 2009, been on a downward trend. However, this aggregate development is a consequence of contrasting behaviour at the individual firm level. While some companies have been deleveraging at a notable pace, there is also a substantial number of firms that have not reduced their levels of debt at all.¹ The lesser availability of financial resources to the firms in the first group

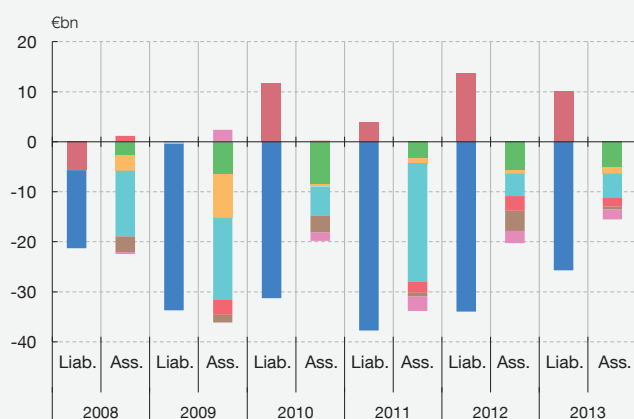
might be expected to reduce their capacity to undertake productive investment projects, although this will depend on the magnitude of any offsetting effect arising from other balance-sheet flows (financial investment, changes in stocks, trade credit or cash and deposits). For instance, firms can finance debt repayments without any effect on their investment expenditure through an increase in own funds or in trade finance or by selling financial assets.

¹ See C. Martínez, A. Menéndez and M. Mulino (2014), "A disaggregated analysis of recent developments in lending to corporations", *Economic Bulletin*, June, Banco de España.

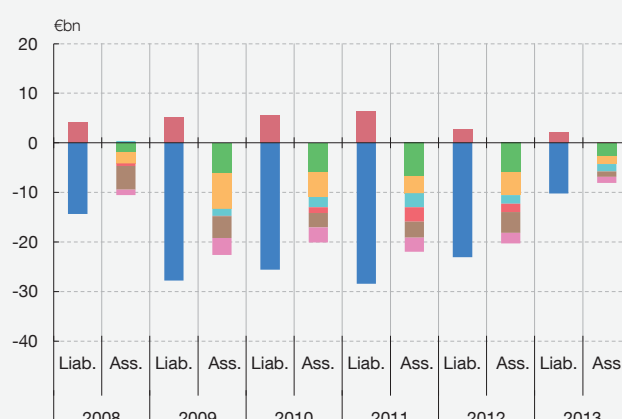
The purpose of this box is to analyse the investment and financing flows of different groups of firms on the basis of the evolution of their indebtedness. Firms that deleverage are studied to see how

INDEBTEDNESS OF NON-FINANCIAL CORPORATIONS AND CHANGES IN THE COMPOSITION OF THEIR BALANCE SHEETS (a)

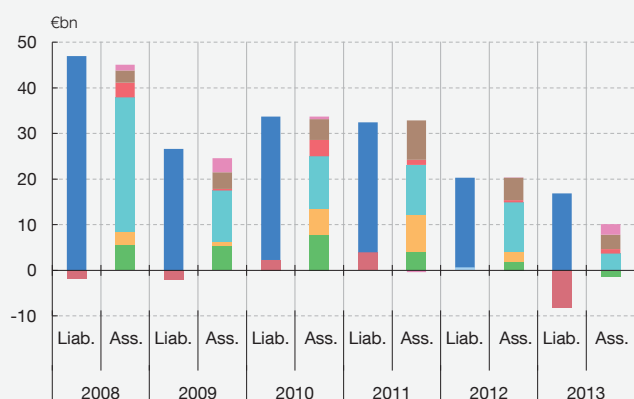
1 DELEVERAGING CORPORATIONS. LARGE (b)



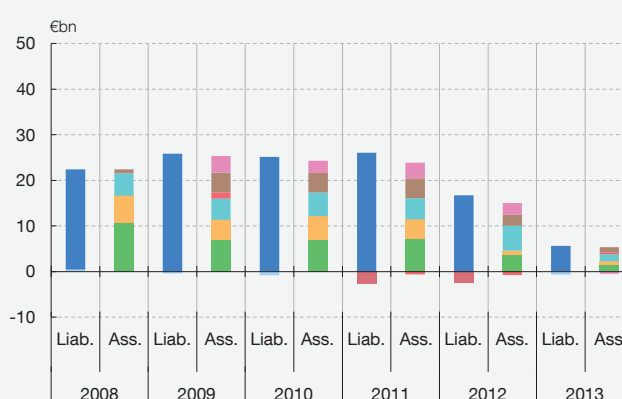
2 DELEVERAGING CORPORATIONS. SMEs (b)



3 CORPORATIONS WHOSE TOTAL INDEBTEDNESS DOES NOT DECREASE. LARGE (b)



4 CORPORATIONS WHOSE TOTAL INDEBTEDNESS DOES NOT DECREASE. SMEs (b)



■ FINANCIAL DEBT
■ STOCKBUILDING
■ NET TRADE CREDIT (ASSETS LESS LIABILITIES)
■ EQUITY
■ FINANCIAL INVESTMENT
■ OTHER NET FLOWS (ASSETS LESS LIABILITIES)

■ FIXED CAPITAL INVESTMENT (TANGIBLE AND INTANGIBLE)
■ CASH AND DEPOSITS

SOURCE: Banco de España.

a Excluding holding corporations and corporations without any debt.
b Size definition according to Commission Recommendation 2003/361/EC.

the repayment of debt is financed in order to identify the extent to which the investment most closely linked to productive activity is affected. In the case of those companies whose debt has remained unchanged or increased the main uses that have been made of this financing are investigated. This exercise is carried out on the basis of the CBI sample,² which on average contains data for more than 600,000 firms each year and provides a high level of coverage (about 50% of the GVA of the whole non-financial corporations sector), although the data become available with a lag, the latest data currently available being for the year 2013.³

Panels 1 and 2 show, for the group of deleveraging firms, the flows of different asset and liability items over the period 2008 to 2013, distinguishing between large firms and SMEs. As expected, the reduction in external financing was accompanied by a decline in the amount of fixed assets and stocks, the two items most closely linked to productive investment. This pattern is discernible every year, both in the case of SMEs and in that of larger firms. However, the decline in these items has been notably smaller than the reduction in debt as a result of various offsetting factors. First there were increases in equity (essentially stemming from share issuance and cumulative earnings) and there was a reduction in net trade credit extended (credit extended to customers less that granted by suppliers), so that additional funds were obtained through own funds and from greater trade finance. Second, over the period analysed, the amount of other assets (financial investments, cash and deposits, and other net flows) also fell, showing that the impact of the lesser availability of financial resources was spread across the different balance sheet items.

2 The integrated database of the Central Balance Sheet Data Office (CBI) is obtained by merging the data reported to the annual survey (CBA) with the information from the accounts filed by companies with the mercantile registries (CBB).

3 The number of firms for which 2013 data are available is somewhat less than 200,000, since the database for this year has not yet been closed and data are still being received.

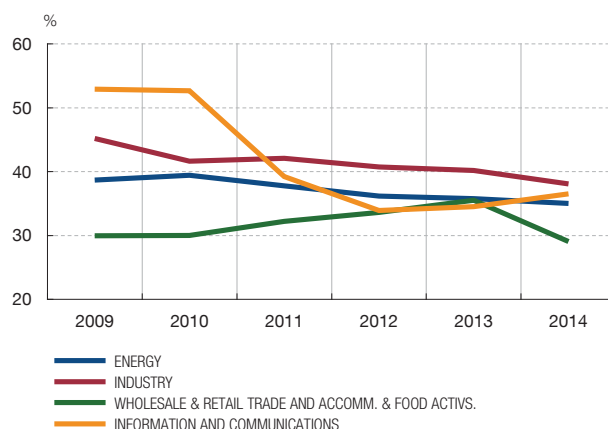
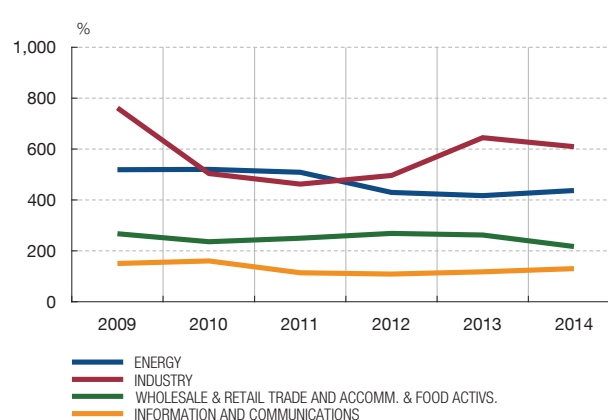
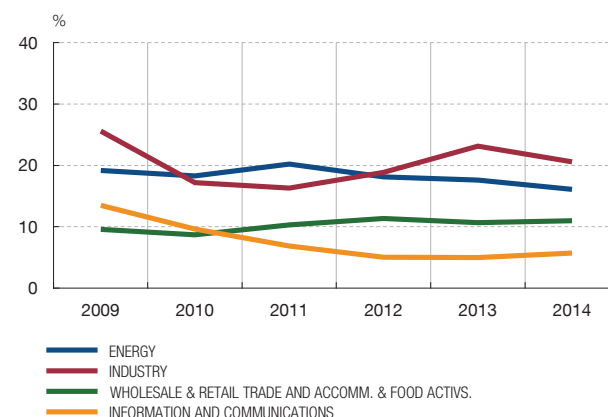
This result is observed for both large firms and SMEs, although in the case of the former the reduction in financial assets was relatively much more important. These results are observed across most industries.

In contrast, those companies whose indebtedness increased or remained unchanged were characterised by having positive investment flows in every year, irrespective of the size of the company (see Panels 3 and 4). Thus, these firms, which received new external funds, generally used them to increase their investment in fixed capital and stocks, and to undertake financial investment (the latter especially in larger firms). The greater availability of external funds to these firms, relative to the group analysed above, probably reduced the pressure to raise additional funds. This is reflected in the evolution of own funds, which either did not change significantly or even declined somewhat, as in 2013 in the case of large firms. In addition, the relatively high liquidity of this group of firms not only allowed them to grow but also to finance the activity of other non-financial corporations, with the increase in the amount of trade credit extended providing evidence of this. As in the case of the group of deleveraging firms, these results are valid for most industries.

To sum up, the evidence presented in this box shows that firms that have been deleveraging have financed a significant part of their repayment of debt through access to other forms of financing (mainly own funds and trade finance), and through sales of financial assets (liquidity and financial investments, in this latter case basically in large firms). By contrast, firms that in the same period managed to maintain or increase their level of external financing experienced growth in their productive capacity (investing in fixed capital and increasing the level of their stocks) and, in the case of larger firms, made financial investments. Also, they were able to increase the amount of trade finance extended, which highlights the important role played by trade credit in the redistribution of financial resources from these firms towards those that needed to reduce their indebtedness.

Net depreciation, impairment and operating provisions fell slightly, both in 2013 (by 3.1%) and in the first nine months of 2014 (by 2.1%).

In 2013, ONP rose by 3.4%. As in the case of GVA, this recovery in ONP was most pronounced for SMEs that for large corporations, for the first time since the onset of the crisis (see Box 1 and Table 7). However, on CBQ data, in the first three quarters of 2014 ONP declined by 2.9%, although this variable should be assessed taking into account its performance over all four quarters of the year. That decline is, for example, considerably lower than the fall of 13.7% observed, also for corporations reporting to the CBQ, in the first nine months of 2013. The ordinary profit performance in both periods meant that profitability stabilised, breaking out of the downward pattern seen since 2006. Specifically for the annual CBI sample, in 2013 both the return on investment and the return on equity

E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
TOTAL CORPORATIONSE1. INTEREST-BEARING BORROWING / NET ASSETS (a)
BREAKDOWN BY SECTOR. CBQE2. INTEREST-BEARING BORROWING / (GOP+FR) (b)
TOTAL CORPORATIONSE2. INTEREST-BEARING BORROWING / (GOP+FR) (b)
BREAKDOWN BY SECTOR. CBQINTEREST BURDEN
TOTAL CORPORATIONS
(Interest on borrowed funds) / (GOP+FR)INTEREST BURDEN
BREAKDOWN BY SECTOR. CBQ
(Interest on borrowed funds) / (GOP+FR)

SOURCE: Banco de España.

a Ratio calculated from final balance sheet figures. Net assets include an adjustment to current prices.

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

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND
ROI-COST OF DEBT (R.1 – R.2).

TABLE 7

BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS

Ratios and rates of change 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				CBI				CBI				CBI			
	CBQ (a)				CBQ (a)				CBQ (a)				CBQ (a)			
	2013	2013	2013	2014	2013	2013	2013	2014	2013	2013	2013	2014	2013	2013	2013	2014
	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1
	- Q4	- Q3	- Q3	- Q3	- Q4	- Q3	- Q3	- Q3	- Q4	- Q3	- Q3	- Q3	- Q4	- Q3	- Q3	- Q3
Total	-4.9	-5.9	-7.1	0.0	3.4	-1.0	-13.7	-2.9	4.0	5.9	4.1	4.1	0.2	2.4	0.6	0.7
Size (b)																
Small	0.3	—	—	—	37.1	—	—	—	0.9	—	—	—	-2.6	—	—	—
Medium	-0.9	2.2	1.2	14.4	6.6	19.3	10.4	27.8	3.6	4.3	4.5	5.1	-0.6	1.5	1.8	1.5
Large	-5.5	-6.0	-7.2	-0.2	2.6	-1.1	-13.9	-3.2	5.0	5.9	4.1	4.1	1.3	2.4	0.6	0.7
Breakdown by activity																
Energy	-5.8	-6.8	-7.6	5.0	-3.7	-6.9	-24.9	20.5	6.0	6.7	4.3	4.6	1.8	2.8	0.5	0.9
Industry	-6.1	-28.3	-20.8	4.6	-16.6	-37.5	-52.7	6.2	4.3	3.3	2.8	3.3	0.5	-0.3	-1.0	0.8
Wholesale & retail trade and acc. & food service activities	1.4	9.4	-7.7	-6.6	7.7	12.9	-12.7	-8.0	5.0	10.7	7.3	6.2	0.9	6.8	3.5	1.9
Information and communications	-5.8	-5.5	-4.3	-10.0	-5.4	-0.5	-1.8	-14.5	13.3	21.7	21.9	16.5	9.2	19.2	19.5	12.6
Other activities	-6.6	-1.6	-0.4	8.6	76.4	24.4	140.2	-52.7	2.8	4.5	2.8	3.0	-0.8	1.1	-0.5	-0.4

SOURCE: Banco de España.

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

b Size definition according to Commission Recommendation 2003/361/EC whereby an enterprise is considered an SME if it has no more than 250 employees and its assets or net turnover do not exceed a certain threshold. In addition, irrespective of the above criteria, neither state-owned enterprises nor firms belonging to a group that exceeds those thresholds are considered SMEs. All firms that are not classed as SMEs are included in the group of large corporations.

were virtually unchanged on the previous year, at 4% and 4.1%, respectively. In the CBQ overall, the return on investment in the first nine months of 2014 remained at 4.1% (unchanged on a year earlier), while the return on equity edged down by 0.1 pp to 4.6%.

By sector of activity, the latest data show that the return on investment rose in energy, industry and “Other activities”, by between 0.2 pp and 0.5 pp, while in wholesale and retail trade and accommodation and food service activities, and in information and communications, the return on investment declined (see Table 7).

As Table 8 shows, during the first nine months of 2014 the percentage of corporations with negative rates of return dropped. Nevertheless, the dispersion of this variable remains very high: while almost 30% of firms have a negative rate of return on investment, a similar proportion of the sample post rates in excess of 10%.

The average cost of borrowing dipped by 0.1 pp in 2013, and even more slightly in the first nine months of 2014, standing at 3.5%. The relative stability of the return on investment and the change in the cost of borrowing caused the spread between these two indicators to widen somewhat – by 0.1 pp in both cases – in the two periods analysed, resulting in a figure of 0.7% for the quarterly sample, thus curbing the downward pattern traced by this indicator in previous years. By sector, there was a notable improvement in energy, and especially in industry, from -1% in the first three quarters of 2013 to 0.8% in 2014. The

		CBQ			
		Return on investment (R.1)		Return on equity (R.3)	
		2013 Q1-Q3	2014 Q1-Q3	2013 Q1-Q3	2014 Q1-Q3
Number of corporations		847	799	847	799
Percentage of corporations by profitability bracket	R ≤ 0%	31.8	28.1	35.4	34.0
	0% < R ≤ 5%	26.8	28.1	15.8	18.4
	5% < R ≤ 10%	13.8	14.4	11.0	11.8
	10% < R ≤ 15%	7.1	7.8	8.4	6.9
	R > 15%	20.5	21.6	29.3	28.9
MEMORANDUM ITEM: Average return		4.1	4.1	4.7	4.6

SOURCE: Banco de España.

opposite was the case in wholesale and retail trade and accommodation and food service activities, and especially in information and communications, where the spread narrowed significantly, although it was also precisely these sectors that had a more comfortable financial position.

Lastly, an analysis of extraordinary costs and revenue shows the positive influence these gains (losses) had on net profit in the two periods analysed. Thus, in 2013 there was a significant decrease in impairment allowances, basically relating to financial assets. Between January and September 2014, the CBQ sample included both impairment reversal of financial assets and large capital gains arising from the sale of financial assets, with a very positive influence on net profit. In consequence, net profit for the year on CBI data was positive overall in 2013, following a net loss the previous year, while in the CBQ sample, in the first three quarters of 2014 it rose by a strong 62.4%, albeit from a historically low level. As a percentage of GVA, net profit rose to 4.5% in 2013 (compared with a decline of 5.4% in 2012), while for the CBQ sample in the first nine months of 2014 it rose to 22.3%.

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