SECTORAL ANALYSIS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL 2012/2013

Central Balance Sheet Studies

November 2013

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Banco de Portugal

EUROSYSTEM

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FOREWORD

This analysis is mainly based on data obtained from Simplified Corporate Information (IES) and held in the Central Balance Sheet Database of Banco de Portugal. Through IES, enterprises are able to meet their obligation to report their annual accounts simultaneously to the Ministries of Finance and Justice, Banco de Portugal and *Instituto Nacional de Estatística - INE* (Statistics Portugal).

IES is usually reported within six and a half months from the financial year end, which, for most enterprises resident in Portugal, corresponds to 15 July of the year following the reference year. At the moment, the most recent IES data refers to 2012, with annual data analysis being complemented by economic and financial indicators on enterprises for the first half of 2013 by extrapolating responses from a number of enterprises to the Quarterly Survey of non-financial corporations.

Data reported by enterprises through IES and the Quarterly Survey of non-financial corporations are subject to quality control by Banco de Portugal mainly to ensure the coherence and integrity of accounting information for the economic year and that the main aggregates are consistent throughout the years. This analysis also involves matching the reported information with the data obtained from other statistical systems available within Banco de Portugal.

In addition to IES data, this analysis also includes data on the financial debt of Portuguese enterprises available from other databases in the Statistics Department of Banco de Portugal, namely the Central Credit Register (CCR) and the Securities Statistics Integrated System (SSIS). This information characterises a significant part of the financial liabilities of Portuguese enterprises on bank loans and securities issued. Based on information available at the CCR and the SSIS, enterprises' financial debt is analysed up to the first half of 2013.

Data from the European database Bank for the Accounts of Companies Harmonized (BACH), managed by the European Committee of Central Balance Sheet Data Offices (ECCBSO) is used for comparison with other countries. This information enables the comparison of the situation of enterprises from nine European countries in terms of profitability, indebtedness and productivity by economic activity sector and size class. The most recent information available in this database refers to 2011.

SUMMARY

Developments in enterprises' economic and financial indicators in 2012, observed from Banco de Portugal's Central Balance Sheet Database data, are set in an unfavourable environment that characterised the Portuguese economy, with a broadly based deterioration compared with 2011. However, available preliminary information points to less negative developments in these indicators in the first half of 2013.

Data from the Central Balance Sheet Database of Banco de Portugal show a decrease of 9 % in enterprises' turnover in 2012. The external market – accounting for 21 % of enterprises' turnover – countered negative developments in corporate activity, and made a positive contribution to the turnover of Portuguese enterprises in 2012, similarly to the two previous years (1 percentage point (p.p.) in 2012). EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) decreased by 25 %, with the share of enterprises with growth in EBITDA increasing in all economic activity sectors, with the exception of *Other Services*. For the first time in the 2008-12 period, average return on equity was negative in 2012 (-0.5 %), decreasing by 3 p.p. from 2011.

Negative developments in these indicators were broadly based across all size classes, although large enterprises were clearly more resilient. By economic activity sector, *Agriculture and fishing* recorded the highest growth in turnover (8 %) and EBITDA (17 %) and an improvement in return on equity, although this remained negative (-0.8 %). By contrast, overall, *Construction* continued to have the most negative situation, with the highest loss in turnover (-26 %) and the most negative return on equity (-8 %).

As for their financial situation and in line with developments in enterprises' operating activity, liabilities experienced a contraction in 2012. Bank loans and trade credits made the largest contribution to these developments. By contrast, recourse to debt securities issues and debt to group companies increased. In 2012 enterprises remained nevertheless highly dependent on third-party equity, with a share of enterprises having negative equity of more than 29 %. Financial debt (bank loans, debt securities and debt to group companies) and trade credits remained the main sources of external financing, particularly bank loans, with a share in total liabilities of 20 % in *Electricity and water* and 38 % in *Construction*.

Amounts spent by enterprises on interest payment decreased slightly in 2012 (1 %). However, financial pressure, assessed in terms of the weight of interest paid on EBITDA, continued to increase, with nearly 37 % of this being used, on average, to pay interest (an increase of 9 p.p. from 2011). In 2012, 41 % of Portuguese enterprises had an EBITDA below interest paid. Financial pressure is particularly high in microenterprises (146 %) and *Construction* (133 %).

In 2012 accounts payable accounted for 16 % of enterprises' liabilities. On average, accounts receivable exceeded accounts payable. As a result, Portuguese enterprises continued not to obtain funding through trade credits, with the exception of *Agriculture and fishing*, *Trade* and large enterprises. Average days payable outstanding (82 days) and average days sales outstanding (75 days) decreased slightly in 2012, with disparities between economic activity sectors and size classes increasing.

An international comparison with information available in BACH shows that *Manufacturing* has a smaller share in Portugal than in the other European countries under analysis, with services activities having a greater importance. In addition, average return on equity of Portuguese enterprises is lower than in the remaining countries, mostly due to their financial situation (highly dependent on third-party equity and higher financial pressure).

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ACRONYMS

BACH Bank for the Accounts of Companies Harmonized

CAE Portuguese classification of economic activities

CIs Credit institutions

CoGS Cost of Goods Sold and Materials Consumed

EBITDA Earnings Before Interest, Taxes, Depreciation and Amortisation

ESA 95 European System of National and Regional Accounts 1995

GDP Gross domestic product

IES Simplified Corporate Information (*Informação Empresarial Simplificada*)

INE Statistics Portugal – *Instituto Nacional de Estatística*

NFCs Non-financial corporations

POC Official Chart of Accounts (*Plano Oficial de Contabilidade*)

p.p. Percentage points

SES Supplies and external services

SMEs Small and medium-sized enterprises (excluding microenterprises)

SNC Accounting Normalisation System (*Sistema de Normalização Contabilística*)

NON-FINANCIAL CORPORATIONS IN PORTUGAL 2012/2013

I NON-FINANCIAL CORPORATIONS IN PORTUGAL 2012/2013

1 INTRODUCTION

The *Study Sectoral Analysis of Non-Financial Corporations in Portugal 2012/2013* evaluates the economic and financial situation of non-financial corporations (NFCs)[1] resident in Portugal, based on information compiled by the Central Balance Sheet Database of Banco de Portugal[2].

This publication updates *Central Balance Sheet Study* | 8 - *Sectoral Analysis of Non-Financial Corporations in Portugal 2011/2012* with an analysis of enterprises'developments[3] in 2012, according to information from the most recent IES submission. Where data allows, information for the first half of 2013 was also included.

In order to better understand the results of this Study, please refer to the characterisation of NFCs in *Central Balance Sheet Study* | 12 *Structure and Dynamics of Non-Financial Corporations in Portugal 2006-12*. This publication analyses the composition of the NFC sector in Portugal in 2012 in detail, as well as developments in the past seven years, taking into account size classes, economic activity sectors, geographical location and maturity classes.

The results published in this analysis complement aggregate enterprise data, also derived from the Central Balance Sheet Database and released within the scope of Banco de Portugal's statistical publications[4]. Based on microeconomic data exploration, this *Study* provides additional information on aggregate data published on the NFC sector and other enterprise sub-groups, for instance, economic activity sectors and size classes. This is intended to complement the average results usually calculated for aggregates and identify / explore heterogeneous groups of enterprises taking into account distinctive features.

The *Study* begins with an analysis of recent developments in corporate activity in Portugal and tries to determine to what extent these developments are reflected in businesses' profitability. This involves breaking down the effects that influence this profitability into operating and financial components, while providing some information on enterprises' solvency capacity.

Based on complementary information available in other databases from Banco de Portugal's Statistics Department, details are given on the financial debt of Portuguese enterprises, specifically bank loans and securities issued. Finally, this Study presents a compared analysis of enterprises from several European countries using the international database Bank for the Accounts of Companies Harmonized (BACH).

The Annex provides a methodological summary and the definition of the main concepts used throughout the *Study*. The statistical series under analysis can also be found on Banco de Portugal's website.

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1 The NFC sector is one of the economy's five institutional sectors. The institutional sectorisation of economic agents is carried out in accordance with the 1995 European System of National and Regional Accounts (ESA 95), approved by Council Regulation (EC) No 2223/96 of 25 June 1996. ESA 95 is a harmonised benchmark on the compilation methodology with a deadline for release of the national accounts of EU countries, including statistics under Banco de Portugal's responsibility. Based on this regulation, sole proprietors are included in the household institutional sector. Hence, all data on the NFC sector throughout this document exclude sole proprietors (in Portugal these account for around two-thirds of enterprises, but only 5 % of the respective turnover). This analysis also excludes enterprises classified in Section O – *Public administration and defence; compulsory social security*, Section T – *Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use*, and Section U – *Activities of extraterritorial organisations and bodies of CAE-Rev.3*, as these are not included in the NFC institutional sector. It also excludes enterprises classified in Section K – *Financial and insurance activities which groups together non-financial holding enterprises* (with the SGPS denomination) not involved in subsidiary management, which, despite still belonging to the NFC sector (as regulated under ESA 95), were not analysed in this Study, as these have very specific characteristics setting them apart from the other NFCs.

2 The Central Balance Sheet Database is a database with economic and financial information on NFCs in Portugal. Information is based on annual accounting data reported within the scope of IES (*Simplified Corporate Information*) and quarterly accounting data reported by enterprises through the Quarterly Survey of non-financial corporations. Annual data cover nearly all NFCs and quarterly data cover around 4,000 enterprises, representing 50 % of turnover in the sector. For further details on the activities of the Central Balance Sheet Database, see Supplements to the Statistical Bulletin 1/2008 – *Simplified reporting: inclusion of the Simplified Corporate Information in the Statistics of Non-Financial Corporations from the Central Balance Sheet Database*, 2/2013 - *Statistics on non-financial corporations of the Central Balance Sheet Database: Methodological notes and Central Balance Sheet Study* | 6 – *New Enterprise and Sector Tables: Adjustment to the Accounting Standards System*, December 2011.

3 For the sake of simplicity, this Study refers to 'enterprise' and 'corporation' interchangeably when referring to NFCs defined in Note 1.

4 Central Balance Sheet Database statistics are published in Banco de Portugal's Statistical Bulletin (Chapters A and G) and in Sector Tables, both available on the Banco de Portugal website and BPstat | Statistics Online.

2 ECONOMIC AND FINANCIAL ANALYSIS

2.1 Economic environment

In 2012 gross domestic product fell and unemployment increased in the Portuguese economy. These developments took place within an adverse external environment, characterised by the euro area recession and a slowdown in global economic growth. On the domestic side, fiscal policy guidelines continued to be restrictive and, in spite of a slight improvement, monetary and financial conditions continued to be constrained.

Contrary to the decrease in economic activity, progress was made in the adjustment process of the Portuguese economy, specifically in rebalancing the joint current and capital account balance and reducing the primary and structural deficit.

Portuguese GDP fell by 3.2 % in 2012

In 2012 Portuguese GDP fell by 3.2 %, following a decrease of 1.3 % in 2011. Private consumption and investment worsened the decreases seen in 2011, while public consumption fell slightly less than in the previous year. Foreign trade operations continued to contribute positively to developments in GDP, with exports growing, albeit at a slower pace than in 2011, and imports falling more markedly (Table 1).

At the end of the first half of 2013, GDP declined by 3.1 % year-on-year

Data available for the first half of 2013 show a decrease in output of around 3.1 % year-on-year. At the end of 2013, Banco de Portugal's most recent estimates, published in the *Autumn Economic Bulletin*, point to a drop of 1.6 % in GDP[5].

Table 1

GDP AND MAIN COMPONENTS | *Annual growth rate*

	2009	2010	2011	2012	2013 (1st half)
GDP	-2.9 %	1.9 %	-1.3 %	-3.2 %	-3.1 %
Private consumption	-2.3 %	2.5 %	-3.3 %	-5.4 %	-3.3 %
Public consumption	4.7 %	0.1 %	-5.1 %	-4.8 %	-3.3 %
Gross fixed capital formation	-8.6 %	-3.1 %	-10.5 %	-14.3 %	-11.9 %
Exports	-10.9 %	10.2 %	6.9 %	3.2 %	4.0 %
Imports	-10.0 %	8.0 %	-5.3 %	-6.6 %	0.9 %

Source: *INE* and Banco de Portugal

2.2 Activity and profitability

2.2.1 Turnover

NFCs' turnover decreased by 9 % in 2012

Annual data from the Central Balance Sheet Database show a decrease of 9 % in enterprises' total turnover in 2012 (Chart 1). According to preliminary data, the drop in corporate turnover is expected to have been less marked in the first half of 2013.

5 For further information on economic performance in Portugal, please refer to Banco de Portugal's *Annual Report* as well as the *Economic Bulletin*, published quarterly. Both publications are available at *http://www.bportugal.pt.*.

Chart 1

TURNOVER | *Annual growth rate*

The contraction in turnover was broadly based across all size classes (from declines of 9 % for large enterprises and micro-enterprises to 10 % for SMEs). Microenterprises and SMEs had already recorded a decrease in turnover in 2011, while among large enterprises turnover only decreased year-on-year in 2012.

All size classes contributed to this decrease…

By economic activity sector, almost all activities recorded a contraction in turnover in 2012. *Agriculture and fishing* was one exception, with an increase of 8 % in turnover, above the increases observed in 2010 and 2011 (5 %). *Electricity and water* also saw a positive change in turnover (1 %), although considerably below that of 2011 (7 %) (Table 2).

…by economic activity sector, only *Agriculture* and *Fishing* and *Electricity* and *Water* saw positive changes in their turnover

As for the remaining economic activity sectors, *Construction* recorded the most marked decrease (26 %). For *Manufacturing*, turnover fell in 2012 (3 %), after having grown in 2011 (7 %). Turnover in *Trade* and *Other Services* decreased by 11 % and 10 % respectively, worsening the declines of 3 % and 5 % seen in 2011. In *Other Services* the most marked declines were observed in Sections M – *Professional, scientific and technical activities*, R – *Arts, entertainment and recreation* and L – *Real estate activities* (declines of 22 %, 20 % and 18 % in turnover respectively).

Data from the Central Balance Sheet Database also show that the share of enterprises with an increase in turnover was lower in 2012 than in 2011 (34 %, compared with 37 %). These developments were recorded in all economic activity sectors (from -0.3 p.p. in *Electricity and water* to -5.1 p.p. in *Other Services*). In comparison with 2011, in 2012 turnover increased in more than half the enterprises in *Agriculture and fishing*. In *Construction* and *Trade* less than 32 % of enterprises saw an increase in turnover.

The share of enterprises with an increase in turnover was lower in 2012 than in 2011

Table 2

TURNOVER | *Annual growth rate*

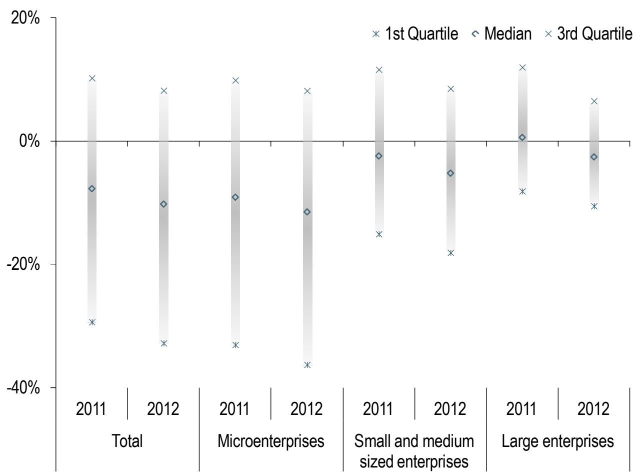
Analysis dimension	Year	Total	By economic activity sector					
			Agriculture and fishing	Manufacturing	Electricity and water	Construction	Trade	Other Services
Annual turnover growth rate	2011	-2.1 %	4.6 %	6.5 %	7.3 %	-16.8 %	-3.4 %	-4.6 %
	2012	-9.4 %	8.4 %	-3.1 %	1.2 %	-26.0 %	-11.3 %	-10.3 %
Number of enterprises with growth	2011	37.1 %	52.8 %	41.3 %	50.0 %	33.9 %	32.7 %	38.7 %
	2012	33.9 %	51.5 %	38.9 %	49.7 %	30.5 %	31.7 %	33.6 %

Half of the microenterprises recorded a decrease in turnover of more than 12 %

By enterprise size, individual data analysis shows that the decline in the turnover growth rate was broadly based across all classes and that there is a relationship between turnover growth and enterprise size. Turnover decreased by more than 12 % in half of the microenterprises, more than 5 % in half of the SMEs and more than 3 % in half of the large enterprises (Chart 2). By comparison with the previous year, all size classes decreased more significantly in 2012 (*e.g.* the median value for the distribution of turnover growth rates dropped by 2 p.p. in microenterprises and by 3 p.p. in SMEs and large enterprises).

Chart 2

TURNOVER | *Quartile distribution of the annual growth rate*



The external market dampened the fall in NFCs' turnover in 2012

An analysis of the destination of goods and services confirms that an international orientation has a positive impact on an enterprise's activity[6]. In 2012, similarly to 2011, the external market dampened the fall in NFCs' turnover (with positive contributions of 1 and 2 p.p. respectively) (Chart 3). Nevertheless, data confirm that the weight of the domestic market is very relevant to NFC activities.

6 Box 1 "*External market importance for non-financial corporations' activity*" provides complementary information on the external market's weight in the activity of NFCs resident in Portugal.

Chart 3

EXPORTS | *Contribution (p.p.) to turnover's annual growth rate (%)*

2.2.2 Operating costs[7]

Enterprises' operating costs decreased by 9 % in 2012, fully in line with the decrease in turnover (9 %). This was broadly based across all operating cost components, albeit to differing extents, reaching 12 % for Supplies and External Services (SES) and 8 % for the Cost of Goods Sold and Materials Consumed (CoGS). Employee costs decreased by 9 %, reflecting a larger adjustment in 2012 than in previous years (Chart 4).

Operating costs decreased by 9 % in 2012...

The decrease in operating costs was broadly based across all size classes, where all cost components dropped considerably, particularly SES in SMEs (-15 %) (Table 3).

...with all cost components dropping significantly…

By economic activity sector, negative changes in enterprises' operating costs were broadly based across all sectors, with the exception of *Electricity and water* and *Agriculture and fishing*. In line with turnover, operating costs increased in the latter (5 %), particularly due to an increase in CoGS (8 %) and SES (4 %), as Employee costs decreased by 3 %.

Chart 4

OPERATING COSTS | *Annual growth rate*

7 The 'operating costs' aggregate, calculated from the sum of the Cost of Goods Sold and Materials Consumed (CoGS), Supplies and external services (SES) and Employee Costs, grossly corresponds to the concept of 'operating costs' of the Official Chart of Accounts (accounting standard for corporate accounts up to 2009).

…having decreased in all economic activity sectors, with the exception of *Agriculture* and *Fishing* and *Electricity* and *Water*

In the remaining economic activity sectors, the contraction in operating costs in *Construction* (26 %) was more than double that of *Trade* and *Other Services* (10 % in both cases). In addition, *Construction* experienced the most marked declines in all components of this type of costs.

Table 3

OPERATING COSTS | *Structure and annual growth rate (2012)*

Analysis dimension	Item	Total	By enterprise size			By economic activity sector					
			Microenterprises	SMEs	Large enterprises	Agriculture and fishing	Manufacturing	Electricity and water	Construction	Trade	Other Services
Structure	CoGS	58.8 %	53.6 %	56.4 %	62.8 %	55.0 %	67.0 %	80.4 %	25.3 %	80.7 %	15.0 %
	SES	25.7 %	28.1 %	26.6 %	24.1 %	29.6 %	18.8 %	14.2 %	52.5 %	10.9 %	54.8 %
	Employee costs	15.5 %	18.3 %	17.1 %	13.1 %	15.4 %	14.2 %	5.4 %	22.2 %	8.4 %	30.2 %
Annual growth rate	CoGS	-7.6 %	-7.8 %	-8.0 %	-7.3 %	8.3 %	-2.4 %	1.0 %	-26.7 %	-10.0 %	-12.1 %
	SES	-12.3 %	-9.7 %	-15.3 %	-10.1 %	4.2 %	-5.0 %	-0.9 %	-29.2 %	-9.8 %	-10.8 %
	Employee costs	-8.6 %	-7.1 %	-11.1 %	-6.4 %	-2.7 %	-6.2 %	-1.5 %	-17.7 %	-8.8 %	-8.1 %
	Operating costs	-9.0 %	-8.2 %	-10.6 %	-7.9 %	5.2 %	-3.5 %	0.6 %	-26.3 %	-9.9 %	-10.2 %

Note: Shaded cells identify the highest absolute values for each aggregate (columns) both in the operating cost structure and the annual growth rate of each of their components.

BOX 1 | EXTERNAL MARKET IMPORTANCE FOR NON-FINANCIAL CORPORATIONS' ACTIVITY

This Box assesses the share of the external market on the operating activity of enterprises in Portugal, based on IES data[8]. In 2012 the external market accounted for 21 % of total corporate turnover, reflecting an increase of 0.8 p.p. from 2011. This increase in importance was mainly the result of a strong contraction in the domestic market, as export growth decelerated in 2012 from 2011.

The importance of the external market in turnover was proportional to enterprise size: 9 % among microenterprises, 20 % among SMEs and 27 % among large enterprises (Chart 1.1). However, compared with the previous year, this share increased for microenterprises and SMEs (by 1 and 3 p.p. respectively) and decreased for large enterprises (by 1 p.p.).

Chart 1.1

EXPORTS AND IMPORTS OF GOODS AND SERVICES (2012)

Broken down by economic activity sector, *Manufacturing* continued to record the highest value in this indicator, with 43 % of turnover in 2012 being export-oriented (2 p.p. growth from 2011). Compared with 2011, the share of exports in turnover increased for all sectors, with the exception of *Trade*.

As for imports, 27 % of purchases of goods and services by enterprises originated abroad in 2012 (28 % in 2011). Similarly to exports, imports also grew proportionately with enterprise size: for microenterprises, 10 % of purchases and SES were from abroad, 22 % for SMEs and 38 % for large enterprises (in spite of a decrease of 2 p.p. in the latter, compared with 2011).

By economic activity sector, *Manufacturing* continued to make use of the external market in a larger scale in 2012, with 42 % of its purchases and SES coming from abroad (a figure nevertheless 0.4 p.p. lower than the one for 2011). *Trade* had the second highest share (27 %) and the second largest decline in this indicator, considering the economic activity sectors under analysis as a whole (2 p.p. compared with 2011). *Electricity and water* had the highest decrease in the share of purchases and SES from abroad (6 p.p., to 17 % in 2012).

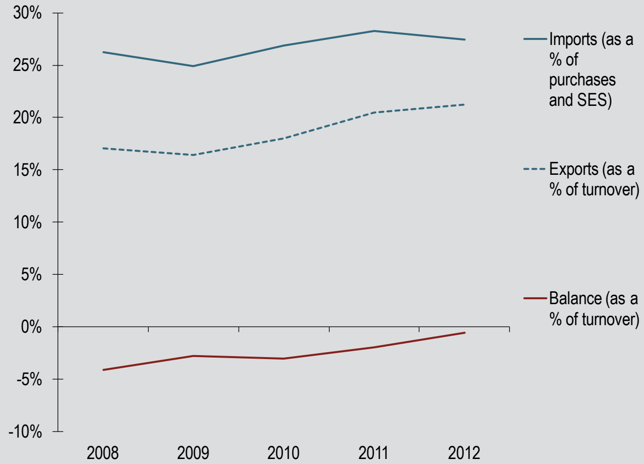
The balance of enterprises' foreign trade operations was slightly negative in 2012 (-0.5 %). Nevertheless, this is an improvement of more than 1 p.p. from 2011 (Chart 1.2). These positive developments in the balance of

8 Data reported within the scope of IES on exports and imports of goods and services are subject to quality control by Banco de Portugal, specifically in comparison with balance of payments data reported by the same enterprises. This however does not guarantee that final IES data are fully coincident with international trade statistics data.

foreign trade operations of goods and services were the result of a gradual increase in the share of exports in turnover and a decrease in the share of imports in the purchases and SES of enterprises in Portugal.

Chart 1.2

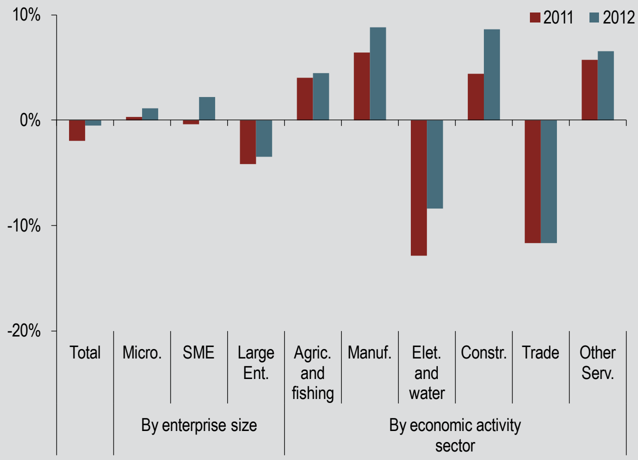
GOODS AND SERVICES TRANSACTIONS WITH EXTERNAL MARKETS (2008 TO 2012)



By enterprise size, all classes contributed to the improvement of the overall balance of foreign trade operations in 2012, although the balance remained negative for large enterprises (4 % of their turnover) (Chart 1.3). By economic activity sector, only *Trade* and *Electricity and water* continued to have negative balances in 2012 (although the balance improved markedly for *Electricity and water* (4 p.p.). In 2012, *Manufacturing* maintained the highest positive balance of foreign trade operations (9 % of turnover), even improving from 2011 (2 p.p.).

Chart 1.3

GOODS AND SERVICES TRANSACTIONS WITH EXTERNAL MARKETS (BALANCE AS A % OF TURNOVER - 2011 AND 2012)



2.2.3 EBITDA[9]

EBITDA for enterprises decreased by 25 % in 2012 (compared with 27 % in 2011) (Table 4). Available preliminary data point to EBITDA continuing to decrease in the first half of 2013, albeit to a lesser extent.

EBITDA decreased by 25 % in 2012, after falling by 27 % in 2011

Table 4

EBITDA | *Annual growth rate*

Year	Total	By enterprise size			By economic activity sector					
		Microenterprises	SMEs	Large enterprises	Agriculture and fishing	Manufacturing	Electricity and water	Construction	Trade	Other Services
2011	-27.4 %	-51.1 %	-20.3 %	-24.2 %	-20.5 %	-7.8 %	-2.9 %	-62.0 %	-8.5 %	-43.1 %
2012	-25.3 %	-63.2 %	-17.5 %	-22.4 %	17.4 %	-14.0 %	6.8 %	-5.7 %	-48.2 %	-37.2 %

An analysis of individual data also shows that the share of enterprises with growth in EBITDA stood at 44.5 % in 2012 (45.4 % in 2011) (Table 5).

Table 5

EBITDA | *Enterprises with annual growth*

Year	Total	By enterprise size			By economic activity sector					
		Microenterprises	SMEs	Large enterprises	Agriculture and fishing	Manufacturing	Electricity and water	Construction	Trade	Other Services
2011	45.4 %	45.8 %	43.1 %	46.1 %	49.7 %	44.8 %	49.7 %	43.4 %	44.1 %	46.6 %
2012	44.5 %	44.9 %	41.4 %	44.5 %	52.3 %	46.1 %	53.6 %	43.6 %	44.5 %	43.7 %

In 2012 the decrease in EBITDA was broadly based across all size classes, similarly to 2011. On average, EBITDA decreased by 63 % for microenterprises (compared with a 51 % decrease in 2011) and by 22 % for large enterprises (compared with a 24 % decrease in 2011). For SMEs, the decrease in EBITDA in 2012 (18 %) was below that of 2011 (20 %). The share of enterprises with growth in EBITDA also decreased in all size classes in 2012, standing at 41 % for SMEs and 45 % for microenterprises and large enterprises.

The drop in EBITDA was broadly based across all size classes...

At sectoral level, only EBITDA for *Agriculture and fishing* and *Electricity and water* recorded increases (from decreases of 21 % and 3 % respectively in 2011 to 17 % and 7 % growth respectively in 2012). Compared with 2011, EBITDA recorded less marked drops in *Construction* and *Other Services* in 2012. Developments in this indicator for the remaining activities were more negative in 2012 than in 2011.

Despite negative developments in EBITDA, the share of enterprises with EBITDA growth increased in all sectors, with the exception of *Other Services*. The drop in *Other Services* was strongly influenced by Section I – *Accommodation and food service activities*, where this indicator fell to 32 %, a drop of 14 p.p. compared with 2011 (total EBITDA was negative in this economic activity sector in 2012).

By economic activity sector, EBITDA only grew in *Agriculture* and *Fishing* and *Electricity* and *Water*

9 EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortisation, corresponding to profit and loss for the year plus costs related to interest, taxes, depreciation and amortisation.

2.2.4 Return on equity[10]

Return on equity for NFCs was negative in 2012

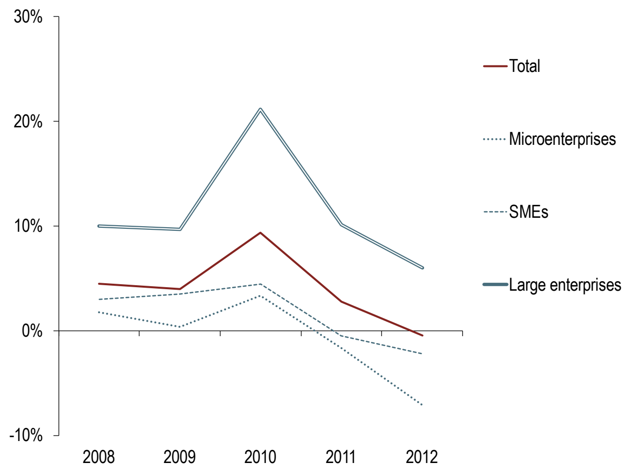
For the first time since 2008, average return on equity of Portuguese enterprises was negative in 2012 (-0.5 %), decreasing by 3 p.p. from 2011 (Chart 5). However, preliminary data from the Central Balance Sheet Database point to this return on equity having moved into positive territory in the first half of 2013.

Only large enterprises recorded positive returns (6 %)…

By size class, average return on equity stood at -7 % for microenterprises, -2 % for SMEs and 6 % for large enterprises in 2012. Compared with 2011, average return decreased in all size classes, with microenterprises and SMEs having already recorded negative returns that year.

Chart 5

RETURN ON EQUITY



… together with enterprises in *Electricity and water, Manufacturing* and *Trade*

In terms of economic activity sectors, only *Electricity and water, Manufacturing* and *Trade* recorded positive average returns in 2012: 14 %, 3 % and 0.1 % respectively (Table 6). Compared with 2011, returns improved for *Electricity and water* (+2 p.p.) and *Agriculture and fishing* (+1 p.p.).

For *Other Services*, average return on equity was negative in 2012 (-4 %), falling by 5 p.p. from 2011. Enterprises in Sections H – *Transportation and storage* and I – *Accommodation and food service activities* contributed significantly to this situation, with decreases of 34 p.p. and 9 p.p. in their average return respectively (standing at -37 % and -21 % in 2012). Finally, in *Other Services* only Sections J – *Information and communication* (2 %), M – *Professional, scientific and technical activities* (1 %) and N – *Administrative and support service activities* (1 %) had positive returns on equity in 2012.

10 Return on equity was calculated as the year's total profit to equity ratio and measures return on equity invested by shareholders. Note that return on equity calculated on an individual basis is only carried out on enterprises with positive equity, as mentioned in *Central Balance Sheet Study | 6, December 2011 – New Enterprise and Sector Tables: Adjustment to the Accounting Standards System.*

Table 6

RETURN ON EQUITY AND ENTERPRISES WITH NET LOSSES									
Analysis dimension	Year	Total	By economic activity sector					
			Agriculture and fishing	Manufactu-ring	Electricity and water	Construc-tion	Trade	Other Services
Weighted average	2011	2.8 %	-1.6 %	4.6 %	12.3 %	-9.0 %	6.7 %	0.5 %
	2012	-0.5 %	-0.8 %	2.8 %	14.0 %	-8.4 %	0.1 %	-4.3 %
Enterprises with losses	2011	44.5 %	43.0 %	39.5 %	44.0 %	44.3 %	44.5 %	45.9 %
	2012	47.4 %	43.0 %	40.9 %	44.7 %	48.2 %	46.5 %	49.7 %

Together with a decrease in average return, the share of enterprises with losses increased in 2012, standing at 47 % (45 % in 2011). This increase was broadly based across all size classes and economic activity sectors, with the exception of *Agriculture and fishing*. This increase was particularly important in *Construction* and *Other Services* (an increase of 4 p.p., to 48 % and 50 % respectively) and, in terms of enterprise size classes, among microenterprises and SMEs (an increase of 3 p.p. in both cases, to 49 % and 34 % respectively).

The share of enterprises with net losses increased in 2012, standing at 47 %...

Net profit for the year is a component of enterprises' equity, which means that consecutive losses may contribute to an enterprise recording negative equity. In 2012, 29 % of enterprises recorded negative equity (Table 7),[11] an increase of 2 p.p. from 2011. Similarly to the previous year, this situation is particularly relevant in *Trade* and *Other Services*, where around 31 % of enterprises recorded negative equity. Among *Other Services*, Sections S – *Other service activities* (54 %), I – *Accommodation and food service activities* (49 %), P – *Education* and R – *Arts, entertainment and recreation* (42 %, each) are particularly important.

… and 29 % of enterprises recorded negative equity, particularly in *Other Services* and *Trade*

Table 7

SHARE OF ENTERPRISES WITH NEGATIVE EQUITY							
Year	Total	By economic activity sector					
		Agriculture and fishing	Manufacturing	Electricity and water	Construction	Trade	Other Services
2011	27.3 %	22.6 %	23.8 %	21.2 %	22.5 %	29.8 %	28.3 %
2012	29.2 %	23.0 %	24.8 %	22.9 %	24.7 %	31.4 %	30.6 %

11 Box 2: "*Indicators on enterprises with negative equity*" provides additional information on enterprises in this situation.

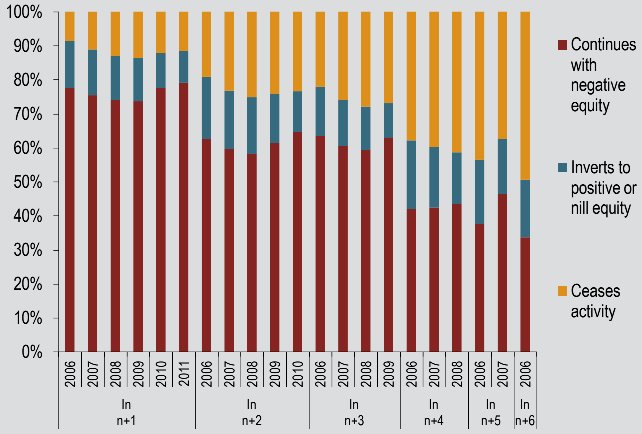
BOX 2 | INDICATORS ON ENTERPRISES WITH NEGATIVE EQUITY

There is a considerable number of enterprises fully funded by third-party equity in the NFC population in Portugal. On average, in the 2008-12 period, around 26 % of enterprises recorded negative equity, a share that reached a peak in 2012 (29 %).

Data in Chart 2.1[12] show that a large share of enterprises with negative equity tends to cease activity over the following years. In effect, 49 % of enterprises with negative equity in 2006 ceased activity in the following six years. Around 17 % of enterprises were able to reverse the situation and record positive equity. Nevertheless, after six years, 34 % of these enterprises still had negative equity.

Chart 2.1

SITUATION OF ENTERPRISES WITH NEGATIVE EQUITY ASSESSED IN SUBSEQUENT PERIODS



In spite of a tendency to cease activity, 19 % of enterprises with negative equity in 2012 were already in this situation since at least 2006. These companies were mostly microenterprises (98 %) and enterprises in *Other Services* and *Trade* (47 % and 31 % respectively).

In order to understand how enterprises with negative equity fund their activities, two separate sets of enterprises were analysed:

1) enterprises with negative equity in the 2006-12 period as a whole (henceforth, 'enterprises with negative equity'); and,

2) enterprises with positive or nil equity in the 2006-12 period as a whole (henceforth, 'enterprises with positive equity')[13].

The analyses of the main economic and financial indicators for these two groups of enterprises led to the following results (Table 2.1):

I) from 2008 to 2012, turnover decreased more among enterprises with negative equity (-10 %, compared with -2 % among enterprises with positive equity);

12 Taking into account its specific situation and subsequent impact on the analysis of enterprises with negative equity, this Box does not include enterprises that are part of economic groups, which, for this purpose, correspond to enterprises with at least 10 % of equity held by other entities. Less than 10 % of enterprises were excluded as a result of this procedure.

13 This analysis therefore excludes enterprises that have sometimes recorded negative equity and positive or nil equity throughout the 2006-12 period and enterprises that were not operating during this period. This analysis thus focuses on around 40 % of total enterprises.

II) enterprises with negative equity were less open to international trade (exports of goods and services accounted for 3 % of total turnover, compared with 11 % among enterprises with positive equity);

III) EBITDA was negative for 57 % of enterprises with negative equity, in contrast with 16 % for enterprises with positive equity;

IV) average return on assets for enterprises with negative equity was -6 %, in contrast with 2 % for enter prises with positive equity; and

V) the reduced liquidity indicator shows that the share of short-term assets is considerably lower than that of short-term liabilities for enterprises with negative equity as a whole (35 %, compared with 115 % among enterprises with positive equity).

Table 2.1

ECONOMIC AND FINANCIAL INDICATORS *(simple average of annual weighted averages – 2008-12)*

Indicator	Enterprises with negative equity	Enterprises with positive equity
Turnover growth rate	-9.7 %	-2.4 %
Share of exports in turnover	2.8 %	11.2 %
Share of enterprises with negative EBITDA	56.8 %	15.5 %
Return on assets	-6.1 %	1.7 %
Reduced liquidity	35.0 %	114.7 %

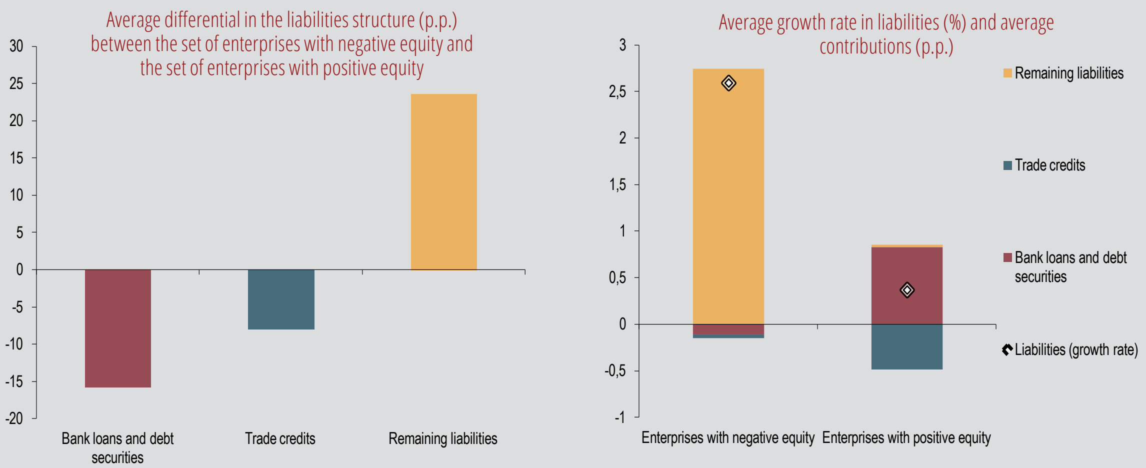
Data therefore show that most of these enterprises have liquidity problems, not being able to generate enough income to continue operating, which helps worsen negative equity levels.

As for these enterprises' liabilities, Chart 2.2 shows the differential between the average liabilities structures for both sets of enterprises in the 2008-12 period, as well as average growth in liabilities and contributions from their sources of funding.

In terms of the liabilities structure, there are considerable differences between the average enterprise in both sets of enterprises. In enterprises with negative equity, on average, there is clearly a higher share of remaining liabilities (+24 p.p.), by contrast with the lower importance of trade credits and bank loans and debt securities (-8 p.p. and -16 p.p. respectively). Remaining liabilities relate to different types of funding, such as shareholder loans, debt to the Public Administration, as well as other accounts payable and other current liabilities as a whole.

Chart 2.2

LIABILITIES *(2008-2012)*



In addition, as a result of negative equity and the fact that their activity is fully (and increasingly) funded by third-party equity, these enterprises have seen their liabilities grow by nearly 3 % (on average in the 2008-12 period), while the other enterprises' liabilities grew by only 0.4 %.

Nearly all average growth in the liabilities of enterprises with negative equity was due to remaining liabilities. Bank loans, debt securities and trade credits made negative contributions, probably as a consequence of increased difficulties faced by enterprises in accessing the capital market, bank funding and even trade credits from other enterprises.

By contrast, the increase in liabilities in enterprises with positive equity was fully the result of bank loans and debt securities, while the negative contribution of trade credits was in line with developments in their activities.

2.3 Financial situation

2.3.1 Financial structure

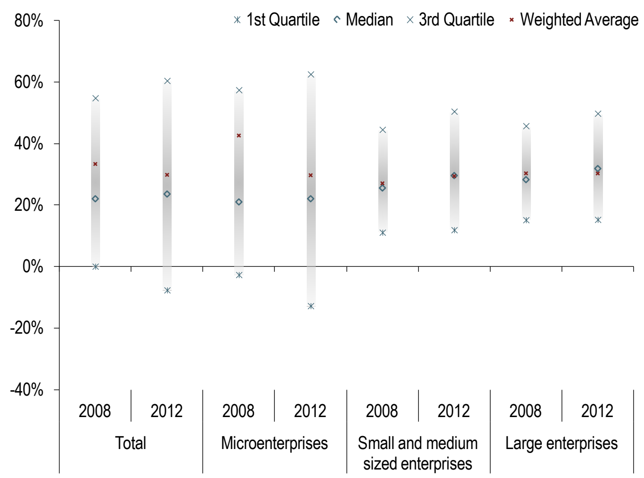
NFCs' capital ratio in 2012 stood, on average, at 30 %, decreasing by 3 p.p. compared with 2008 (Chart 6). However, it did not decrease steadily during the period as a whole. NFCs' capital ratio increased until 2010 (34 %), gradually declining (by around 2 p.p. per year) afterwards.

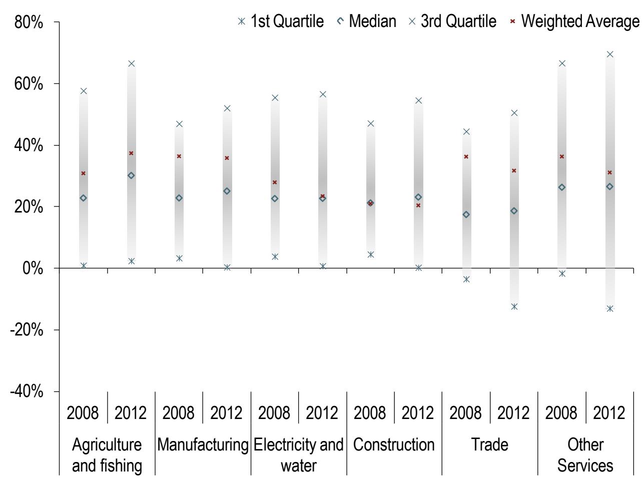
Enterprises' capital ratio stood at 30 % in 2012 (-3 p.p. compared with 2008).

The decrease in NFCs' capital ratio was not broadly based across all size classes. In large enterprises, the capital ratio remained, on average, virtually unchanged from 2008 to 2012 (30 %), while improving for SMEs (from 27 % to 29 %). By contrast, the average capital ratio of microenterprises decreased by 13 p.p. from 2008 to 2012 (when it reached 30 %).

Chart 6

CAPITAL RATIO | *Quartile distribution and weighted average*





Microeconomic data also show that the improvement in the capital ratio was broadly based across SMEs and large enterprises, given the increase in the value associated with the enterprise in each position of the distribution (first quartile, median and third quartile). Microenterprises recorded overall an increase in heterogeneity, with the capital ratio differing more among enterprises in this class. In effect, while the median and the third quartile increased by 1 p.p. and 5 p.p. respectively, the first quartile fell by 10 p.p..

Compared with 2008, this indicator improved overall for SMEs and large enterprises...

... and by economic activity sector in *Agriculture* and *Fishing*

In terms of economic activity sectors, only *Agriculture and fishing*, with the highest average capital ratio (37 %) in 2012, saw an increase from 2008 to 2012 (7 p.p.). In *Trade, Other Services* and *Electricity and water*, the average capital ratio decreased by 5 p.p., to 32 %, 31 % and 23 %, respectively. The sectors with the lowest variations (-0.6 p.p., for both) were *Manufacturing* (36 % in 2012) and *Construction*, which also recorded the lowest average capital ratio of all sectors (20 %).

Developments in distribution positions show that the increase in the average capital ratio in *Agriculture and fishing* was broadly based across most enterprises in this sector. In the remaining sectors, the situation of enterprises with higher capital ratios (median and third quartile) improved in 2012, while the situation of enterprises with lower capital ratios (first quartile) worsened. Within this context, around 25 % of enterprises in nearly all sectors (with the sole exception of *Agriculture and fishing*) had negative capital ratios in 2012, and that share was substantially higher in *Trade* and *Other Services* (around 30 %).

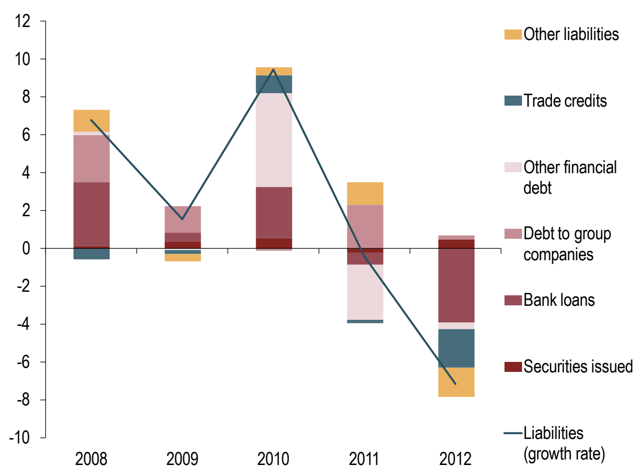
NFCs' liabilities recorded a contraction of 7 % in 2012, with bank loans and trade credits decreasing by 13 % and 12 % respectively

Therefore, third-party equity continued to play a key role in funding enterprises' activity in 2012, justifying a detailed analysis of its characteristics and recent developments.

Thus, NFCs' liabilities recorded a contraction of 7 % in 2012 (a 0.4 % decrease in 2011), in line with the drop in activity. Bank loans and trade credits determined developments in NFCs' liabilities, decreasing by 13 % and 12 % respectively. By contrast, positive developments were seen in debt securities and debt to group companies (which grew by 9 % and 1 % respectively) (Chart 7).

Chart 7

LIABILITIES | *Annual growth rate (%) and contributions (p.p.)*



Financial debt and trade credits together accounted for over three quarters of the sources of corporate funding....

Chart 8 details the liabilities structure in 2012, showing that financial debt and trade credits together accounted for over three-quarters of the sources of enterprises' funding. However, the relative importance of each of these components differs between economic activity sectors.

Trade credits maintained the highest relative importance in *Trade* (35 %) and *Manufacturing* (25 %) in 2012, while in *Electricity and water* they accounted for only 5 % of liabilities. In turn, financial debt accounted for more than half the funding in *Electricity and water* (76 %), *Other Services* (65 %) and *Construction* (60 %).

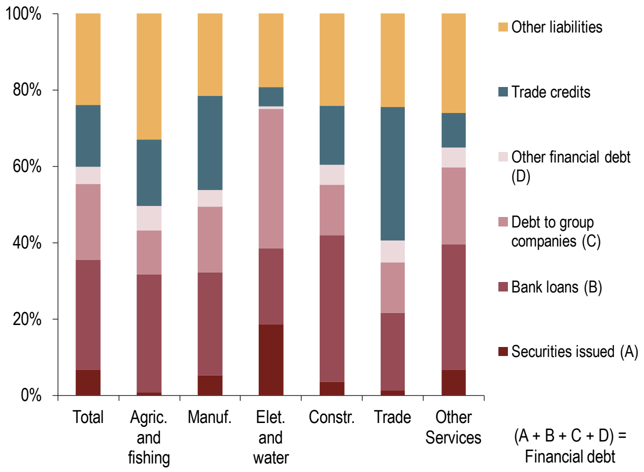
By financial debt component, bank loans[14] were the most important source of funding for all sectors (with the exception of *Electricity and water*), with its share in liabilities ranging from 20 % in *Electricity and water* to 38 % in *Construction*. Debt to group companies ranged from 12 %, in *Agriculture and fishing*, to 37 %, in *Electricity and water.* In turn, debt securities[15] played a particularly important role in *Electricity and water* (19 %), but had a negligible weight in *Trade* and *Agriculture and fishing* (1 %).

…with bank loans being the most important source of funding for most sectors

In comparison with 2011, the share of bank loans in the liabilities of *Construction* recorded a decrease (by 3 p.p.), offset by an increase in the share of debt to group companies. Similar decreases were seen in *Manufacturing* and *Electricity and water* (-2 p.p. in the share of bank loans), the latter being offset by debt securities.

Chart 8

LIABILITIES STRUCTURE (2012)



Note: This refers to the set of interest bearing debt obtained through issuing debt securities, debt from banks and other financial institutions, debt from group companies and other loans. The analysis excludes liability components considered eminently related to accounting procedures, such as deferrals and provisions. Thus, 'Other liabilities' includes debt to the Public Administration and other public entities, non-interest bearing debt to shareholders and other current liabilities and accounts payable.

14 Box 3: "*Loans from credit institutions resident in Portugal – characterisation based on the Central Credit Register*" provides additional information on this source of funding.

15 Box 4: "*Credit obtained through debt security issues – characterisation based on the Securities Statistics Integrated System*" provides additional information on this source of funding.

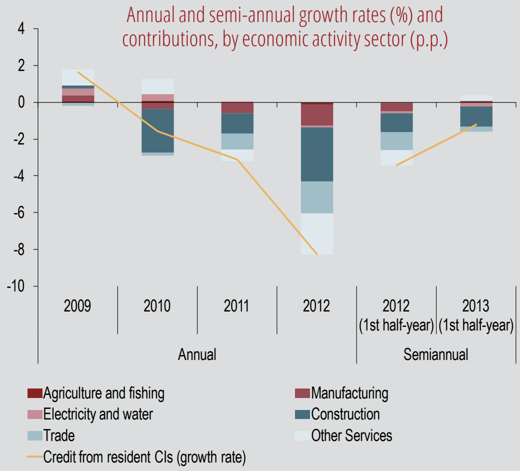
BOX 3 | LOANS FROM CREDIT INSTITUTIONS RESIDENT IN PORTUGAL - CHARACTERISATION BASED ON THE CENTRAL CREDIT REGISTER[16]

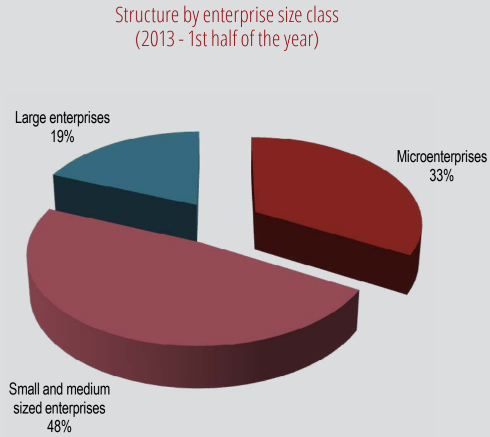
In spite of a downward trend, loans from credit institutions (CIs)[17] continued to be one of the main components of enterprises' financial debt (accounting for 48 % of financial debt and around 29 % of liabilities in 2012). Information available in Banco de Portugal's Central Credit Register allows a more detailed analysis of loans from CIs resident in Portugal. In 2012 this accounted for around 82 % of total loans obtained by enterprises from CIs (a share 2 p.p. smaller than in 2011) and involved 61 % of all enterprises (62 % in 2011).

According to the available information, bank loans to enterprises in Portugal recorded a considerable contraction (8.3 %) in 2012, with an impact on all economic activity sectors (Chart 3.1).

Chart 3.1

CREDIT FROM RESIDENT CIs *(end of period)*





In the first half of 2013, bank loans to enterprises continued to decrease, albeit at a lower rate (-1.2 %, compared with -3.4 % in the same period a year earlier). At a sectoral level, with the exception of *Electricity and water* (-1.4 p.p., to -4.0 %) and *Construction* (-0.8 p.p. to -5.3 %), all activities showed more positive growth rates during this period, with *Agriculture and fishing* (1.7 %), *Other Services* (0.7 %) and *Manufacturing* (0.4 %) increasing their credit level. By size class, SMEs as a whole received the largest share of bank loans to enterprises in Portugal (48 % at the end of the first half of 2013), accounting for less than 19 % of enterprises with loans in Portugal. At the end of June 2013, large enterprises accounted for 19 % of the loans obtained by enterprises from resident CIs, although they accounted for only 0.4 % of enterprises resorting to this type of funding. By contrast, microenterprises (81 % of enterprises with loans from resident CIs) accounted for 33 % of loans to enterprises from resident CIs.

Following the growing trend that began in 2008, the non-performing ratio[18] of NFCs reached 12.6 % at the end of June 2013 (an increase of 1.9 p.p. from the end of 2012) (Chart 3.2). The non-performing loans ratio increased in the first half of 2013 in all size classes, by 3.2 p.p. in microenterprises (to 18.9 %, at the end of the first half of 2013), 2.0 p.p. in SMEs (to 12.1 %) and 0.3 p.p. in large enterprises (to 2.6 %).

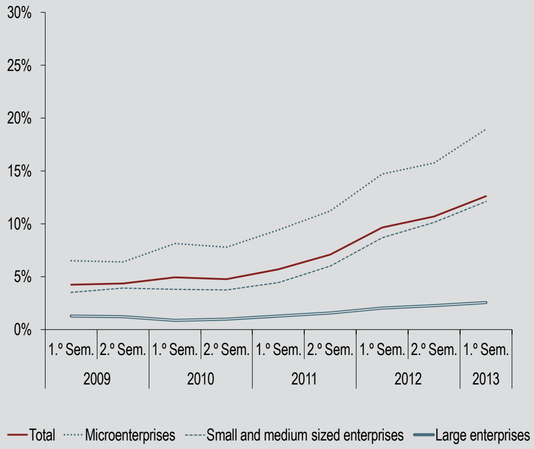
16 The Central Credit Register is a database managed by Banco de Portugal, which gathers information provided by participating entities (credit-granting resident institutions) regarding credit granted. For more information, please refer to *Booklet No 5 of Banco de Portugal*, *Central de Responsabilidades de Crédito* (Portuguese only).

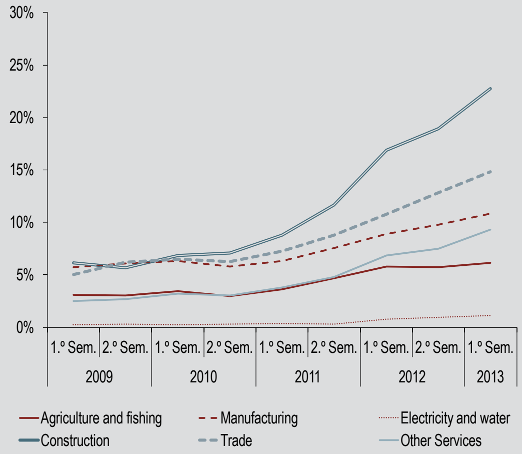
17 These include banks, savings banks and mutual agricultural credit banks (generically called 'banks' in this *Study*), as well as financial credit institutions, factoring companies, credit purchase financing companies and financial leasing companies. Over 95 % of credit granted by resident credit institutions to NFCs in 2012 came from banks.

18 The non-performing ratio, based on information from the CCR, is obtained by calculating the ratio of credit overdue to total credit obtained. Credit is deemed to be overdue, in the case of principal, once the maximum period of 30 days after maturity has elapsed without settlement; and in the case of interest and other expenses, once the due date for settlement has passed.

Chart 3.2

NON-PERFORMING LOANS RATIOS *(end of period)*





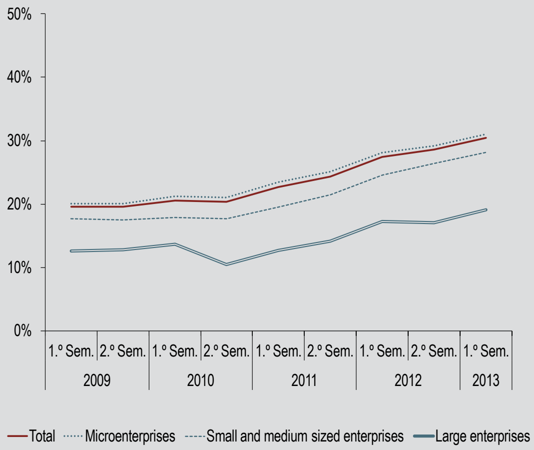
All economic activity sectors recorded an increase in non-performing loans ratios at the end of the first half of 2013. *Construction* continued to have the highest non-performing loans ratio (22.8 %), followed by *Trade* and *Manufacturing* (14.8 % and 10.8 % respectively). *Electricity and water* maintained the lowest non-performing ratio (1.1 %).

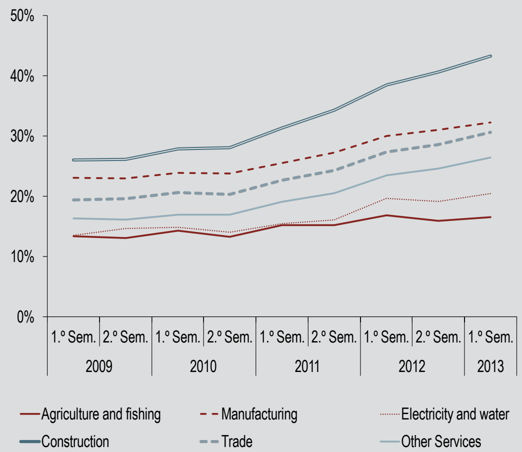
The share of enterprises with non-performing loans at the end of the first half of 2013 reached 30.4 %, compared with 28.6 % at the end of 2012 and 24.4 % at the end of 2011 (Chart 3.3). The share of non-performing enterprises increased in all size classes: by 1.8 p.p. in microenterprises and SMEs (to 31.0 % and 28.2 % respectively) and by 2.0 p.p. in large enterprises (to 19.0 %).

By economic activity sector, *Construction* continued to have the highest share of non-performing enterprises (43.3 %) at the end of the first half of 2013. On the other end, *Agriculture and fishing* continued to have the lowest share of non-performing enterprises (16.6 %).

Chart 3.3

NON-PERFORMING ENTERPRISES *(end of period)*





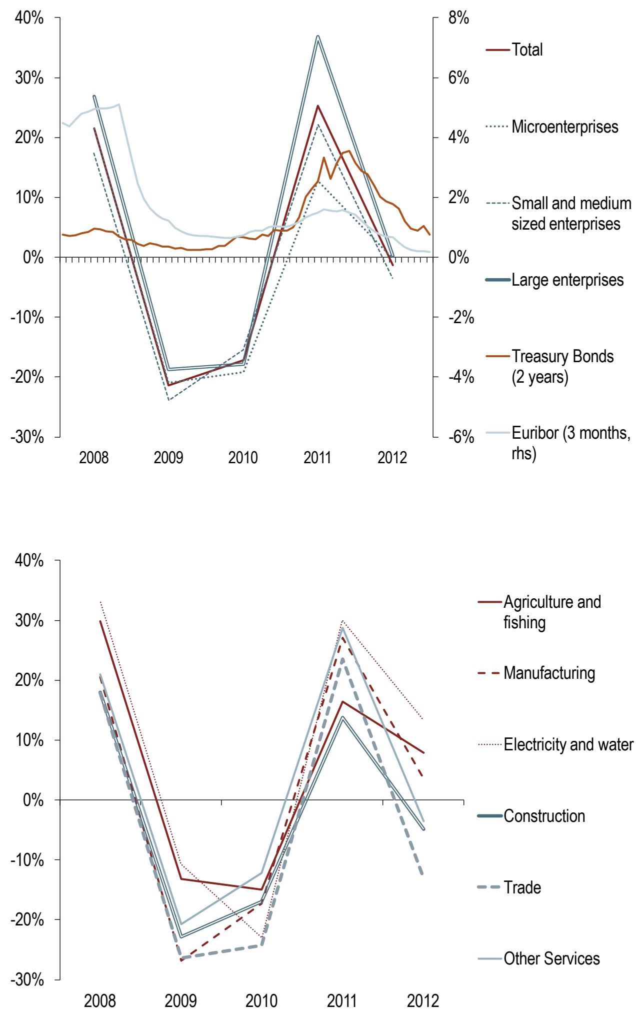
2.3.2 Financial costs and solvency

Interest paid by enterprises recorded a slight decrease (1 %) from 2011…

In 2012 interest paid by enterprises in Portugal decreased slightly (1 %) from 2011, when, due to constraints associated with the euro area sovereign debt crisis, interest paid grew by 25 % (Chart 9). As mentioned before, however, the decrease in outstanding amounts also contributed to a reversal of developments in interest paid in 2012. Preliminary data from the Central Balance Sheet Database point to the trend of decreasing interest paid by NFCs extending into the first half of 2013.

Chart 9

INTEREST PAID | *Annual growth rate and market interest rates*



…the reversal in trend developments in interest paid was broadly based across all size classes and economic activity sectors

The reversal in trend developments in interest paid in 2012, compared with 2011, was broadly based across all size classes. However, it was particularly marked in large enterprises, where, after having grown by 37 % in 2011, interest paid remained practically unchanged in 2012. Nevertheless, SMEs saw the greatest decrease in interest paid by enterprises (3 %).

In terms of economic activity sectors, 2012 also saw a reversal in developments in interest paid seen in 2011, although only *Trade, Construction* and *Other Services* recorded negative growth rates in interest paid (-13 %, -5 % and -4 % respectively).

Financial pressure, assessed in terms of the weight of interest paid on EBITDA, continued to increase in 2012, following the same trend seen in 2011. Therefore, in 2012, close to 37 % of EBITDA generated by NFCs was used to pay interest, accounting for an increase of 9 p.p. compared with the previous year (Chart 10). These developments were the result of a drop in EBITDA, given that, as mentioned before, interest paid by enterprises decreased in 2012.

In spite of a decrease in interest paid, the drop in EBITDA resulted in a further increase in financial pressure on NFCs

Chart 10

WEIGHT OF INTEREST PAID ON EBITDA

The increase in financial pressure in 2012 was particularly marked in microenterprises (93 p.p.), where it reached 146 %, i.e. interest paid by these enterprises largely exceeded income from operating activities. In SMEs and large enterprises, in spite of a worsening of financial pressure (6 p.p. in each case), the share of EBITDA used to pay interest was considerably lower (42 % in SMEs and 25 % in large enterprises).

Interest paid by microenterprises in 2012 exceeded income from operating activities…

In 2012, 41 % of enterprises recorded EBITDA below interest paid, compared with 38 % in 2011 (43 % of microenterprises, 25 % of SMEs and 22 % of large enterprises).

By economic activity sector, *Construction* again stands out with the highest financial pressure in 2012 (133 %). In the same year, EBITDA was lower than interest paid for 43 % of enterprises in *Construction*.

…this was also the case in Construction and Section L – *Real estate activities*

Compared with 2011, *Trade* and *Other Services* had the highest increases in financial pressure in 2012 (12 p.p. and 17 p.p. respectively). As for *Other Services*, financial pressure mainly increased in activities related to *Construction*, specifically activities in Section L – *Real estate activities*, where this ratio increased by 56 p.p. from 2011, reaching 200 %, even higher than in *Construction*. In addition, enterprises with activities associated with Section I – *Accommodation and food service activities made a negative* contribution to the financial pressure ratio of *Other Services*, due to negative aggregate EBITDA. In 2012 the share of enterprises with EBITDA lower than interest paid stood at around 42 % both in *Trade*, and *Other Services*, having increased from 2011 in both cases (by 4 p.p. in *Other Services* and by 2 p.p. in *Trade*).

Agriculture and fishing was the only sector where financial pressure decreased in 2012 (by 2 p.p.), standing at 27 %. Nevertheless, *Manufacturing* continued to have the lowest financial pressure level (22 %).

BOX 4 | CREDIT OBTAINED THROUGH DEBT SECURITIES ISSUES - CHARACTERISATION BASED ON THE SECURITIES STATISTICS INTEGRATED SYSTEM[19]

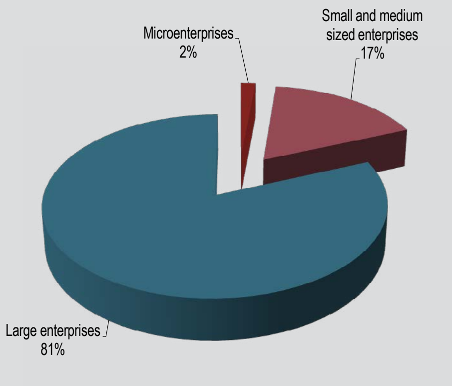
Funding obtained through the issue of debt securities accounted for 11 % of enterprises' financial debt in 2012 (7 % of total liabilities). Information available from Banco de Portugal's Securities Statistics Integrated System offers a more detailed description of this source of funding, focusing on more recent data for the first half of 2013.

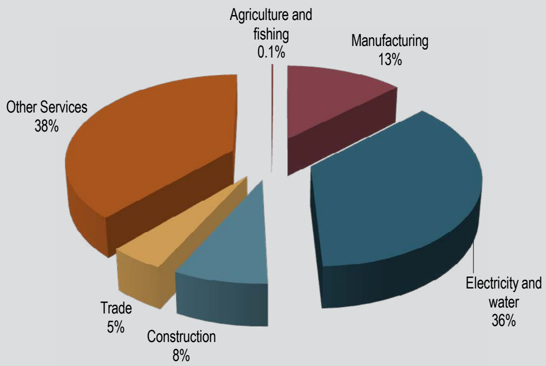
Total corporate funding by debt securities decreased by 1 % at the end of the first half of 2013 from the end of 2012, totalling more than € 23.7 billion. Compared with the end of 2011, this type of funding had grown by 3 % at the end of the first half of 2012 and by 11 % at the end of 2012.

Funding by debt securities issues is not very relevant for smaller enterprises. In effect, large enterprises used this type of funding the most and were responsible for 81 % of total existing debt securities at the end of the first half of 2013 (80 % at the end of 2012 and 76 % at the end of 2011). SMEs accounted for 17 % and microenterprises only 2 % (Chart 4.1). In addition, the share of SMEs in the total amount of debt securities issued has been decreasing since 2010.

Chart 4.1

FINANCING THROUGH DEBT SECURITIES *(position at the end of the first half of 2013)*





By economic activity sector, *Other Services* (in particular, Sections J – *Information and communication*, H – *Transportation and storage* and M – *Professional, scientific and technical activities*), accounting for 38 % of total amounts issued, and *Electricity and water* (36 %) were particularly relevant. These were followed by *Manufacturing* (13 %) and *Construction* (8 %) at the end of the first half of 2013, in terms of relevance. This structure did not change significantly from previous periods, although *Electricity and water* and *Manufacturing* have a larger relative share (1 p.p. and 2 p.p. respectively, compared with the structure at the end of 2012), as opposed to *Other Services* (-2 p.p.).

The relative share of short-term issues decreased slightly in the first half of 2013 (by 1 p.p.) from the end of 2012, accounting for 63 % of total NFCs' debt securities. This decrease was broadly based across all size classes, with SMEs using this particular maturity less frequently (given that their share in SMEs' total issues went from 69 % at the end of 2007 to 38 % in June 2013. For microenterprises and large enterprises the situation has remained more stable, with short-term issues accounting for 51 % and 68 % of the stock of debt securities respectively.

19 The Securities Statistics Integrated System is an information system managed by Banco de Portugal relating to securities issues and portfolios, on a 'security-by-security' and 'investor-by-investor' basis. For further information, please refer to Supplement 2|2008 to the Statistical Bulletin of Banco de Portugal, *Securities Statistics: Integrated System Features and Main Results*.

In terms of economic activity sectors, *Agriculture and fishing* (93 %) and *Electricity and water* (80 %) used short-term issues the most (Table 4.1). *Other Services* (50 %) and *Construction* (51 %) had the lowest share of short-term issues.

Table 4.1

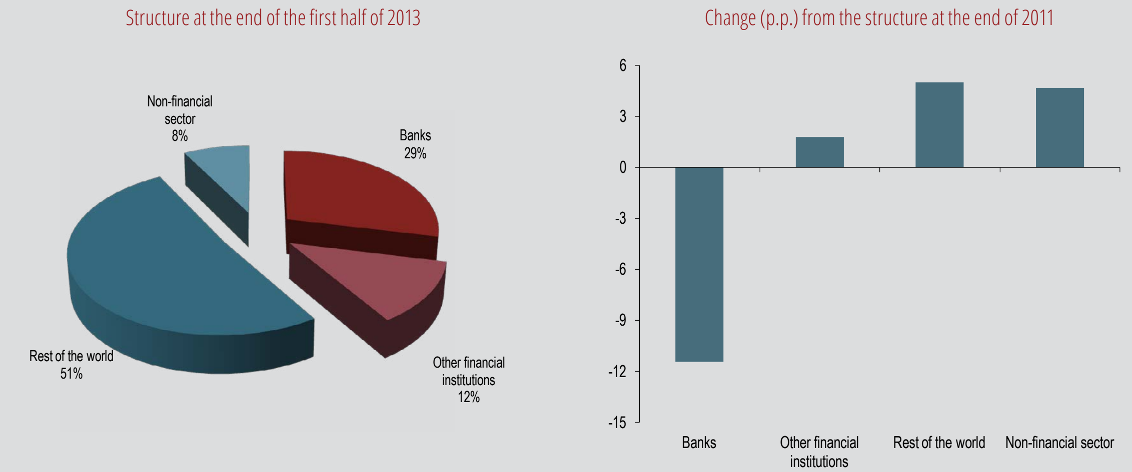
SHARE OF SHORT-TERM DEBT SECURITIES IN TOTAL DEBT SECURITIES ISSUED *(end of period)*

Economic sector	2011	2012	2013 (1st half)
Agriculture and fishing	94.2 %	93.4 %	92.7 %
Manufacturing	66.6 %	67.7 %	63.5 %
Electricity and water	77.6 %	78.8 %	79.7 %
Construction	63.5 %	56.9 %	50.7 %
Trade	59.8 %	54.3 %	54.6 %
Other Services	53.2 %	51.8 %	49.8 %
Total	64.6 %	64.1 %	62.8 %

An analysis of the holders of debt securities issued by enterprises in Portugal[20] shows that, at the end of the first half of 2013, this type of funding originated for the most part from non-resident entities (51 %), which saw their share increase compared with the end of 2011. The resident banking system held 29 % of total debt securities issued by enterprises, a decrease of 11 p.p. from the end of 2011. The non-financial sector held 8 % of total debt securities issued by enterprises, a drop of 5 p.p. from the end of 2011 (Chart 4.2).

Chart 4.2

DEBT SECURITIES HOLDERS



By maturity of issued debt securities, at the end of the first half of 2013 non-resident entities were the main holder of short-term debt securities (55 %) and long-term debt securities (47 %), while resident banks held 33 % and 23 % of short-term and long-term debt securities respectively. The non-financial sector held a share of 15 % of long-term debt and only 2 % of short-term debt. Other financial institutions showed a greater appetite for long-term issues, justified, to a large extent, by insurance corporations and pension funds.

20 Unlike the securities issues analysis, this component includes debt securities issued by holding enterprises classified in Section K of CAE-Rev.3 - *Financial and insurance activities*.

2.3.3 Trade credit financing

Developments in trade credit financing accompanied the trend in enterprises' activity, decreasing by 12 % in 2012 (-1 % in 2011). In 2012 this type of funding accounted for 16 % of enterprises' total liabilities.

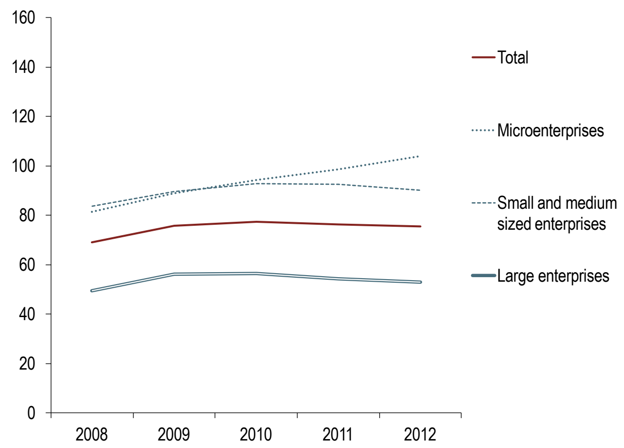
Trade credit financing decreased by 12 % in 2012, accounting for 1 6 % of corporate liabilities

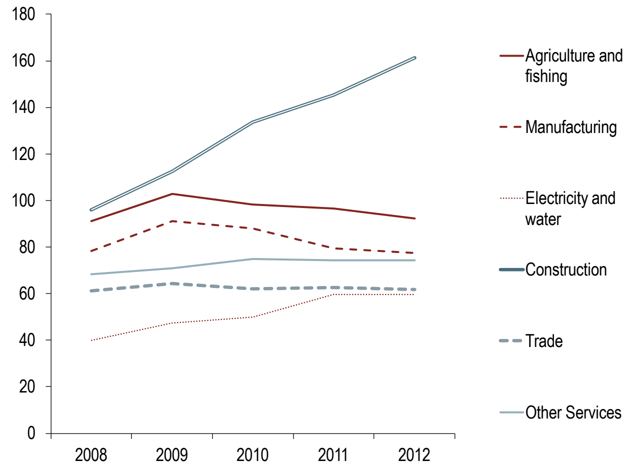
Average days payable and sales outstanding also kept on a downward path in 2012 (Charts 11 and 12). On average, days payable outstanding reached 82 days (84 in 2011), while days sales outstanding totalled 75 days (76 in 2011).

Average days sales and payable outstanding kept on a downward path in 2012, a trend seen since 2010

Chart 11

AVERAGE DAYS SALES OUTSTANDING | *Days*





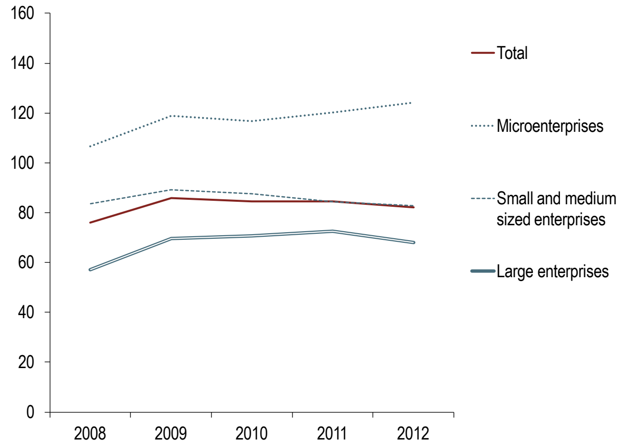
By size class, in what regards days sales outstanding, microenterprises (104 days) and SMEs (90 days) maintained average days sales outstanding significantly above those of large enterprises (53 days) in 2012. As for microenterprises, average days sales outstanding increased by 5 days in 2012, while decreasing by 1 and 2 days for large enterprises and SMEs respectively.

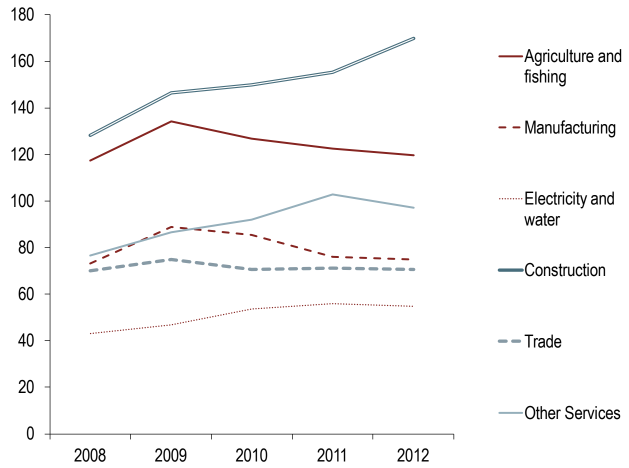
Average days sales and payable outstanding for microenterprises remained above those of other enterprises and recorded opposite developments…

Regarding average days payable outstanding, results in terms of size classes were also highly disparate: 124 days for microenterprises, 83 for SMEs and 68 for large enterprises. However, also at this level average days outstanding increased for microenterprises (4 days) and decreased for SMEs (2 days) and large enterprises (5 days) in 2012.

Chart 12

AVERAGE DAYS PAYABLE OUTSTANDING | *Days*





… this was also the case, by economic activity sector, for enterprises in *Construction*

By economic activity sector, *Construction* continued to have the highest average days sales outstanding (161 days) and average days payable outstanding (170 days) in 2012. Following the trend seen since 2007, average days outstanding in this sector increased significantly in 2012 (16 and 14 days respectively), leading to an increase in the differential between this and the remaining sectors.

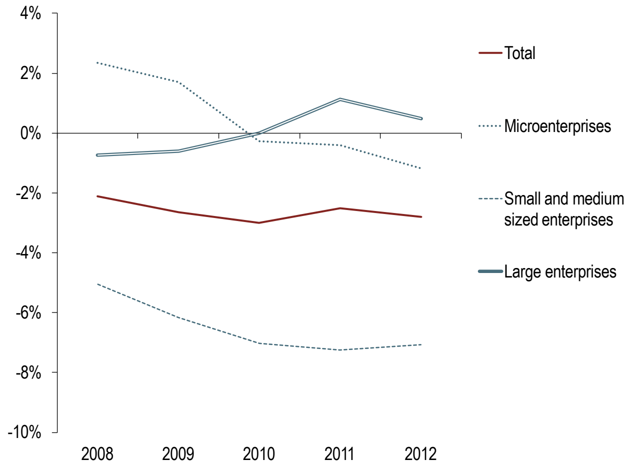
On the opposite end, *Electricity and water* continued to have the lowest average days sales outstanding and days payable outstanding of all activities under analysis (60 and 55 days respectively) in 2012. *Trade* saw a slight decrease in average days sales outstanding (62 days, compared with 63 in 2011), moving closer to *Electricity and water* in 2012. Finally, both average days sales and days payable outstanding decreased in *Manufacturing* and *Agriculture and fishing*.

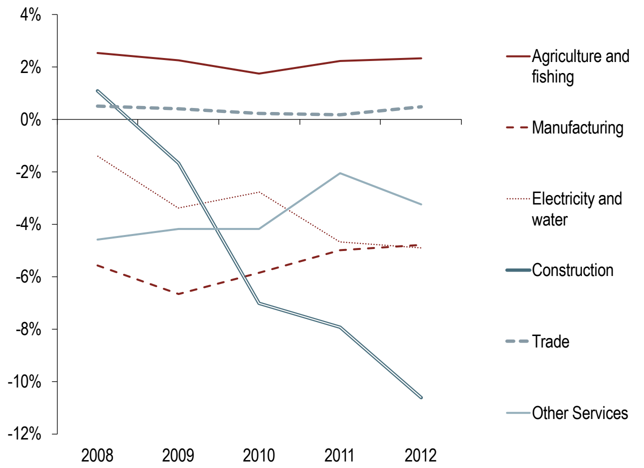
NFCs did not obtain net trade credit financing...

An analysis of the net indicator of trade credit financing, which relates the differential between accounts payable and accounts receivable with turnover, shows that enterprises did not obtain net trade credit financing in the 2008-12 period, having ranged from -2 % to -3 % (Chart 13). A negative value in this indicator reflects the fact that accounts receivable are higher than accounts payable, which means that overall the enterprise is financing its clients; by contrast, a positive value implies that accounts payable are higher than accounts receivable, *i.e.* the enterprise is being funded by its suppliers.

Chart 13

NET TRADE CREDIT FINANCING | *% of turnover*





Note: Net trade credit financing was calculated using the difference between accounts payable (net of advances) and accounts receivable (net of advances and adjustments).

By size class, only large enterprises have shown a positive differential between accounts payable and accounts receivable since 2011. Following the opposite trend, microenterprises, with positive differentials until 2009, began recording negative differentials from 2010 onwards, with this indicator worsening most significantly in 2012 (by -0.8 p.p. reaching a negative balance of 1 % of turnover in 2012). SMEs had the most negative situation in 2012 (-7 %).

By economic activity sector, *Construction* stands out with the most negative value in the indicator of net trade credit financing (-11 %) in 2012, and remains on the downward path seen throughout the period as a whole (decreasing by 3 p.p. in 2012, compared with 2011). The increase in average days sales outstanding for this sector's enterprises is expected to have made a decisive contribution to this.

By contrast, *Agriculture and fishing* and *Trade* continued to be able to obtain net trade credit financing (2 % and 0.5 % of turnover respectively) in 2012. Together with *Manufacturing*, only these sectors saw favourable developments in this indicator in 2012.

…although large enterprises and enterprises in *Agriculture* and *Fishing* and *Trade* obtained net financing from this source of funding

3 INTERNATIONAL COMPARISON FROM THE BACH DATABASE[21]

The BACH database provides an international comparison of the situation of European NFCs in 2011

BACH (Bank for the Accounts of Companies Harmonized) is a database with aggregate accounting information on non-financial corporations from nine European countries[22]. This database was recently redesigned, resulting in a significant improvement in data comparability among countries. Nevertheless, there are still a few limitations to data comparability, as European central balance sheet databases are based on different national data collection systems and accounting standards. For example, Table 8 shows a bias in the samples of some of the countries in favour or larger enterprises. However, by economic activity sector, samples adequately reflect the NFC population's structure in each country.

This chapter presents, for some economic and financial indicators, the results of the comparison of non-financial corporations from the European countries included in BACH. Most recent data available on this database refer to 2011 and the following countries: Austria, Germany, Belgium, Spain, France, Italy, Poland, Portugal and the Czech Republic.

Table 8

REPRESENTATIVENESS OF DATA (2011)

Country	Enterprises	Turnover (T)/ Employees (E)
Austria	44 %	NA
Germany	8 %	66 % (T)
Belgium	98 %	100 % (E)
Spain	29 %	53 % (E)
France	29 %	78 % (E)
Italy	7 %	72 % (E)
Poland	3 %	56 % (E)
Portugal	98 %	98 % (T)
Czech Republic	13 %	77 % (T)

Note: Figures for Poland are estimates.

3.1 Sectoral structure

Manufacture and *Trade* accounted for more than half of the turnover of European enterprises

In 2011 the distribution of non-financial corporations by economic activity sector shows that *Manufacturing* and *Trade* accounted for more than half of total turnover in BACH countries (Chart 14). Italy and Poland were the countries where these sectors had the highest share (73 %), by contrast with Spain (60 %).

In Portugal, *Manufacturing* had the lowest share in total turnover generated by NFCs (24 %), while in Germany this sector had the highest share (45 %).

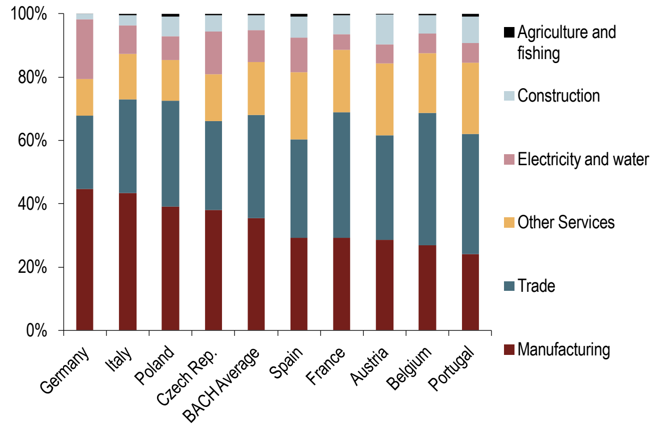
21 All information provided in this section is available at: *http://www.bachesd.banque-france.fr/?lang=en*. Access to the BACH database is free of charge. The Central Balance Sheet Database of Banco de Portugal reports information on Portuguese non-financial corporations and manages the database, together with the other participating entities.

22 Participating in the BACH database are 13 European countries, and the addition of data from Slovakia, the Netherlands, Luxembourg and Romania is expected in the near future.

In addition, *Other Services* and *Construction* had the second largest weight in Portugal (22 % and 8 % respectively), immediately after Austria (23 % and 9 % respectively).

Chart 14

TURNOVER STRUCTURE | *By economic activity sector (2011)*



An analysis of *Manufacturing* in terms of technological intensity[23] shows that Germany and the Czech Republic both had a greater concentration in more technology-intensive manufacturing industries (72 % and 56 % respectively) in 2011. By contrast, the same indicator shows that 71 % of turnover in *Manufacturing* in Portugal came from low technology-intensive segments (Chart 15).

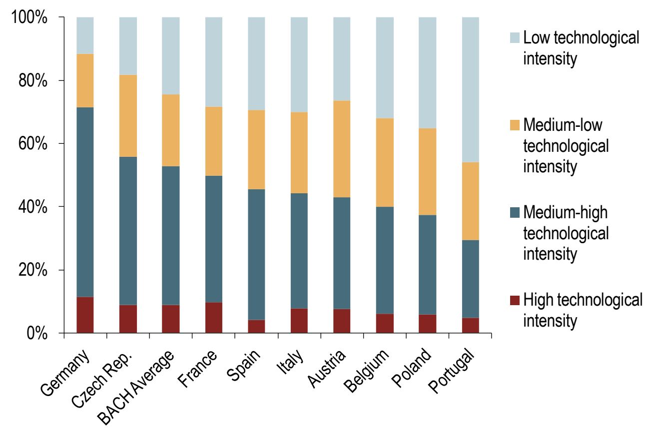
Germany and the Czech Republic had a greater concentration in technology-intensive manufacturing industries

By comparison with the remaining European countries, Portugal had a higher share of manufacturing associated with textile, apparel and leather, as well as wood, paper, printing and furniture (12 % of turnover in *Manufacturing* for both cases) (Chart 16). In Germany (37 %) and the Czech Republic (27 %) motor vehicles were particularly relevant. Chemical and pharmaceutical industries were especially important in Belgium (21 %), manufacture of food products in Poland (22 %) and manufacture of metals in Austria (19 %).

Portugal had a higher share of manufacturing associated with textile, apparel and leather, as well as wood, paper, printing and furniture

Chart 15

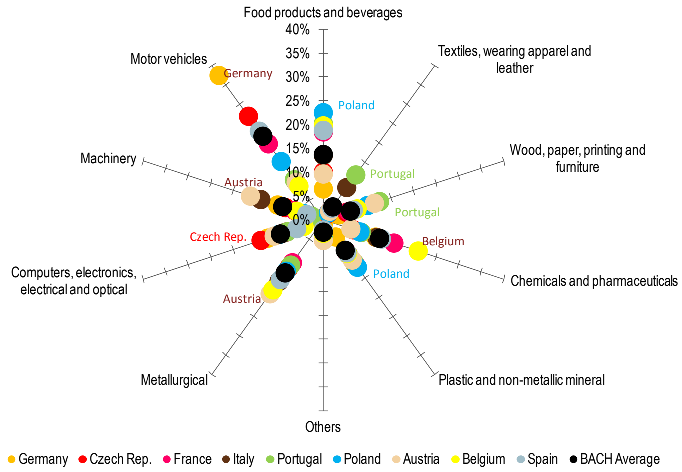
TURNOVER STRUCTURE IN MANUFACTURING | *By technological intensity (2011)*



23 The detail in *Manufacturing* by technological intensity follows the EUROSTAT/OECD definition in accordance with NACE Rev.2, where High-technology covers NACE 21 and 26; Medium-high-technology NACE 20 and 27 – 30; Medium-low-technology NACE 19, 22-25 and 33; and Low-technology NACE 10-18 and 31-32. In order to ensure of data, *NACE 12 – Manufacture of tobacco products* and *NACE 19 – Manufacture of coke and refined petroleum products* were excluded from this analysis.

Chart 16

TURNOVER STRUCTURE IN MANUFACTURING | *By NACE Rev.2 Division (2011)*



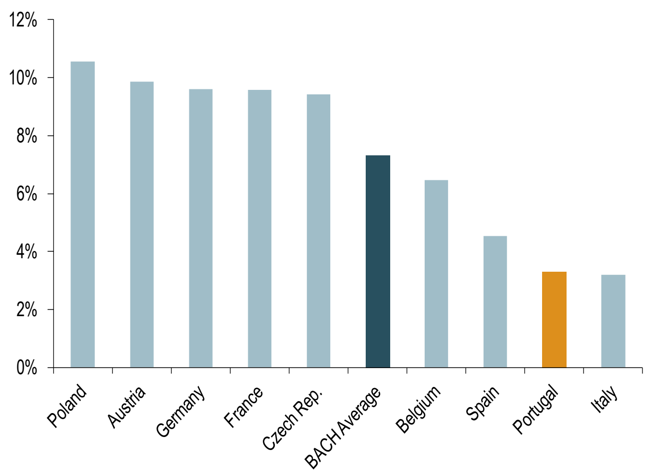
3.2 Economic and financial indicators

Poland (11 %), Austria (10 %), Germany (10 %) and France (10 %) had the highest returns on equity

Chart 17 shows return on equity, used to assess the overall performance of non-financial corporations in BACH countries. These results show that return on equity for enterprises was higher in Poland (11 %), Austria (10 %), Germany (10 %) and France (10 %) in 2011. By contrast, Italy and Portugal had the lowest return on equity (3 %).

Chart 17

RETURN ON EQUITY (2011)



In Poland, the overwhelming majority of economic activity sectors (sections of NACE Rev.2) had a high return on equity. From among the relevant sectors, the following had the best performance in 2011: NACE B – *Mining and quarrying* (33 %), NACE G – *Trade* (13 %), NACE F – *Construction* (11 %) and NACE C – *Manufacturing* (11 %).

By contrast, in Portugal, nine out of seventeen sections in NACE Rev.2 recorded negative return on equity in 2011. NACE F – *Construction* (-9 %) stands out in the sub-set of enterprises with a negative performance.

In order to analyse in greater detail the components that most contributed to investor return, return on equity was broken down into: return on sales, asset turnover and leverage (Table 9)[24].

Therefore, the higher return on equity seen in Poland in 2011 was as much due to the return on sales as asset turnover. By contrast, compared with other countries, enterprises in this country had little leverage.

On the opposite side, the lower investor return in enterprises in Italy and Portugal resulted mainly from the return on sales and asset turnover. In these countries, a higher leverage had a positive contribution to return on equity.

The lower return on equity for enterprises in Italy and Portugal resulted mainly from net return on sales and asset turnover

Table 9

BREAKDOWN OF RETURN ON EQUITY | *Relative position of the country in each indicator (2011)*

Country	Return on equity	Return on sales	Asset turnover	Leverage
Poland	1	1	2	10
Austria	2	2	7	2
Germany	3	8	1	4
France	4	5	4	3
Czech Republic	5	4	3	9
BACH average	6	6	5	6
Belgium	7	3	8	8
Spain	8	7	9	7
Portugal	9	9	10	5
Italy	10	10	6	1

Note: The two highest figures in the indicator (in relative terms) are in **blue**. The two lowest figures in the indicator (in relative terms) are in **red**.

Assessing their **operational** performance, Portuguese enterprises compare favourably with their European counterparts. In effect, in 2011 non-financial corporations in Portugal generated more operating income per euro in turnover (10.8 cents) (Chart 18). By contrast, Poland had the worst performance in this indicator (7.4 cents).

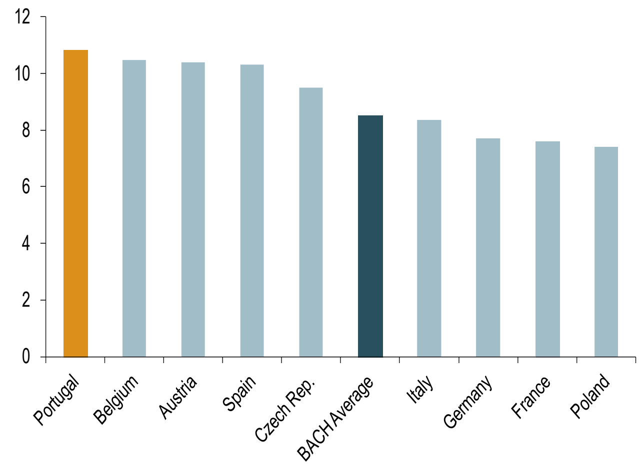
In terms of operating activities, Portuguese enterprises compare favourably with their European counterparts, generating more income per euro in turnover...

24 Return on equity = (Return on sales) * (Asset turnover) * (Leverage)

$$\frac{\text{Net profit}}{\text{Turnover}} * \frac{\text{Turnover}}{\text{Total assets}} * \frac{\text{Total assets}}{\text{Equity}}$$

Chart 18

EBITDA AS A % OF TURNOVER (2011)



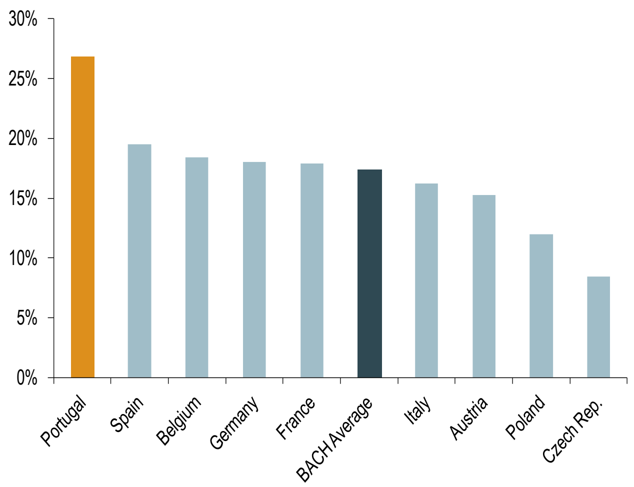
...however, enterprises in Portugal had the highest financial pressure

An analysis of **financial pressure**, measured by the weight of interest paid on EBITDA, shows that the financial component resulted in Portuguese enterprises performing worse in terms of return on equity. In 2011 enterprises in Portugal had the highest financial pressure measured by this indicator (27 %, compared with 17 % for the average BACH enterprise) (Chart 19). On the opposite side, for enterprises in the Czech Republic the share of EBITDA used to pay interest was the lowest (8 %).

By economic activity sector, both for Portugal and Spain, NACE Rev.2 Sections with higher financial pressure in 2011 were: NACE L – *Real estate activities* (114 % and 66 % respectively), NACE F – *Construction* (76 % and 37 % respectively) and NACE I – *Accommodation and food service activities* (45 % and 36 % respectively).

Chart 19

WEIGHT OF INTEREST PAID ON EBITDA (2011)



Considering the importance of third-party capital in funding European enterprises, see Chart 20 for the **liabilities structure** of enterprises in 2011.

Results show that in Spain and Austria bank loans had the greatest share of liabilities (36 % and 34 % respectively). By contrast, this type of funding was less relevant for enterprises in France and the Czech Republic (20 % and 21 % respectively). The share of bank loans in Portugal (29 %) stood slightly above the average in BACH countries (27 %).

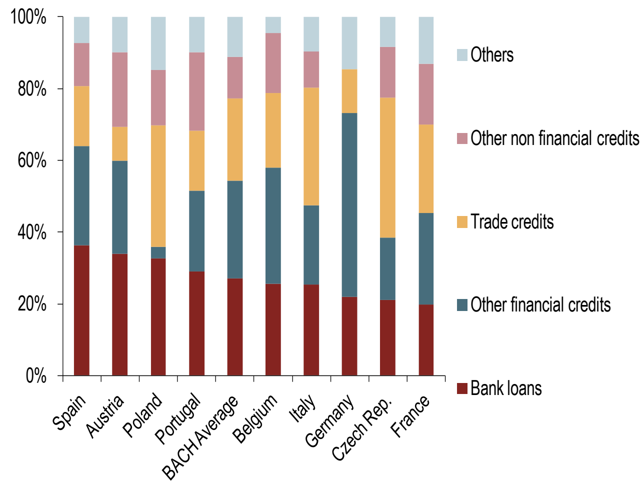
In addition, the largest source of funding for enterprises in Germany was financial debt other than bank loans: other financial loans accounted for 51 % of liabilities. In Portugal, financial debt other than bank loans represented 22 % of liabilities, below the average of BACH countries (27 %).

Trade credit financing had a high share in enterprises from the Czech Republic (39 %), Poland (34 %) and Italy (33 %). By contrast, this had the least relevance for enterprises in Austria (9 %). In this indicator, Portugal (17 %) was not far from the average of BACH countries (23 %).

While the largest source of funding for German enterprises was financial debt other than bank loans (51 % of liabilities), in Portugal financial debt other than bank loans accounted for only 22 % of liabilities

Chart 20

LIABILITIES STRUCTURE (2011)



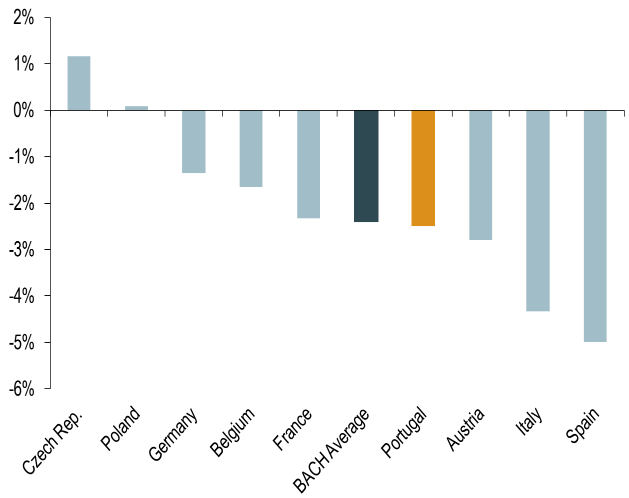
Note: For a complete analysis of data and the differences in funding in these countries, see the BACH Userguide. For Austria and the Czech Republic, other financial loans and other non-financial loans are estimates.

As regards **net trade credit financing**, calculated using the difference between accounts payable and accounts receivable in turnover, only enterprises in the Czech Republic and Poland obtained financing through this type of credit (1 % and 0.1 % of turnover respectively) (Chart 21), countries where trade credits were also more relevant. Spain had the most negative situation in the indicator under analysis (-5 % of turnover). Portugal was slightly below the average of BACH countries (-2 % of turnover in both cases).

Only enterprises in the Czech Republic and Poland obtained net financing through trade credits (1% and 0.1 % of turnover respectively)

Chart 21

NET TRADE CREDIT FINANCING | *% of turnover (2011)*



By economic activity sector, the result for total enterprises in the Czech Republic reflects the overall situation for the economic sectors (see, for example, results of net credit financing, as a percentage of turnover, of two important economic sectors: NACE G – *Trade* (2 %) and NACE C – *Manufacturing* (0.1 %).

By contrast, in Spain only two Sections in NACE Rev.2 showed a positive net trade credit financing in 2011: NACE G – *Trade* (2 %) and NACE I – *Accommodation and food service activities* (1 %).

In Portugal only six (of a total of seventeen) Sections in NACE Rev.2 obtained net trade credit financing, with NACE Q – *Human health and social work activities* (26 %), NACE L – *Real estate activities* (12 %) and NACE I – *Accommodation and food service activities* (6 %) recording the most positive figures. By contrast, NACE E – *Water collection, treatment and supply* recorded the most negative figure (-20 %).

METHODOLOGICAL SUMMARY

Capital ratio: Ratio of equity to total assets.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): The new accounting standard (SNC – *Sistema de Normalização Contabilística*, Accounting Normalisation System) ended the concept of extraordinary expenses and revenues and stopped allowing unambiguous identification of financial components. Thus, this Study uses the EBITDA definition of the Accounting Normalisation System, adjusting data reported under the old standard (POC – *Plano Oficial de Contabilidade*, Official Chart of Accounts), where possible, for the 2006-09 period.

Economic sector: To simplify the analysis, some sections of the Portuguese Classification of Economic Activities – 3rd Revision (CAE-Rev.3) were aggregated, by associating activities with similar characteristics. The following aggregates were thus formed: *Agriculture and fishing* (Section A); *Manufacturing* (Sections B and C); *Electricity and water* (Sections D and E), *Construction* (Section F), *Trade* (Section G) and *Other Services* (Sections H to S, except Sections K and O). As a result, this analysis excludes enterprises classified in Section O – *Public administration and defence; compulsory social security*, Section T – *Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use*, and Section U – *Activities of extraterritorial organisations and bodies of* CAE-Rev.3, as these are not included in the NFC institutional sector. It also excludes enterprises classified in Section K – *Financial and insurance activities* which groups together non-financial holding enterprises (with the SGPS denomination) not involved in subsidiary management, which, despite still belonging to the NFC sector (as regulated under ESA 95), were not analysed in this Study as these have very specific characteristics setting them apart from the other NFCs.

Quartile distribution: In order to calculate quartiles, the enterprise values for the indicator under analysis are considered in ascending order. The first quartile corresponds to the value of the enterprise in the position corresponding to 25 % of the ordered sample (*i.e.* where 25 % of enterprises show a lower value for that indicator and 75 % a higher value). The second quartile (or median) corresponds to 50 %, *i.e.* the indicator value for this enterprise divides the breakdown into two halves, where one half of the enterprises show a higher value and the other half a lower value. The third quartile corresponds to the 75 % position of the ordered sample (75 % of enterprises show a lower value for that indicator, and only 25 % show a higher value). The interquartile range (obtained as the difference between the third and first quartiles) provides an indication of distribution dispersion. For further details on the calculation of these statistical measures, see *Central Balance Sheet Study* | 6, December 2011 – *New Enterprise and Sector Tables: Adjustment to the Accounting Standards System*.

Return on equity: Ratio of net income for the year to equity. As both items (numerator and denominator) may be positive or negative, the indicator is only calculated at individual level in situations where equity is positive.

Size of enterprise: Enterprises were grouped into three classes: microenterprises, small and medium-sized enterprises (SMEs) and large enterprises. The criteria for this classification were taken from the European Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises. According to this Recommendation, microenterprises are defined as enterprises which employ fewer than ten persons and which have an annual turnover or balance sheet total not exceeding EUR 2 million. For the purpose of this Study, small and medium-sized enterprises (SMEs) exclude microenterprises and are defined as enterprises which employ fewer than 250 persons and more than ten persons and have an annual turnover between €2 and €50 million or an annual Balance Sheet total between €2 and €43 million. Large enterprises are any enterprises which are not classified above.

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CENTRAL BALANCE SHEET STUDIES

1 | ENTERPRISE AND SECTOR TABLES, November 2010

2 | STRUCTURE AND DYNAMICS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL, December 2010

3 | SECTORAL ANALYSIS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL, September 2011

4 | SECTORAL ANALYSIS OF MANUFACTURE OF FOOD PRODUCTS, November 2011

5 | SECTORAL ANALYSIS OF ACCOMMODATION AND FOOD SERVICE ACTIVITIES, November 2011

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7 | SECTORAL ANALYSIS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL 2010/2011, April 2012

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9 | SECTORAL ANALYSIS OF THE MANUFACTURE OF TEXTILES AND WEARING APPAREL, November 2012

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