SECTORAL ANALYSIS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL

Central Balance-Sheet Studies

3

September 2011

Banco de Portugal
EUROSYSTEM

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Av. Almirante Reis, 71

1150-012 Lisboa

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FOREWORD

This analysis is 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). The IES is usually reported within six and a half months of the end of the financial year, which, for most enterprises resident in Portugal, corresponds to 15 July of the year following the reference year. As regards data for 2010, and after the changes introduced into the accounting regulations applicable to most enterprises, the deadline for IES submission was extended to 30 September 2011. The IES submission relating to 2010 is the first corporate annual account report complying with the new Accounting Normalisation System, thus discontinuing some of the accounting concepts based on the old Official Chart of Accounts.

Therefore, data available for the population of enterprises in Portugal refer to 2009, and may be complemented, for a small group of enterprises, with quarterly information referring to a more recent period. The data for 2010 in the Central Balance-Sheet Database are preliminary and are based on quarterly accounting data reported through the Quarterly Survey of non-financial corporations (NFCs). This Survey is conducted by Statistics Portugal and Banco de Portugal among a group of enterprises, in order to obtain information on a small number of economic and financial variables. The answers gathered through this Survey, from approximately 3,000 enterprises, cover a significant proportion of the situation and activity of the NFC sector in Portugal and may be used to predict their overall evolution. However, the quarterly results do not provide complete information on the results for the entire NFC population, since they chiefly reflect developments in the economic sectors and size classes which are best represented in the Quarterly survey of non-financial corporations. In the survey for 2011, which is still ongoing, a sample of enterprises representing the NFC population was introduced for the first time within the scope of the Survey. The purpose of this sample is to obtain quarterly results representing this population.

SUMMARY

This publication examines the economic and financial situation of NFCs resident in Portugal, based on information compiled by the Central Balance-Sheet Database of Banco de Portugal. This analysis focuses chiefly on the 2006-2009 period, for which there are detailed data on most NFCs, making it possible to evaluate their behaviour in some detail, in a particularly adverse year such as 2009.

In effect, 2009 was characterised by a broadly based retrenchment of world economic activity. Portugal was no exception, and GDP contracted by around 2.5%. In 2010 the Portuguese GDP grew (1.3%), in tandem with the recovery in world economic activity, although marked by the more acute sovereign debt crisis in the euro area, which translated into a deterioration of access conditions by Portuguese economic agents to international financing markets.

According to data available in the Central Balance-Sheet Database of Banco de Portugal, NFCs underwent a significant loss in turnover in 2009 (9%), as well as in Earnings before interest, taxes, depreciation, and amortization (EBITDA) – (8%). Nonetheless, the return on equity of NFCs grew by 0.4 p.p. from the previous year, largely as a result of the decrease in financial costs (31%), following the decline in market interest rates.

The negative change in turnover was proportional to enterprise size. Large enterprises had the largest decline (11%) and microenterprises the smallest decline (6%). The overall result of the microenterprise class, which gathers the large majority of NFCs (87%), covered, however, considerably heterogeneous situations, where one fourth of the enterprises posted turnover falls exceeding 30%, while another fourth had increases in excess of 13%.

In spite of a relatively less negative behaviour, microenterprises continued to show the lowest return on equity in 2009 (1%), and was also the size class with the highest share of enterprises posting negative profit and loss for the year (44%) and capital shortage (27%).

By economic sector *Construction* stood out, as it had one of the lowest falls in turnover in 2009 (4%). However, when assessing the individual situation of enterprises in this sector, turnover retrenchment was in excess of 13% in 50% of the enterprises, and exceeded 48% in half of these. Notwithstanding this result, which was reflected in an increase in the relative weight of the enterprise sector posting losses, in 2009 *Construction* was one of the activity sectors with smaller percentage of enterprises with capital shortage (19%) and losses (40%).

Industry, with a contraction of 17%, was the sector that contributed the most to the negative evolution of NFCs' turnover in 2009. This contraction was confirmed in other results for the sector, such as EBITDA (-22% growth rate) and return on equity (2.3% in 2009, vis-à-vis 4.5% in 2008). *Trade*, the activity with the highest weight on NFCs' turnover, posted an 8% fall in this indicator, which translated into a 9% decline in the respective EBITDA. Nonetheless, return on equity in this sector rose by 2 p.p.

In what regards NFC financing, data confirm enterprise leveraging in Portugal. In effect, on average, approximately 30% of enterprise assets were supported by equity. In half the enterprises this percentage was even lower than 23%. The analysis by size shows that microenterprises, on average, have the highest result in the capital ratio indicator; this size class, however, is highly heterogeneous. By economic sector, enterprises in *Construction* had, on average, the lowest levels in this indicator. Development-wise, activity in leveraged NFCs decelerated, with a virtually nil growth rate in 2009.

Financial debt (bank loans, debt securities, intra group loans and shareholders) was the main financing source of NFCs in Portugal (60% of liabilities). Bank loans had a higher share in *Construction*, while loans by group enterprise were more relevant in the *Electricity and Water* sector, and loans by shareholders/partners were predominant in *Agriculture and Fishing*.

Financial debt costs of NFCs have moved in parallel with the evolution of market interest rates, with a significant fall in 2009. This implied lower consumption of EBITDA for interest payments. Nonetheless, the average share of EBITDA allocated to interest remained at high levels in microenterprises (95%) and in the *Electricity and Water* (74%) and *Construction* (66%) sectors.

Data available also show that a significant share of NFCs did not generate enough income to repay their short-term debt. This led enterprises, for instance, to opt for debt revolving, i.e. using new financing in order to repay their short-term financial commitments.

Trade credits are another important financing source for NFCs (18% of liabilities), and grew by around 3% in the 2006-2009 period. In aggregate terms, days payable outstanding and days sales outstanding of NFCs in Portugal have stood above 80 days, and were very close to 90 days in 2009. An assessment of the individual situation of enterprises shows that the differential between days outstanding was favourable in around half the enterprises, i.e. half the NFCs received earlier from their customers than they paid to their suppliers. By size class, microenterprises have benefitted the most from this type of credit, as well as the *Trade* sector, in terms of sectoral breakdown.

So far, for 2010, the Central Balance-Sheet Database of Banco de Portugal has used data reported through the quarterly survey to non-financial corporations, relating to a limited group of enterprises. These data point to a recovery in NFCs' activity in 2010, which has reflected in an increase in EBITDA and in return on equity. This preliminary information also indicates that the rise in the sovereign risk premium in 2010 did not have an immediate significant effect on the NFCs' debt burden.

The Central Credit Register of Banco de Portugal also provides additional information for 2010 on loans granted to NFCs by resident credit institutions. In this respect, reference should be made to the negative annual growth rate of this type of credit (-2%), especially in *Construction* (-9%). The non-performing ratio of loans to NFCs rose in 2010 by 0.4 p.p. to 4.7%, where at least more than 20% of the enterprises were in a non-performing situation. Evolution-wise from 2009, it is worth highlighting the rises in non-performing ratios in microenterprises (0.8 p.p.) and *Construction* (1.5 p.p.), vis-à-vis 2009.

Additional information available in the Securities Statistics Integrated System of Banco de Portugal for 2010 points to an increase in resorting to issues of debt securities (by 8% year-on-year) by NFCs, also showing that large enterprises resorted the most to this type of financing (accounting for 73% of the total issued). In what regards the breakdown by economic sector, the *Other Services* and *Electricity and Water* sectors were responsible for 36% and 31% respectively of the total amount of debt securities issued. In turn, short-term issues were clearly predominant, although with a slight downward trend in recent years, and fixed-interest rate issues were also relevant.

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I SECTORAL ANALYSIS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL

1 INTRODUCTION

This *Sectoral Analysis of Non-Financial Corporations in Portugal* evaluates the economic and financial situation of NFCs[1] resident in Portugal, based on information compiled by the Central Balance-Sheet Database of Banco de Portugal[2]. The analysis covers the 2006-2009 period and, where possible, also includes data for 2010.

In this respect, reference is made to the very specific nature of the year 2009, which was seriously affected by a retrenchment in economic activity and world trade. This unfavourable environment had an impact on Portuguese exports, especially affecting the activity of tradable sectors such as *Industry* and *Tourism*. Simultaneously, the effort of the economic policy to minimise this impact through an expansion of monetary and fiscal policies has made it possible to alleviate some of this negative effect.

The subsequent economic recovery in the euro area and the required priority of fiscal consolidation have determined, as of 2010, the reversal of some developments observed in 2009, which must be considered in the conclusions to be drawn from this document and which, where possible, are highlighted in this analysis.

The results in this publication complement the aggregate data on NFCs, obtained from the Central Balance-Sheet Database, and released within the scope of Banco de Portugal's statistical publications[3]. In particular, this analysis characterises the aggregates, for a range of selected indicators, in terms of dispersion of individual results of the enterprises they belong to[4]. For the purpose, it frequently uses data in terms of their quartile distribution[5], thus avoiding any distortions triggered by possible extreme observations that may bias the analysis of aggregate results[6].

The analysis focuses on aggregate economic sectors and enterprise size classes. For the sake of simplicity, some sections of the Portuguese Classification of Economic Activities – 3rd Revision (CAE-Rev.3) were

1 The NFC sector represents one of the five economy's 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. ESA95 is a harmonised reference on the compilation methodology and deadline for release of the national accounts of EU countries, including statistics of the responsibility of Banco de Portugal. Based on this regulation, sole proprietors are included in the households' institutional sector. Hence, all data on the NFC sector throughout this document exclude sole proprietors (in Portugal these represent around two-thirds of the number of enterprises, but only 5% of the respective turnover).

2 The Central Balance-Sheet Database of Banco de Portugal is a database with economic and financial information on NFCs in Portugal. Information is based on annual accounting data (Annual Central Balance-Sheet Database) reported within the scope of the IES (Simplified Corporate Information) and quarterly accounting data (Quarterly Central Balance-Sheet Database) reported by enterprises through the Quarterly Survey to non-financial corporations. Annual data cover nearly all NFCs and quarterly data cover around 3,000 enterprises, representing 40% of turnover in the sector. For further details on the activities of the Central Balance-Sheet Database, please refer to the Supplements to the Statistical Bulletin 5/2005 – Statistics on Non-Financial Corporations from the Central Balance-Sheet Database and 1/2008 – Simplified reporting: Inclusion of the Simplified Corporate Information in the Statistics on Non-Financial Corporations from the Central Balance-Sheet Database, as well as the Central Balance-Sheet Study |1, November 2010 – Enterprise and Sector Tables.

3 Central Balance-Sheet Database statistics are published in Banco de Portugal's Statistical Bulletin (Chapter G) and in Sector Tables, both available on the Banco de Portugal's website and BP*stat* | Statistics online

4 For the sake of simplicity, this Study refers interchangeably to the expressions 'enterprise' and 'corporation', but both exclude the sole proprietor aggregate.

5 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 inter-quartile 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, please refer to the Central Balance-Sheet Study No 1, November 2010 – Enterprise and Sector Tables.

6 Moreover, annual data in the scope of this analysis cover information on all NFCs reporting IES. In what regards the statistical publications of the Central Balance-Sheet Database of Banco de Portugal, the results made available only correspond to data from common enterprises over two consecutive years.

aggregated, by associating activities with similar characteristics[7]. The following aggregates were thus formed: *Agriculture and Fishing* (Section A); *Industry* (Sections B and C); *Electricity* and *Water* (Sections D and E), *Construction* (Section F), *Trade* (Section G) and *Other Services* (Sections H to S)[8].

In terms of enterprise size, three classes were considered: micro, small and medium-sized, 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 whose annual turnover and/or balance sheet total does not exceed €2 million. For the purpose of this *Study*, small and medium-sized enterprises (SMEs) exclude microenterprises, and are defined as those enterprises which employ fewer than 250 persons and have an annual turnover that does not exceed € 50 million and/or an annual balance sheet total that does not exceed € 43 million. Large enterprises are any enterprises which are not classified above.

This analysis starts with a brief characterisation of the NFC sector. Afterwards, it reviews its turnover evolution over the period under analysis, in order to determine the extent to which these are reflected in business profitability. This implies a breakdown of the effects having a bearing on this profitability into operational and financial components of business activity, also seeking to provide some information on the solvency capacity of the sector.

Finally, based on complementary information available in other databases of Banco de Portugal's Statistical Department, details are given on the financial debt of Portuguese NFCs, especially in what concerns bank loans and securitised debts.

7 This analysis excludes the enterprises classified in Sections O – Public administration and defence; Compulsory social security, T – Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use and U – Activities of extraterritorial organisations and bodies of CAE-Rev.3, since they are not included in the institutional sector of NFCs. It also excludes the enterprises classified under Section K – Financial and insurance activities (that includes non-financial holding companies not involved in the management of companies in which they have a shareholding) which, although belonging to the NFC sector (as regulated in ESA95), have not been considered in this Study, due to their specific characteristics, that largely differentiate them from the other NFCs.

8 The aggregate Other Services includes, in particular, activities related to accommodation and food services, information and communication, real estate, consultancy, scientific, administrative and support services, education, health, arts and sports, and other service activities.

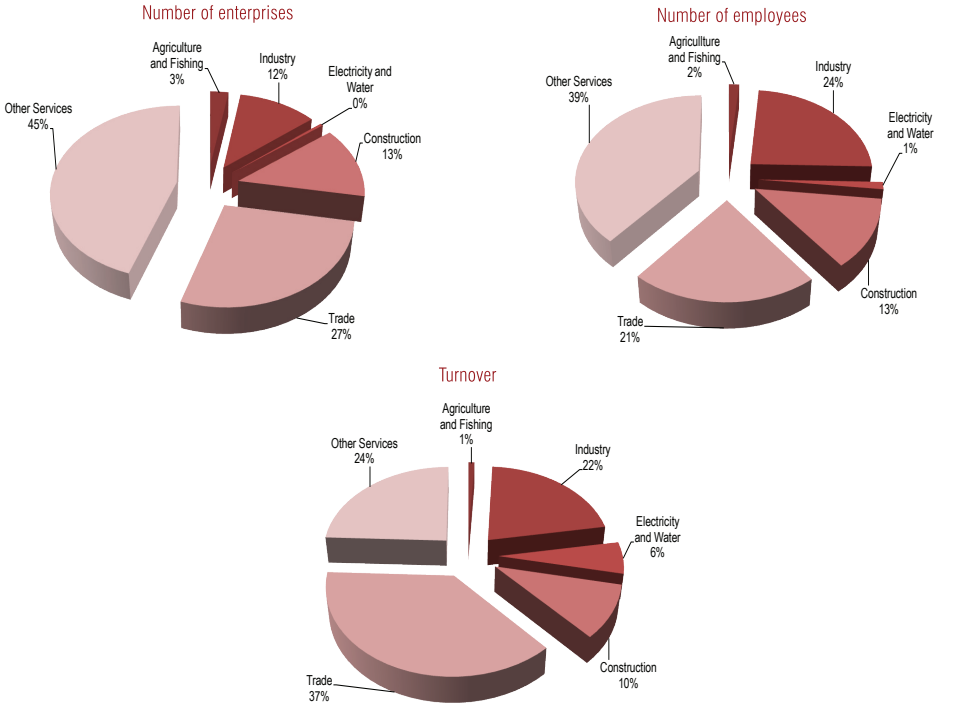
2 CHARACTERISATION OF THE NON-FINANCIAL CORPORATE SECTOR IN PORTUGAL

The NFC sector used as reference for the statistics of the Central Balance-Sheet Database of Banco de Portugal gathered nearly 380,000 enterprises in 2009, which represents a 37% increase from 2000[9].

The *Other Services* aggregate contained the highest number of enterprises, approximately 167,000, followed by *Trade*, with more than 103,000. *Agriculture and Fishing*, covering around 10,000 enterprises, and *Electricity and Water*, with less than 2,000 enterprises, were the activities with the smallest number of enterprises.

Chart 1

STRUCTURE OF THE NFC SECTOR | *By economic sector (2009)*



Even though *Other Services* comprised 45% of the enterprises and 39% of the number of employees, this sector contributed with a lower percentage (24%) to total turnover, while *Trade* was the largest contributor to this indicator (37%) (Chart 1). In 2009 *Industry*, an activity that has lost relevance over the last decade was responsible for around 12% of the number of enterprises, 24% of the number of employees, and 22% of turnover in total NFCs.

By **enterprise size** the large majority of NFCs in Portugal (99.7%) were microenterprises, small or medium-sized enterprises. In number, large enterprises represented only 0.3% of the total, but were responsible for 28% of the number of employees and 41% of turnover. *Industry* and *Electricity and Water* were the only two sector aggregates where the weight of large enterprises, in number, was slightly higher, by 0.7% and 2.1% respectively. In these two sectors, SMEs were more relevant, to the detriment of microenterprises, whose average weight did not exceed 70% (the weight in the other sectors stood between 84% in *Construction* and 92% in *Other Services* – Table 1).

9 For a more detailed characterisation of this sector's structure and dynamics, see Central Balance-Sheet Study | 2 December 2010 – Structure and dynamics of non-financial corporations in Portugal.

Table 1

MAIN SIZE CLASSES | *By economic sector (2009)*

Analysis dimension	Total	By economic sector					
		Agriculture and Fishing	Industry	Electricity and Water	Construction	Trade	Other Services
Number of enterprises	Micro enterprises (87%)	Micro enterprises (90%)	Micro enterprises (68%)	Micro enterprises (70%)	Micro enterprises (84%)	Micro enterprises (89%)	Micro enterprises (92%)
Number of employees	SMEs (46%)	SMEs (53%)	SMEs (65%)	SMEs (49%)	SMEs (53%)	SMEs (43%)	Large enterprises (40%)
Turnover	SMEs (43%)	SMEs (54%)	SMEs (48%)	Large enterprises (80%)	SMEs (49%)	SMEs (45%)	Large enterprises (41%)

In general, SMEs have been the main employers and have contributed the most to NFCs' turnover. The exceptions were *Electricity and Water* and *Other Services*, where the contribution of large enterprises was higher in terms of these variables, reaching 80% in turnover in the *Electricity and Water* sector. Nonetheless, large enterprises have shown, in most sector aggregates, a more relevant weight in terms of turnover, except in *Agriculture and Fishing*, where the weight of large enterprises did not exceed 7%.

In terms of **geographical location**[10] there was a large concentration of enterprise head offices in the coastal areas of the country, especially in the Lisbon and Oporto districts (28% and 17% of the total respectively).

In most districts, *Other Services* were the sector aggregate gathering the highest number of enterprises, followed by *Trade*. In terms of the number of employees and turnover, *Industry* gained relevance, exceeding *Other Services* and *Trade* in some districts, such as Oporto, Braga, Aveiro and Setúbal (Table 2).

Table 2

MAIN ECONOMIC SECTORS | *By district (2009)**

District	Analysis dimension		
	Number of enterprises	Number of employees	Turnover
Lisbon	Other Services (55%)	Other Services (56%)	Trade (37%)
	Trade (26%)	Trade (23%)	Other Services (31%)
Oporto	Other Services (42%)	Industry (30%)	Trade (41%)
	Trade (29%)	Other Services (30%)	Industry (23%)
Braga	Other Services (32%)	Industry (49%)	Industry (38%)
	Trade (27%)	Other Services (17%)	Trade (33%)
Aveiro	Other Services (34%)	Industry (55%)	Industry (52%)
	Trade (29%)	Other Services (20%)	Trade (29%)
Setúbal	Other Services (46%)	Other Services (39%)	Industry (39%)
	Trade (27%)	Industry (23%)	Trade (30%)
Other districts	Other Services (42%)	Other Services (35%)	Trade (40%)
	Trade (27%)	Industry (23%)	Other Services (22%)

* The two most important economic sectors are identified for each district, considering the indicator identified in the column.

10 Geographical location refers to the district where the enterprise head office is located.

By **legal nature**[11] of the NFCs, private limited companies were predominant in terms of the number of enterprises (91%), whereas public limited companies were the second most relevant legal nature (6%). Considering the number of employees, the imbalance was less marked (61% in the former and 32% in the latter), whereas in terms of turnover public limited companies were more important, representing 50% of the total, vis-à-vis 44% from private limited companies (Table 3).

Except for *Electricity and Water*, all other sector aggregates showed a clear predominance of private limited companies in both the number of enterprises and employees. In this sector, although private limited companies continued to prevail in terms of main legal nature in number of enterprises, their weight was smaller, when compared with other sectors (61%). As regards the number of employees, public limited companies were the most relevant legal nature (62%).

Table 3

MAIN LEGAL NATURES | *By economic sector (2009)*

Analysis dimension	Total	Agriculture and Fishing	Industry	Electricity and Water	Construction	Trade	Other Services
Number of enterprises	Private limited companies (91%)	Private limited companies (87%)	Private limited companies (90%)	Private limited companies (61%)	Private limited companies (92%)	Private limited companies (94%)	Private limited companies (90%)
Number of employees	Private limited companies (61%)	Private limited companies (73%)	Private limited companies (61%)	**Public limited companies (62%)**	Private limited companies (70%)	Private limited companies (68%)	Private limited companies (57%)
Turnover	**Public limited companies (50%)**	Private limited companies (65%)	**Public limited companies (61%)**	**Public limited companies (92%)**	**Public limited companies (49%)**	Private limited companies (55%)	**Public limited companies (46%)**

Considering turnover, the preponderance of public limited companies extended to most sectors, again with special reference to *Electricity and Water*, where the contribution of this type of enterprises reached 92% of that indicator. In turn, in *Agriculture and Fishing* and *Trade*, the main contributions were made by private limited companies (65% and 55% respectively).

Finally, by **enterprise maturity**[12], approximately 57% of the enterprises were established for less than ten years. In all sector aggregates, this was the type of predominating enterprises, in terms of their number. However, 65% of the number of employees and 71% of turnover were associated with enterprises with more than ten years of activity (Table 4).

The *Electricity and Water* and *Industry* sectors were relevant, the former having a relatively higher weight of enterprises with less than ten years, in terms of their number (70%), which were responsible for a significant share of turnover (55%) and number of employees (43%) in the sector. This particular situation of the *Electricity and Water* sector may have been due to the recent restructuring process of the national energy sector, which led to new enterprises being created.

11 Considering the numerous categories included in national regulations for the classification of enterprises by legal nature, we opted for highlighting only public limited companies and private limited companies, whereas the remaining legal nature was aggregated under 'other legal nature'.

12 The enterprise maturity corresponds to the age of the enterprise at the analysis reference date. In order to define relatively homogeneous groups, three maturity classes were built: up to and including ten years; from ten to and including 20 years; and more than 20 years.

Industry was the activity where the oldest enterprises played a more relevant role. In effect, this sector had the lowest share of enterprises with less than ten years (44%), while enterprises with more than 20 years had a relatively significant weight, both in number of employees (51%) and turnover (57%).

Table 4

MAIN CLASSES OF ENTERPRISE MATURITIES | *By economic sector (2009)*

Size of the analysis	Total	By economic sector					
		Agriculture and Fishing	Industry	Electricity and Water	Construction	Trade	Other Services
Number of enterprises	Up to 10 years (57%)	Up to 10 years (54%)	Up to 10 years (44%)	Up to 10 years (70%)	Up to 10 years (63%)	Up to 10 years (52%)	Up to 10 years (61%)
Number of employees	More than 20 years (37%)	Up to 10 years (42%)	More than 20 years (51%)	Up to 10 years (43%)	Up to 10 years (44%)	More than 20 years (40%)	Up to 10 years (42%)
Turnover	More than 20 years (41%)	Up to 10 years (39%)	More than 20 years (57%)	Up to 10 years (55%)	More than 20 years (48%)	More than 20 years (42%)	Up to 10 years (39%)

3 ECONOMIC AND FINANCIAL ANALYSIS OF THE NON-FINANCIAL CORPORATE SECTOR IN PORTUGAL

3.1 Economic environment

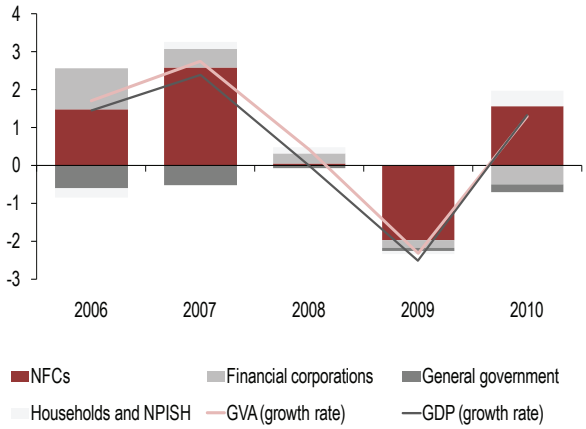
The year 2009 was characterised by a retrenchment in Portuguese GDP (2.5%), after several years of low economic growth. In 2006 and 2007 GDP had positive and rising growth rates (1.4% and 2.4% respectively), whereas in 2008 the year-on-year rate of change was nil. GDP rose again in 2010 (1.3%), but decelerated throughout the year.

The NFC sector has played a prominent role in Gross Value Added (GVA) evolution and, as a result, in GDP developments (Chart 2). According to official data released by Statistics Portugal for 2009, the contribution of NFCs to Portuguese GVA reached 54%, which remained relatively constant over the horizon under review.

The activity of NFCs in Portugal is highly dependent on their access to credit. In effect, Portuguese NFCs have shown one of the highest indebtedness levels in the euro area as a whole. At the end of 2010, this sector's financial debt exceeded 150% of GDP (compared with 102% in the euro area), in the wake of a strong acceleration over the last decade (in 2000 it accounted for 114% of GDP)[13].

Chart 2

GDP AND GVA IN PORTUGAL
- annual growth rate (%) and contributions to GVA growth rate (p.p.)



During most of the period under review in this Study, enterprises have benefitted from the relatively favourable financing conditions of the Portuguese economy. In 2010, however, the sovereign debt crisis in the euro area became more acute, and the conditions of access to international financing markets deteriorated sharply, with an impact on enterprise financing in Portugal.

13 Data relating to non-consolidated financial accounts of NFCs.

3.2 Activity and profitability

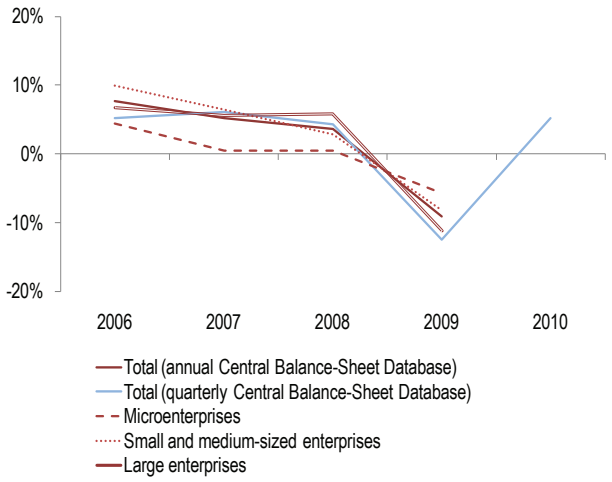
3.2.1 Turnover

According to annual data from the Central Balance-Sheet Database, NFC's turnover contracted in 2009 by around 9%, after having increased in the 2006-2008 period, albeit decelerating (by 8%, 5% and 4% over the period)[14]. In 2010 data from the Central Balance-Sheet Database pointed to a recovery of NFC's turnover (Chart 3).

The turnover decline in 2009, although broadly based, had a positive correlation with **enterprise size**, and in aggregate terms stood at 6% in microenterprises, 8% in SMEs and 11% in large enterprises. Considering their weight in the indicator in question, large enterprises were the major contributors to the overall result of NFCs, accounting for 51% of the negative change in turnover.

Chart 3

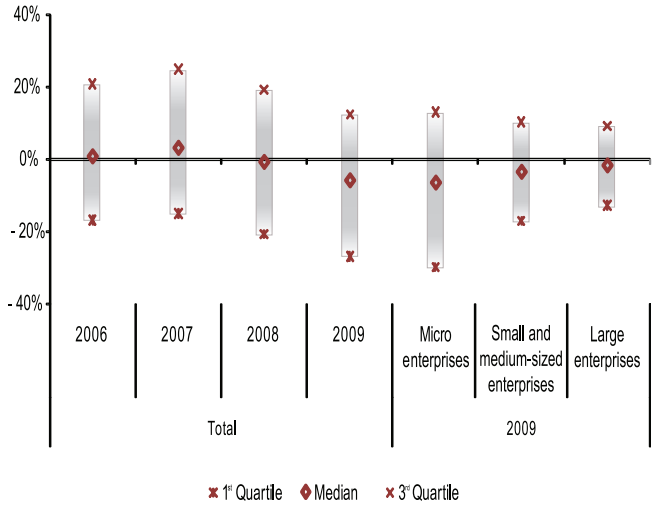
TURNOVER | *Total and by enterprise size*
- annual growth rate



14 'Box 1: External market importance on non-financial corporations' activity' provides complementary information on the weight of the external market on the activity of resident NFCs in Portugal.

Chart 4

TURNOVER | *Total and by enterprise size*
- quartile distribution of the annual growth rate



In spite of the aggregate results, Chart 4 shows that turnover growth rates were below -6% in half the microenterprises, compared with -4% in SMEs and -2% in large enterprises. When observing the enterprises with the largest declines (first quartile), the more negative results were also in microenterprises, with negative changes exceeding 30%, followed by SMEs with 17%, and large enterprises with 13%.

These data show that the microenterprise class gathered, in relative terms, the highest number of enterprises with decreasing turnover and that these decreases were more significant than in other size classes. Individual data, however, show that the microenterprise class included a significant range of enterprises with very high growth. Indeed, the microenterprise subgroup with the highest growth (third quartile) showed positive changes exceeding 13%, compared with 10% in SMEs and 9% in large enterprises, thus accounting for the highest value of the microenterprise average indicator in 2009. Nonetheless, it seems that, in relative terms, the largest share of enterprises with positive turnover growth corresponded to the large enterprise class.

By **economic sector** (Chart 5) the turnover contraction extended to most activities, especially the declines in the *Industry* (17%) and *Electricity and Water* (18%) sectors. *Other Services* and *Construction* had the smallest declines, with 3% and 4% respectively. Chart 5 also shows relatively differentiated evolutions in *Agriculture and Fishing* and *Electricity and Water* up to 2008, with significant growth and acceleration of turnover in the latter sector.

Chart 5

TURNOVER | *By economic sector*
- annual growth rate

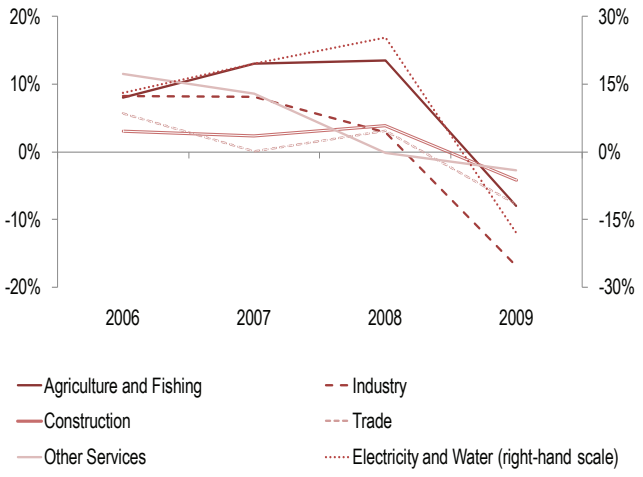
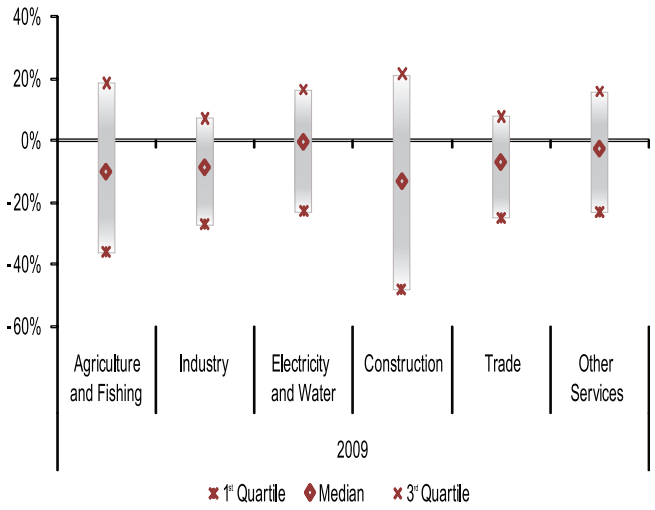


Chart 6

TURNOVER | *By economic sector (2009)*
- quartile distribution of the annual growth rate



The analysis of individual data distribution (Chart 6) shows the effect of a sub-group of enterprises distorting the overall values entered under *Electricity and Water* and *Construction*. Notwithstanding the 18% overall decline, half the enterprises in *Electricity and Water* indicate positive turnover growth. *Construction* presented the inverse situation. In aggregate terms, turnover contraction in this activity was relatively small (4%). An observation of individual data, however, indicates that this sector is where, in relative terms, more enterprises had turnover declines, at least half of which were equal to or exceeded 13% in 2009.

In general, it is important to note that, in all sectors, the central value (median) of the distributions associated with the turnover growth rate was negative, indicating that in 2009 activity contracted in at least half the enterprises in each economic sector. The next Section examines the degree of flexibility of enterprise costs, in order to infer the impact of activity contraction on enterprise profitability.

BOX 1 - EXTERNAL MARKET IMPORTANCE ON NON-FINANCIAL CORPORATIONS' ACTIVITY

In this Box the weight of the external market on the operational activity of NFCs in Portugal is evaluated, based on IES data[15].

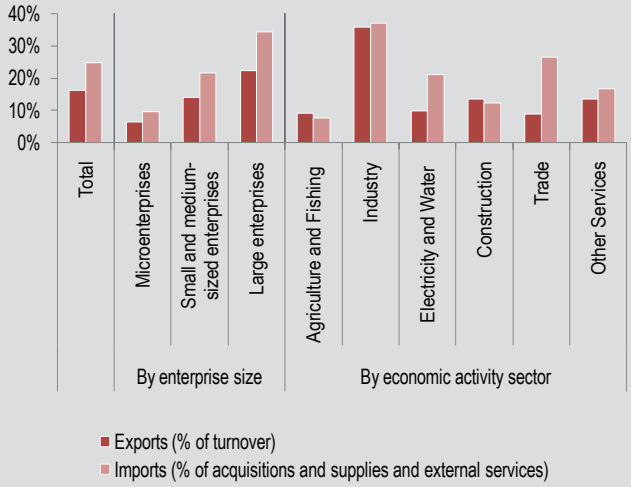
In 2009, similarly to previous years, exports of goods and services represented 16% of NFCs' aggregate turnover. This ratio increased in tandem with enterprise size: in the case of microenterprises, only 7% of turnover was export-oriented, whereas in large enterprises this reached approximately 22% (Chart 1.1).

Considering the economic sector, it is also possible to identify a clear inclination to relations with abroad. Therefore, *Industry* is clearly prone to exports, given that around 36% of its turnover in 2009 was addressed at the external market. Chart 1.1 shows that this level is indeed relevant when compared with the other economic sectors. This result also reflects a structural situation in the *Industry* sector, since that value remains relatively constant over the whole period under analysis.

As regards imports, approximately one quarter of the acquisitions of goods and services by NFCs stemmed from abroad. In terms of economic sectors, *Trade* showed a result in line with the NFC aggregate. In the *Industry* sector, similarly to exports, imports also played a prominent role, accounting for approximately 37% of acquisitions and supplies and external services of the enterprises in the sector. By enterprise size it is also possible to see the proportionality factor at export level, where microenterprises were relatively less involved in imports. In the large enterprise class, around 34% of acquisitions and supplies and external services were imported.

Chart 1.1

EXPORTS AND IMPORTS OF GOODS AND SERVICES *(2009)*



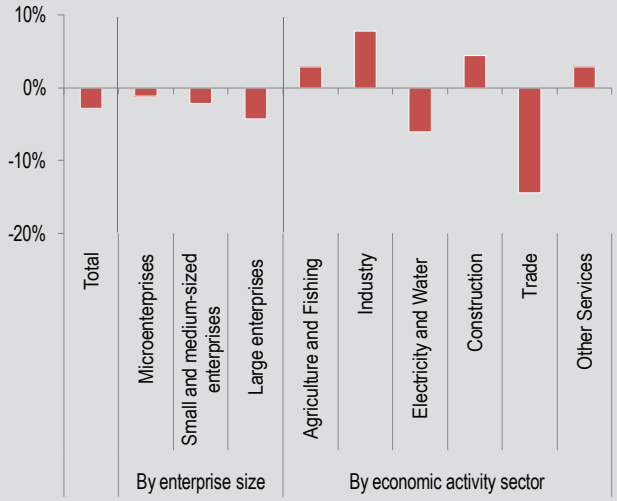
Data from the Central Balance-Sheet Database of Banco de Portugal point to an overall deficit in the balance of external commercial operations in the NFC sector. In 2009 imports by NFCs exceeded exports by around 3% of the respective turnover.

Chart 1.2 shows that this deficit was broadly based across all enterprise size classes, and rose in tandem with it, as observed in the relative weight of exports and imports. Whereas the deficit in microenterprises was estimated at around 1% of the respective turnover, the negative balance in large enterprises reached 4%.

15 Data reported by enterprises within the scope of IES regarding exports and imports of goods and services are subject to quality control by Banco de Portugal, especially through comparison with balance of payments data. Nevertheless, this control does not guarantee that final data from each enterprise in IES are fully coincident with corresponding data in international trade statistics.

Chart 1.2

BALANCE OF GOODS AND SERVICES TRANSACTIONS WITH THE EXTERNAL MARKETS *(2009)*
- as a percentage of turnover



By economic sector, the situation was even more heterogeneous, with *Agriculture and Fishing*, *Industry*, *Construction* and *Other Services* showing positive balances, while *Electricity and Water* and *Trade* had negative balances. Considering its relevance in the NFC aggregates, *Trade* largely accounted for the overall negative balance of NFCs. In turn, with a positive contribution to the overall balance of NFCs' external transactions, *Industry* stood out, as its export value exceeded the import value by around 8% of the respective turnover. In the same vein, a positive balance was seen in *Construction*, a sector usually deemed to be 'non-tradable'.

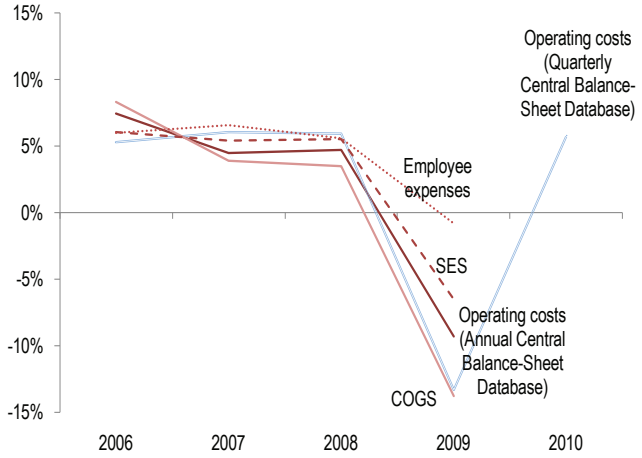
Finally, reference should be made to the relative results and positions of the different aggregates presented here for 2009, which did not reflect structural changes in the period under analysis, largely coinciding with the results for the years from 2006 to 2008.

3.2.2 Operating costs

In the 2006-2009 period, the growth rate of NFCs' operating costs decelerated successively, reaching a negative value in 2009 (-9%, i.e. the same rate as turnover) (Chart 7).

Chart 7

OPERATING COSTS
- annual growth rate



This decline was reflected in all components of the operating costs, albeit with different intensities. The cost of goods sold and materials consumed (COGS) and supplies and external services (SES) declined significantly (by 14% and 6% respectively). Employee expenses, in turn, contracted by around 1%, showing a smoother response to the economic activity deceleration. For 2010, data available point to an increase in NFCs' operational costs, as a result of the recovery in their activity. The major contribution for the reversal of the operating costs trend in 2010 stemmed from the COGS.

Chart 8

STRUCTURE OF OPERATING COSTS | *Total and by economic sector (2009)*

Chart 8 shows that the economic sectors had rather different cost structures in 2009. While in the *Construction* and *Other Services* sectors, the SES item gained more relevance (with approximately 50% of operational costs), the most relevant item in the other sectors was the COGS (49% and 77% in the *Agriculture and Fishing* and *Trade* sectors respectively).

The analysis of EBITDA developments presented below summarises the changes in turnover and operating costs.

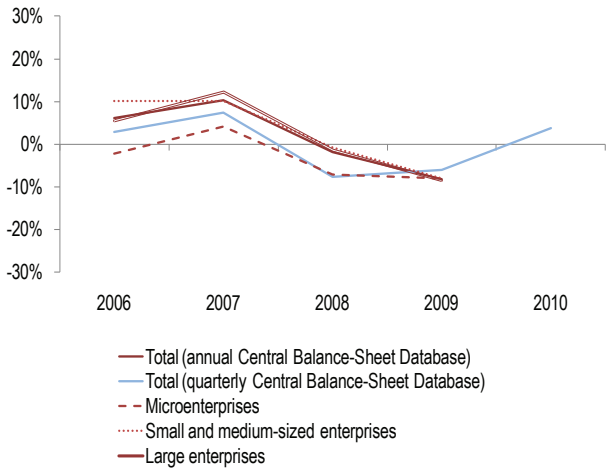
3.2.3 EBITDA[16]

In 2009 EBITDA in NFCs contracted by around 8%, in total terms and by **enterprise size class** (Chart 9). This convergence of results at size class level had not been seen in previous years, and in the 2006-2008 period, EBITDA always had more positive growth rates in large enterprises. As regards 2010, available data point to EBITDA recovery in NFCs as a whole.

Turning to the breakdown by **economic sector**, reference should made to EBITDA in *Industry*, which contracted by around 22% in 2009, standing out among the other economic sectors (Chart 10). EBITDA in *Construction* declined by 12%, and in *Agriculture and Fishing* and *Trade* it decreased by 9%. In 2009 only the *Electricity and Water* sector saw an increase in EBITDA (by 5%, after positive but decelerating growth in previous years). In *Other Services* this indicator had marginally negative growth.

Chart 9

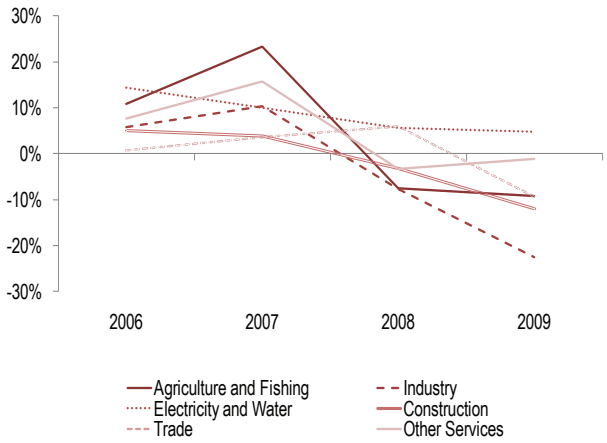
EBITDA | *Total and by enterprise size*
- annual growth rate



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

Chart 10

EBITDA | *By economic sector*
- annual growth rate



All sectors where EBITDA declined represented in 2009 more than half the NFCs and more than 70% of aggregate turnover, and were therefore a key factor for NFCs' overall results.

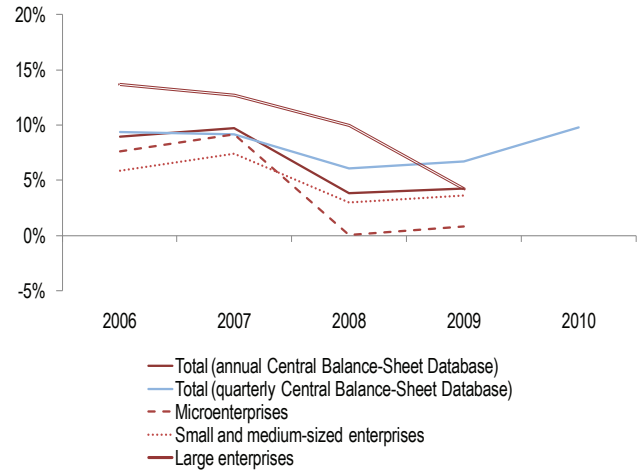
In view of these results, it can be concluded that the decline in operating costs in 2009 was not enough to prevent a decline in corporate EBITDA.

3.2.4 Return on equity[17]

NFCs' return on equity recovered slightly in 2009 (0.4 p.p.), after a significant deceleration in 2008, but remained at approximately half the levels attained in 2006 and 2007 (4% in 2009, compared with 9% in 2006 and 10% in 2007). In 2010 preliminary data of the Central Balance-Sheet Database point to the continued recovery of this indicator (Chart 11).

Chart 11

RETURN ON EQUITY | *Total and by enterprise size*



Turning to the breakdown by **enterprise size**, the behaviour in 2009 was chiefly due to smaller enterprises, although their return on equity was lower than in large enterprises in all the years under review. In effect, the evolution of the return on equity of microenterprises and SMEs was reversed in 2009, rising slightly from 2008 (by around 1 p.p. in both cases). In large enterprises, aggregate return, which, on average, had decelerated continuously, decelerated further and reached 4% in 2009 (compared with 14% in 2006).

17 This is calculated from the ratio of profit and loss for the year to equity, and measures return from equity invested by shareholders. As mentioned in Central Balance-Sheet Study No 1, November 2010 – Enterprise and sector tables, return on equity is derived from individual data only for enterprises with positive equity.

Chart 12

RETURN ON EQUITY | *By economic sector*

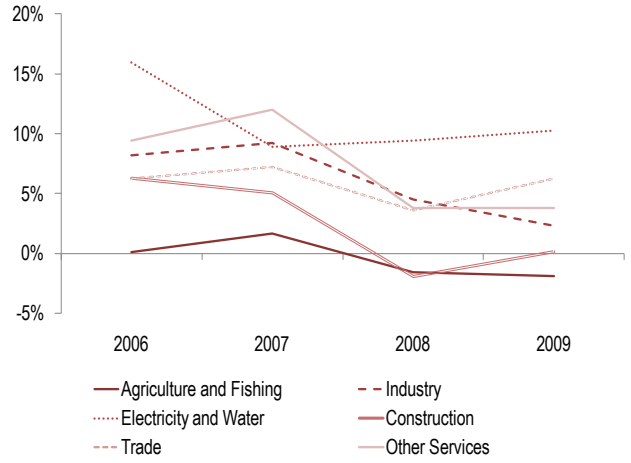


Chart 12 shows that NFCs' return on equity changed according to the **economic sector**. Key in terms of its evolution were *Agriculture and Fishing* and *Industry*, where this indicator declined in 2009. In the former sector, average return was even negative (-2%). In the *Industry* sector, return on equity reached 2% in 2009, following the decelerating trend started in 2007.

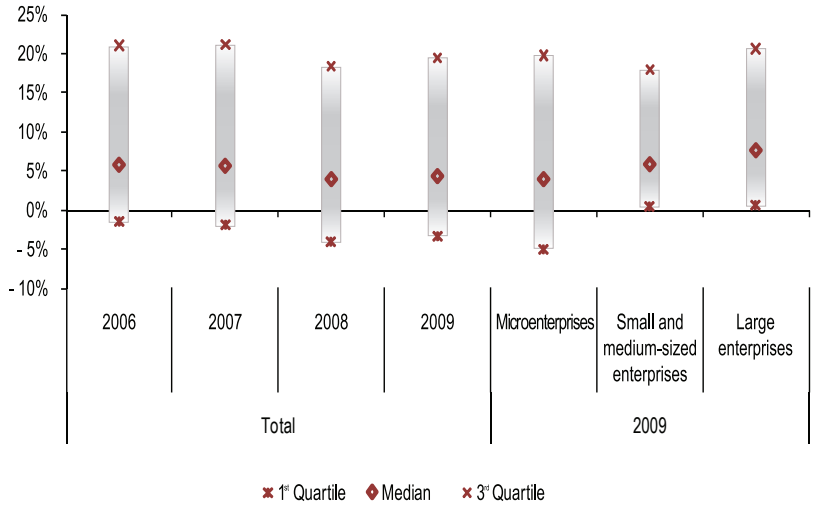
The *Electricity and Water* sector had the highest return on equity in 2009, reaching 10%. *Construction* had, on average, nil return on equity, but rose by 2 p.p. from the previous period, as well as the *Trade* sector, where return reached around 6% in 2009.

Similarly to turnover, the analysis of individual data on return on equity points to some conclusions that differ from the aggregate analysis. Chart 13 shows that return on equity was positive for most enterprises over the period under review. In 2009 half the NFCs' return on equity exceeded 4%, and 25% of the enterprises even posted return in excess of 19%. Nonetheless, in around one fourth of them, return on equity was below -3%, reflecting a very significant share of enterprises with losses for the year[18].

18 'Box 2: Enterprises with losses and equity shortage' examines enterprises in this situation.

Chart 13

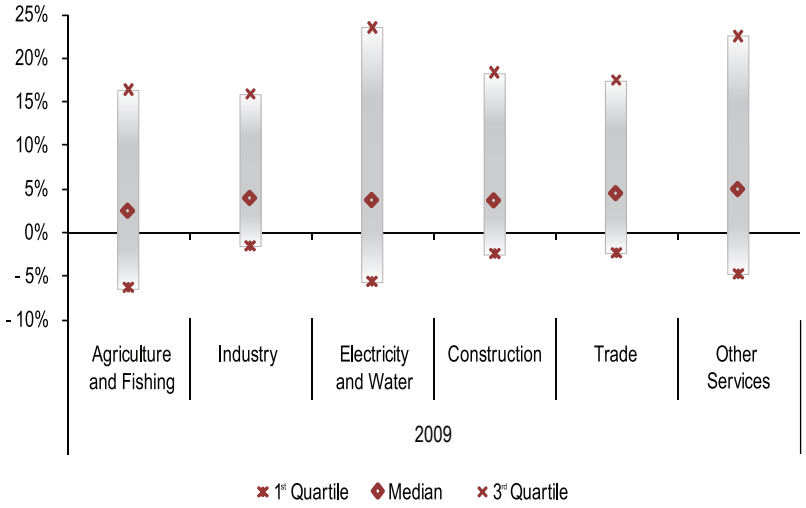
RETURN ON EQUITY | *Total and by enterprise size*
- quartile distribution



In terms of **enterprise size**, more than 75% of large enterprises and SMEs had positive return on equity in 2009, whereas in microenterprises that share was lower.

Chart 14

RETURN ON EQUITY | *By economic sector (2009)*
- quartile distribution



By **economic sector**, the median of return on equity distribution was very similar, ranging between 4% and 5%, except *Agriculture and Fishing*, whose median stood around 2% (Chart 14). In terms of dispersion, *Electricity and Water* and *Other Services* showed greater heterogeneity of individual situations. The most relevant difference was between return on equity of the enterprise immediately above the 25% quartile of enterprises with the worst results and the enterprise immediately below the 25% quartile of the most profitable enterprises (approximately 30 p.p. in both sectors). At the

other end was *Industry*, with the most homogeneous return on equity among enterprises (the inter-quartile range had an 18 p.p. width).

This dispersion (and its direction) also helps understand the divergences between the overall value of each sector's return on equity and the situation in most enterprises comprising it. For instance, as mentioned above, the *Electricity and Water* sector had, in relative terms, a high average level of return on equity (10% in 2009). However, the level of the enterprise at the centre of the individual value distribution (median) was lower than in activities such as *Trade* or *Other Services*. The reason behind this is perceived when observing the third quartile value. It shows that return on equity in one fourth of the sector enterprises exceeded 23%, illustrating that in a small group of the sector enterprises it was well above the average value obtained for NFCs. In the opposite situation was the *Agriculture and Fishing* sector, where enterprises with a higher relative weight were in a range between -6% and 2%, implying that the average value for the sector was -2%.

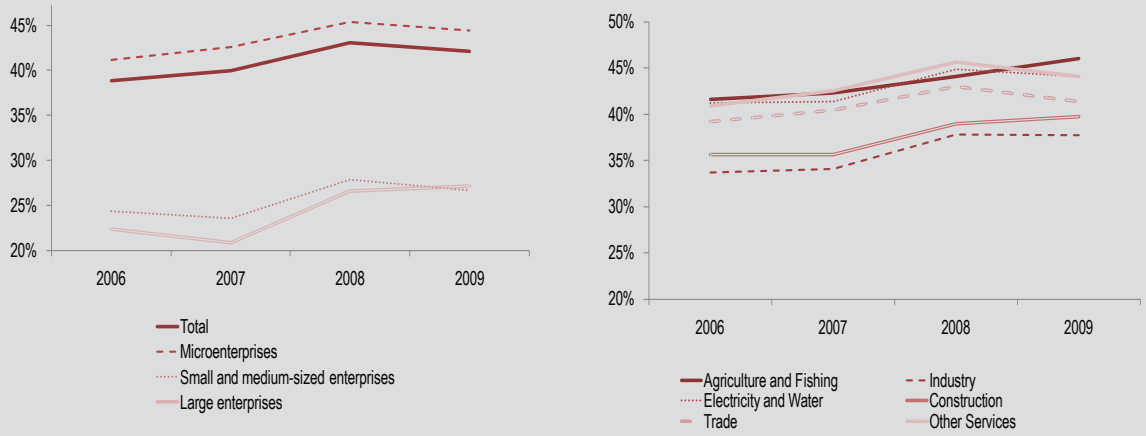
BOX 2 - ENTERPRISES WITH LOSSES AND EQUITY SHORTAGE

The analysis of the enterprises with losses, in terms of net profit for the year, may complement the evaluation of enterprise performance. In 2009 approximately 42% das NFCs had losses, reflecting an increase from the start of the period under analysis (in 2006 this ratio was 39%). The large majority of these enterprises (90%) also had negative operational results, showing that losses derive chiefly from their day-to-day business. Available data also suggest that one quarter of the enterprises with losses had nil turnover, reflecting possible absence of activity, whereas around 10% of the enterprises with negative net profit and loss for the year only started their activity in that year, and are therefore start-ups.

Chart 2.1 shows that the microenterprise group included, for the whole period, the largest share of enterprises with losses, thus determining the aggregate value of NFCs.

Chart 2.1

ENTERPRISES WITH NET LOSSES FOR THE YEAR | *Total, by enterprise size and economic sector*
- weight in the respective aggregates, as a % of the number of enterprises



In terms of economic sector, *Agriculture and Fishing*, *Construction* and *Industry* had the largest accelerations in this indicator, around 4 p.p., in the 2006-2009 period. In the case of *Agriculture and Fishing*, the share of enterprises with losses was the highest at sector level in 2009 (46%), whereas in *Industry* that share was the lowest (38%). In 2009 the share of enterprises with losses in *Trade* and *Other Services* declined by 2 p.p. from 2008.

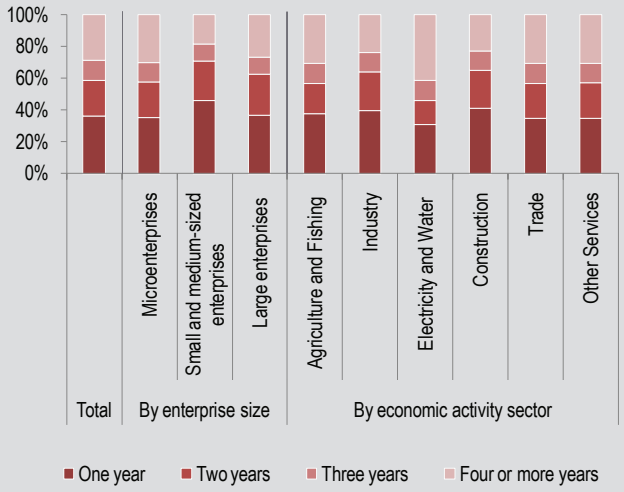
More than evaluating the one-off situation of possible losses in a given year, it is important to determine the extent to which this characteristic is more structural and persistent in the Portuguese business context. This evaluation is particularly relevant, given that the consecutive register of losses may imply cuts at equity level, ultimately jeopardising enterprise solvency.

Therefore, among all NFCs included in the Central Balance-Sheet Database in the 2006-2009[19] period which posted negative profit and loss in 2009 (31% of total enterprises), around 36% were in such position in 2009 and 23% in two consecutive years. The share posting losses over three consecutive years attained 12%, whereas the share with losses over at least four consecutive years reached 29% (Chart 2.2). In view of the results, it may be concluded that 20% of NFCs posted losses not only in 2009 but also in previous years.

19 A sample built with enterprises that are common in the four years was deemed appropriate for the analysis of the effect stemming from accumulated losses in consecutive years.

Chart 2.2

ENTERPRISES WITH NET LOSSES IN 2009, CONSIDERING THE NUMBER OF CONSECUTIVE YEARS WITH NET LOSSES | *By enterprise size and economic sector*
- weight in the respective aggregates, as a % of the number of enterprises

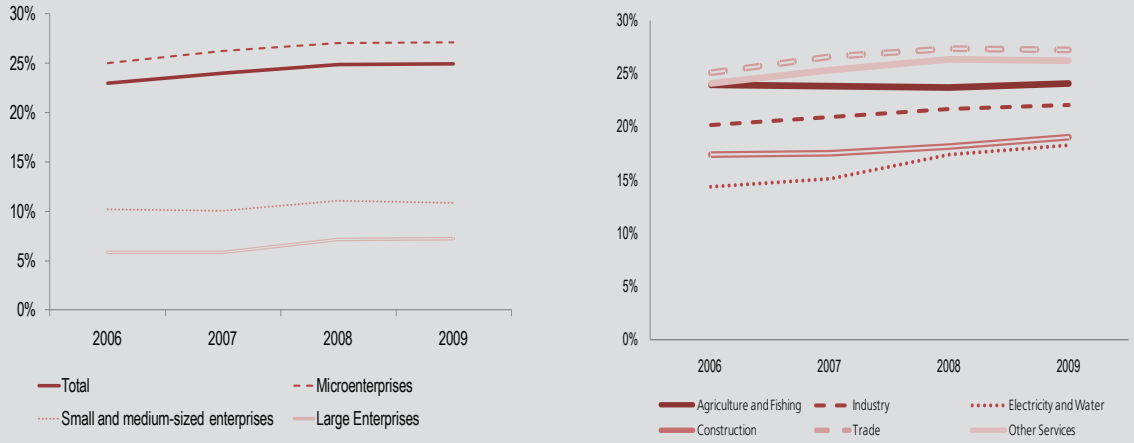


This type of distribution is somewhat similar in all aggregations. Nevertheless, by enterprise size, and when compared to the other size classes, SMEs showed a smaller share of enterprises with losses in four consecutive years. By economic sector, *Industry* and *Construction* were in a similar position as SMEs. *Electricity and Water*, in turn, had the largest share of enterprises with losses in four consecutive years.

The successive accumulation of losses frequently determines the existence of negative equity. In 2009 around 25% of NFCs in Portugal had negative equity, mainly microenterprises. The share of microenterprises in this situation reached 27%, while in the other size classes, this share was 11% in SMEs and 8% in large enterprises (Chart 2.3). By economic sector, *Other Services* and *Trade* were the sectors with the highest share of enterprises with negative equity (26%).

Chart 2.3

ENTERPRISES WITH NEGATIVE EQUITY | *By enterprise size and economic sector*
- weight in the respective aggregates, as a % of the number of enterprises



3.3 Financial situation

An evaluation of the overall situation of the NFC sector in Portugal will cover, in addition to the operational performance component, an analysis of activity financing. This Section includes the breakdown of NFC financing into its main components, as well as the characterisation of more relevant forms of financing.

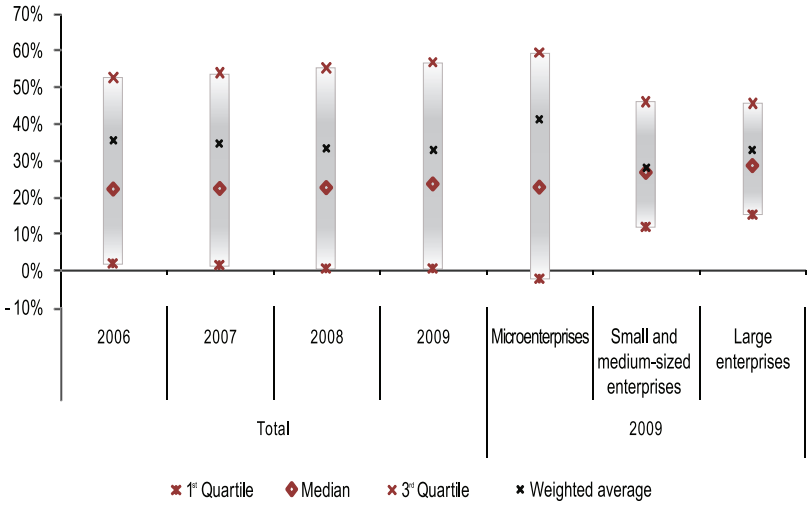
3.3.1 Financial structure

Equity is an important source of NFC's financing, and may be analysed through the capital ratio that relates equity to enterprise assets. The result of this ratio shall be interpreted as the equity-financed share of enterprise activity. In this context, the higher the capital ratio, the lower the enterprise insolvency risk.

According to information from the Central Balance-Sheet Database, NFCs' capital ratio level stood above 30% in recent years (Chart 15). Even though it may be considered a relatively low level in the euro area as a whole[20], more than half of the enterprises in Portugal had a lower capital ratio, and a subgroup of around 25% of the enterprises had a capital ratio close to zero or even negative[21]. At the opposite end of the distribution are the other 25% of enterprises with capital ratio exceeding 57%, namely in 2009.

Chart 15

CAPITAL RATIO | *Total and by enterprise size*



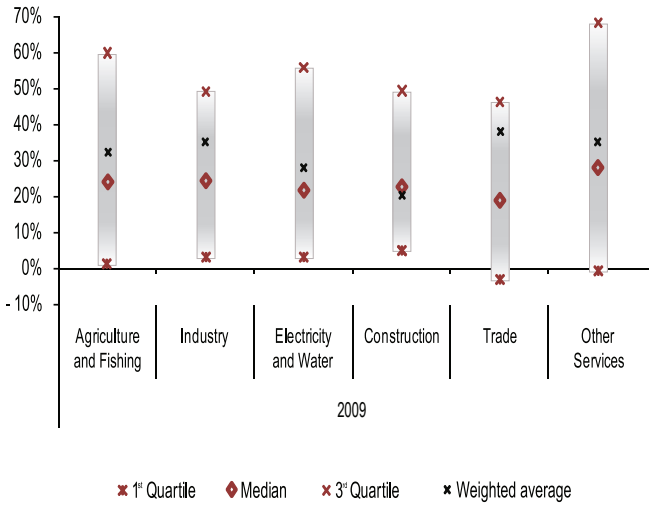
20 According to the financial accounts by institutional sector released by EUROSTAT, NFCs' capital ratio level in Portugal stood in the lower distribution range, below the euro area average value (49%).

21 Result deriving from negative equity.

By **enterprise size**, SMEs and large enterprises had, on average, the lowest capital ratio levels (28% and 33% respectively). As regards microenterprises, even though the average capital ratio level had been higher (41%), half of the enterprises in this class stood below 22%. In effect, the microenterprise class posted more diverging results than the other classes, where around 25% of microenterprises had negative capital ratio, whereas another 25% had capital ratios in excess of 59% (in SMEs and large enterprises, these ranged between 12% and 46%).

Chart 16

CAPITAL RATIO | *By economic sector (2009)*



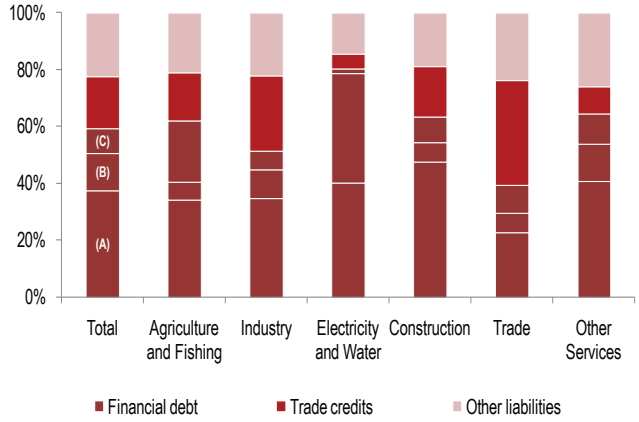
Considering the **economic sector** (Chart 16), enterprises in *Construction* had, on average, the lowest capital ratio (20%), while *Industry*, *Trade* and *Other Services* had the highest capital ratios (exceeding 35%). The analysis of individual data shows that *Other Services* and *Agriculture and Fishing* had wider result dispersion (the inter-quartile differential in these sectors was 69 p.p. and 60 p.p. respectively), albeit relatively centred around the average value (the average stood close to the median of the respective distributions). The *Trade* and *Industry* sectors, in turn, revealed the most biased distributions of individual results, with the average standing closer to the third quartile (as a result of a small group of enterprises with rather high values in this indicator).

In view of the above, it can be concluded that in 2009 most NFCs in Portugal depended more on third-party financing than on equity. In effect, a relevant subgroup of approximately 25% of the enterprises used exclusively third-party capital to finance their activity.

A review of third-party financing sources in Chart 17 shows that broad financial debt (i.e. bank loans, debt securities issued and loans from group enterprises and shareholders) and trade credits represented around 80% of NFCs' liabilities[22], a share that was relatively constant in different economic sectors. However, the weight of each of these components changed depending on the activity.

Chart 17

LIABILITIES STRUCTURE | *Total and by economic sector (2009)*



(A) Bank loans and securities issued; (B) Debt to group enterprises; (C) Debt to shareholders/partners

Financial debt was the most relevant item in all economic sectors, and its weight on total liabilities ranged between 39% in *Trade* and 80% in *Electricity and Water*. The importance of the different financial debt components was also mixed, even though the aggregate formed by bank loans[23] and debt securities was the most relevant in all sectors, its weight ranging between 23% in *Trade* and 48% in *Construction*.

Loans granted by group enterprises gained particular importance in *Electricity and Water* (38% of the respective liabilities), where their weight was very close to that of loans obtained from the financial sector and debt securities[24], while loans from shareholders were more relevant in *Agriculture and Fishing* (22% of the respective liabilities).

The relevance of **trade credits** in NFCs' liabilities ranged between 5% in *Electricity and Water*, 26% in *Industry* and 37% in *Trade*. Their relative weight vis-à-vis liabilities in NFCs as a whole stood at around 18% in 2009.

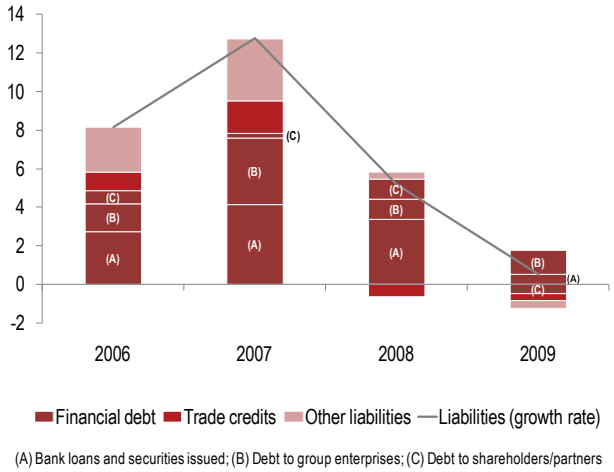
22 Excluding components eminently related with accounting procedures, such as accrued and deferred income and provisions.

23 See 'Box 3: Loans from resident credit institutions – characterisation based on the Central Credit Register'

24 See 'Box 4: Credit obtained through debt securities issues – characterisation based on the Securities Statistics Integrated System'.

Chart 18

CONTRIBUTIONS TO LIABILITIES GROWTH RATE
- annual growth rate (%) and contributions (p.p.)



(A) Bank loans and securities issued; (B) Debt to group enterprises; (C) Debt to shareholders/partners

In what concerns its evolution, in general, NFCs' liabilities evolved in line with activity developments (Chart 18). In effect, total liabilities have been on a decelerating trend since 2007, and all their components have followed the same trend. In 2009 only financing from group enterprises did contribute rather positively to the growth rate of NFCs' liabilities.

BOX 3 - LOANS FROM RESIDENT CREDIT INSTITUTIONS – CHARACTERISATION BASED ON THE CENTRAL CREDIT REGISTER[25]

Loans from credit institutions, according to information from the Central Balance-Sheet Database, are an important component of enterprises' financial debt (53% of the total in 2009). On the basis of information available in the Central Credit Register of Banco de Portugal, an analysis was made of loans from resident credit institutions[26] in Portugal. In the 2006-2009 period these represented around 80% of total NFC's loans from credit institutions and involved 66% of the enterprises in the sector.

Chart 3.1

ENTERPRISES WITH NEGATIVE EQUITY | *By enterprise size and economic sector*
- weight in the respective aggregates, as a % of the number of enterprises

Credit from resident credit institutions has grown markedly over the last decade, reaching a peak in 2007 (11%). In 2009, although credit granted continued to increase, its growth was significantly smaller (1%) and was even negative in 2010 (-2%) (Chart 3.1).

Smaller enterprises (SMEs and microenterprises) have been responsible for the dynamics of credit granted to NFCs by resident credit institutions, with stress on the negative impact of SMEs as a whole on the growth rate of this type of credit in 2010. As regards economic sectors, *Other Services* contributed the most to the growth rate of credit by resident credit institutions. In 2010, however, *Construction* had a strong negative contribution.

In terms of maturities, most financing obtained by NFCs from resident credit institutions was in the medium/long term (54% in 2010). By NFC size class, the weight of this type of maturity was lower in large enterprises (49%), while by economic sector, *Construction* and *Trade* were also below the average, and their medium/long-term weight stood at 42% and 50% respectively.

In 2010 55% of NFCs were financed through a single credit institution, to a value corresponding to 21% of total credit granted by resident credit institutions to NFCs in Portugal. Approximately 23% of NFCs applied simultaneously to two resident credit institutions, totalling 16% of the volume of credit granted to NFCs in the same year. Moreover, around 1,200 enterprises were simultaneously financed by more than ten resident credit institutions (to a value exceeding 11% of total credit obtained by NFCs from resident credit institutions).

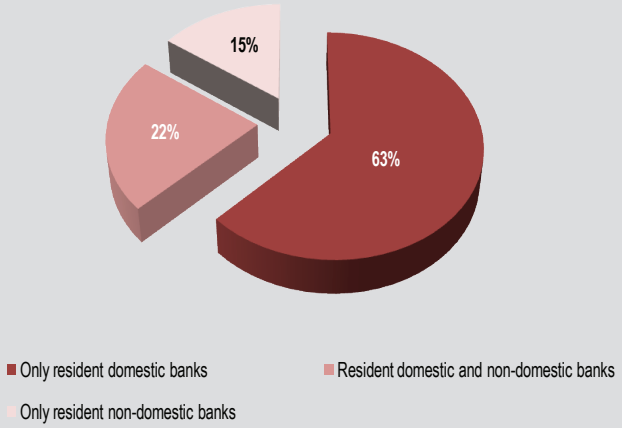
25 The Central Credit Register is a database managed by Banco de Portugal, which gathers information provided by participating entities (credit-granting resident institutions) regarding credit granted. For further information, please refer to Supplement 1|2005 to Banco de Portugal's Statistical Bulletin, A new source for Monetary and Financial Statistics: the Central Credit Register.

26 Credit institutions resident in Portugal shall mean the range of enterprises whose activity consists in receiving from the public deposits and other repayable funds, to be invested on their own account by granting credit. They include banks, savings banks and mutual agricultural credit banks (generally called 'banks' in this Study), and also factoring companies, credit purchase financing companies and financial leasing companies. 92% of credit granted in 2010 by resident credit institutions to NFCs stemmed from banks.

In view of the increasing credit constraints of domestic banks, as a result of the deterioration of their own financing conditions, many enterprises resorted to resident non-domestic banks[27]. In 2010, among the enterprises with loans from resident banks, 63% obtained financing from domestic banks, 15% from non-domestic banks and 22% from both (Chart 3.2). The share of enterprises that were financed only by domestic banks declined by around 2 p.p. from 2009, which, although not a significant differential, may indicate some changes in the way in which enterprises relate to the financial sector[28].

Chart 3.2

ENTERPRISES WITH FINANCING FROM RESIDENT BANKS | *By type of bank (2010)*



The NFC's non-performing loans ratio[29] regarding loans granted by resident credit institutions rose from around 2% in 2006 and 2007 to approximately 5% in 2010. This rise was particularly relevant in microenterprises, and the respective non-performing loans ratio increased in the same period from nearly 3% to approximately 7%. Large enterprises, in turn, had the lowest non-performing loans ratios, at around 1% (Chart 3.3).

The deterioration of credit quality, evaluated by the rise in the ratio of non-performing enterprises, was broadly-based across all economic sectors, except *Electricity and Water*. The ratio of non-performing enterprises in the *Construction* sector, in particular, moved from 2% in 2006 and 2007 to around 7% in 2010. This indicator also rose markedly in the *Trade* and *Industry* sectors in the 2006-2010 period. Growth in these economic sectors was enough to account for the result of this indicator for NFCs, considering that these activities aggregated more than half the NFCs in Portugal and close to 70% of turnover in the sector.

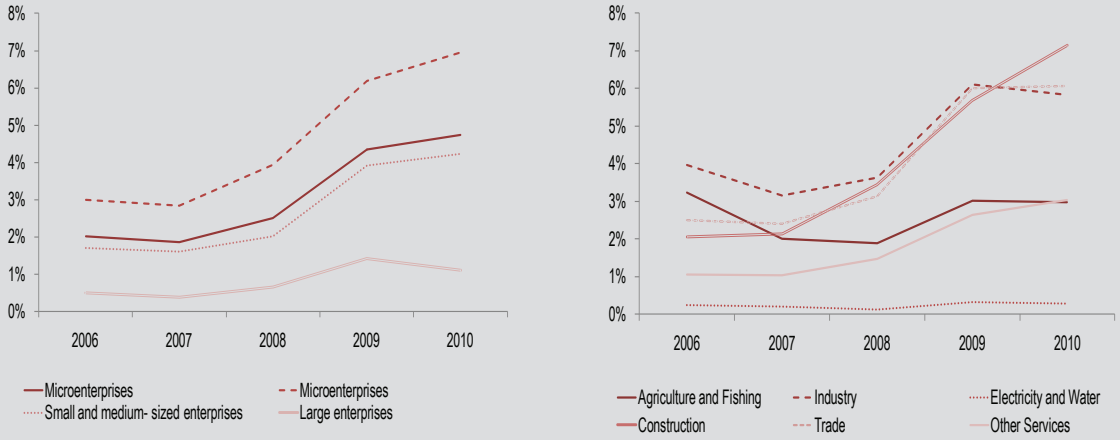
27 The resident non-domestic bank concept comprises branches of subsidiaries of foreign institutions operating in Portugal.

28 On this subject, see 'Box 4.1 The mitigating role of resident non-domestic financial institutions in the Portuguese economy's deleveraging process', in Banco de Portugal's Financial Stability Report – May 2011.

29 The non-performing loans ratio, also known as the overdue loans ratio, is based on information on credit granted by resident credit institutions in the Central Credit Register of Banco de Portugal, by calculating the ratio of the amount of credit overdue to total credit obtained. Credit shall be deemed to be overdue when the respective repayments are not paid on the due payment dates. Credit customers may be in a non-performing situation as regards the principal and/or interest and other expenditure. This is the case when it has not been settled: regarding principal, within a maximum period of 30 days after maturity; and, regarding interest and other expenditure, after the due payment date.

Chart 3.3

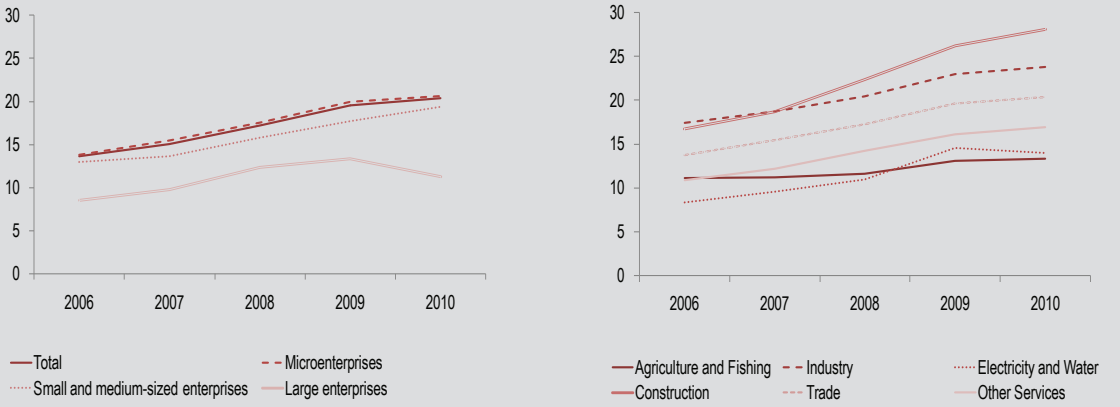
NON-PERFORMING LOANS RATIOS



More than 20% of NFCs receiving loans from resident credit institutions contributed to the non-performing loans ratio in 2010, which compares with 14% in 2006 (Chart 3.4). By class size, microenterprises gained particular relevance, with 21% of non-performing enterprises, representing 80% of total NFCs in this situation. In the large enterprise class, the share of entities in this situation did not reach 12% in 2010.

Chart 3.4

NON-PERFORMING ENTERPRISES
- weight in the respective aggregates, as a % of the number of enterprises



In 2010, by economic sector, the *Construction* sector was more relevant, with the highest share of enterprises in this situation (more than 28%). In turn, *Electricity and Water* had the historically smallest share of non-performing enterprises, standing at 14%. *Agriculture and Fishing* was the sector where non-performing enterprises had the lowest increase in the period under review (2 p.p.).

3.3.2 Financial costs and solvency

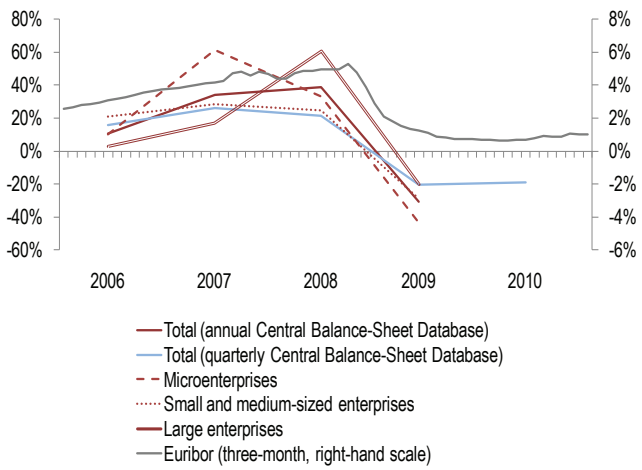
The previous Section shows how NFCs in Portugal are chiefly financed through financial debt. This Section evaluates the developments of the costs associated with this type of financing, as well as the sector's capacity to meet financial debt-linked commitments.

Data available in the Central Balance-Sheet Database of Banco de Portugal show that financial costs borne by NFCs, in general, have moved in line with benchmark market rate developments. In effect, periods denoting an interest-rate increase (i.e. from 2006 to 2008) were associated with an acceleration in the growth rate of enterprises' financial costs, whereas in 2009, when the benchmark rates declined markedly, NFCs' financial costs saw a broad-based deceleration in all analysis sizes (Chart 19). In 2010 preliminary data of the Central Balance-Sheet Database showed that the rise in sovereign risk premium had not translated significantly into the financial costs of enterprises, given that the latter continued to experience negative growth rates.

The decline in financial costs reached 31% in 2009 and was particularly significant in the microenterprise class (43%), whereas in SMEs and large enterprises it stood at 29% and 20% respectively.

Chart 19

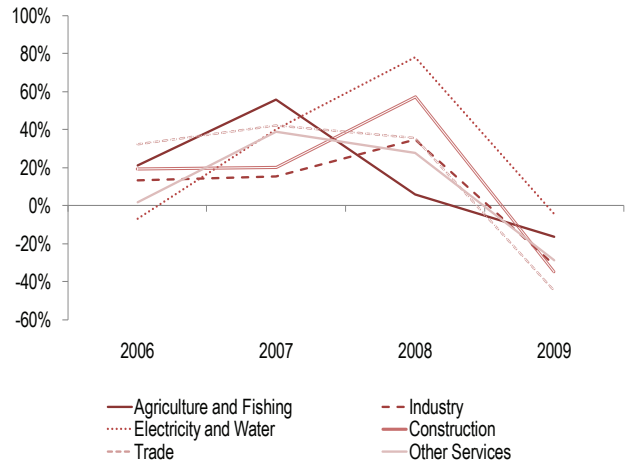
FINANCIAL COSTS | *Total and by enterprise size*
- annual growth rate and market interest rate



This trend was seen in all economic sectors, particularly in *Trade* (-45%). *Electricity and Water* revealed the greatest stability, with the respective financial costs declining by only 4% from the corresponding period in the previous year (Chart 20).

Chart 20

FINANCIAL COSTS | *By economic sector*
- annual growth rate and market interest rate



These results clearly show that, in spite of the decline in the operational activity recorded by NFCs as a whole in 2009, the sharp fall in financial costs was a key factor in preventing the decline in earnings in the institutional sector under review.

Nonetheless, in spite of a strong fall in financial costs, it is important to evaluate the capacity of the enterprises to generate sufficient earnings to meet their financial commitments. To that end, this study examines the relationship between interests paid by enterprises (corresponding to around 90% of the financial costs) and EBITDA generated each year. Chart 21 shows that the weight of interests paid on EBITDA increased until 2008, and started a downward trend as of that year, which seems to have been maintained in 2010. In 2009 interests paid used around 46% of EBITDA, a share that was very significant in the case of microenterprises (approximately 95%).

By economic sector, enterprises in *Electricity and Water* and *Construction* are worth mentioning, since the respective interests absorbed, on average, a very significant share of EBITDA in 2009 (74% and 66% respectively) (Chart 22).

Chart 21

WEIGHT OF INTERESTS PAID ON EBITDA | *Total and by enterprise size*

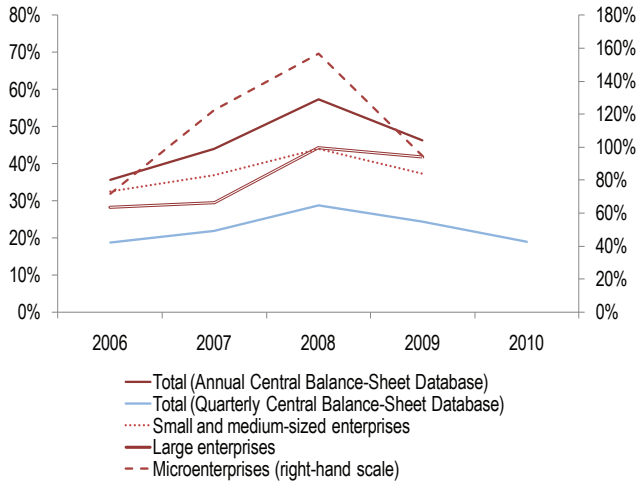
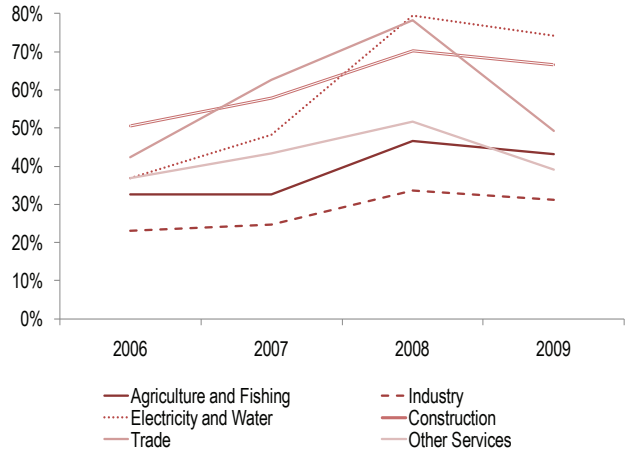


Chart 22

WEIGHT OF INTERESTS PAID ON EBITDA | *By economic sector*



Complementing the above, this analysis also presents the ratio of short-term financial debt to EBITDA[30]. Considering EBITDA generated in the year, this ratio reflects the number of years required to close short-term financial debt using that EBITDA. This indicator, plus the previous one, may help analyse the information provided by the capital ratio, given that both make it possible to evaluate whether any significant indebtedness level may be mitigated by high earning-

30 This ratio was only calculated for enterprises with short-term financial debt and positive EBITDA.

generating capacity. This ratio may also be useful to appraise the enterprises' ability to meet the commitments made and maturing in the short term, especially in such a particularly difficult economic and financial context as in recent years.

Chart 23

RATIO OF SHORT-TERM FINANCIAL DEBT TO EBITDA | *Total and by enterprise size*

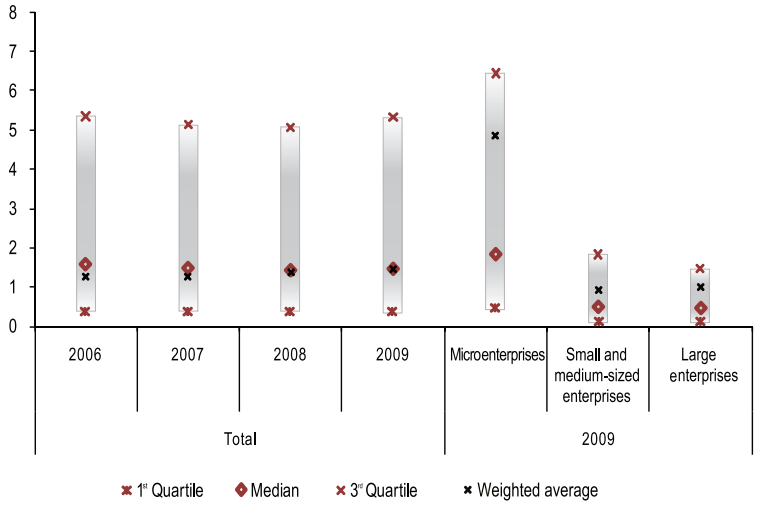
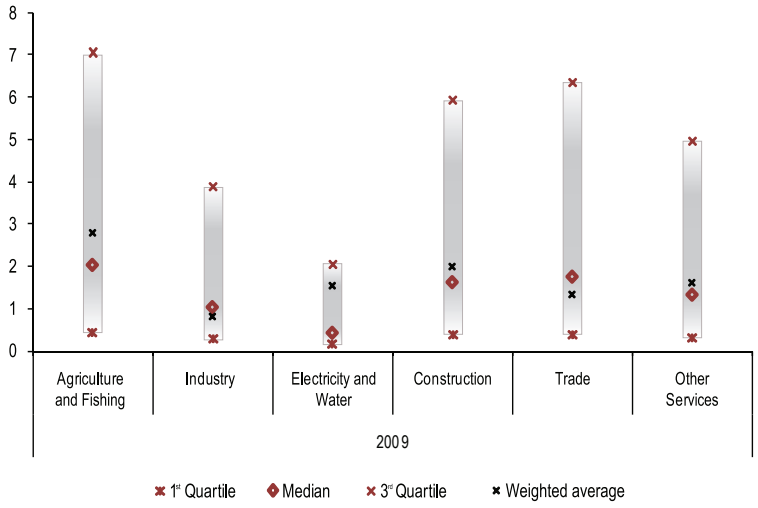


Chart 24

RATIO OF SHORT-TERM FINANCIAL DEBT TO EBITDA | *By economic sector (2009)*



Data for the 2006-2009 period indicate that, on average, EBITDA generated in one year was not enough to fully close the short-term financial debt. Actually, around 25% of NFCs needed over-five year EBITDA[31] to fully close this type of debt. This was largely due to microenterprises which, in 2009, required on average five years to fully close short-term financial debt.

31 Under the assumption of constant EBITDA.

The situation in SMEs and large enterprises was clearly more favourable, with most enterprises closing their short-term financial debt with little more than half the EBITDA generated in the year.

As regards the breakdown by economic sector, *Electricity and Water* and *Industry* were, overall, the sectors best able to meet their short-term commitments. The other sectors showed wider dispersion of results, with stress on *Agriculture and Fishing*, *Construction* and *Trade*, where 25% of the enterprises needed more than seven years to pay their short-term financial debt from EBITDA generated in the year.

The results show the difficulties felt by most enterprises in meeting their financial debt-linked commitments with one-year maturity, including associated costs. In practice, however, many enterprises deal with this situation by revolving debt, i.e. they agree new credit in order to pay maturing credit. In a context of accrued difficulties in access to credit, this option will be increasingly problematic.

BOX 4 - CREDIT OBTAINED THROUGH DEBT SECURITIES ISSUES – CHARACTERISATION BASED ON THE SECURITIES STATISTICS INTEGRATED SYSTEM[32]

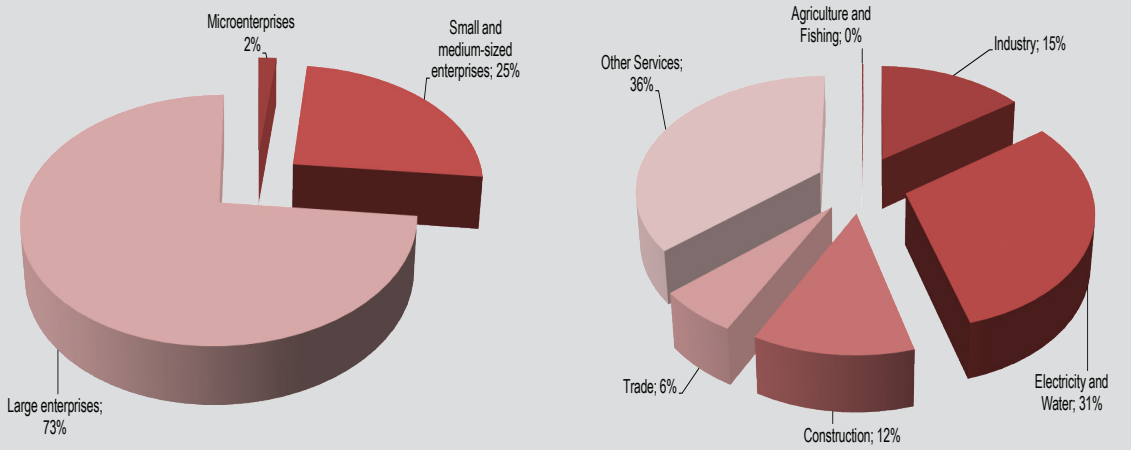
In the 2006-2010 period financing through debt securities issues corresponded to around 10% of the total value of NFCs' financial debt in Portugal. In that period, enterprises' resort to this type of financing grew by 52% (only 7% in 2010), increasing from nearly €14 million in 2006 to around €22 million in 2010. This, however, is not the form of financing used by most NFCs, given that in 2010 only 0.3% of the enterprises held debt securities in their liabilities.

By enterprise size, Chart 4.1 clearly shows that this type of financing is more accessible to large enterprises, which are responsible for 73% of total debt securities issued by NFCs. In the opposite situation, microenterprises show very small weight (2%).

By economic sector, *Other Services* and *Electricity and Water* are responsible for 36% and 31% of total debt securities issued respectively. Noteworthy in *Other Services* are *Professional, scientific and technical activities*[33] with 90% of the amount in the sector. In terms of relevance, *Other Services* are followed by *Industry* and *Construction*, with only 15% and 12% respectively.

Chart 4.1

TOTAL DEBT SECURITIES ISSUED | *Structure in 2010*



Turning to security maturities, NFCs have chiefly resorted to issues of short-term securities, especially commercial paper, representing around 63% of total debt securities issued. In 2007, however, the weight of long-term issues showed some trend growth (5 p.p.).

By enterprise size, the greater weight of short-term issues was due to large enterprises. In effect, in 2010, while these two maturity types were mostly balance in microenterprises and SMEs, in large enterprises 67% of the respective debt securities had maturities below one year. In terms of economic activity, all sectors had more than half of their balances assigned to short-term debt securities, with stress on *Agriculture and Fishing*, where this share reached 94%. *Construction*, with 58%, and *Other Services*, with 59%, were the activities with lower weight in short-term issues.

32 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 Banco de Portugal's Statistical Bulletin, Securities Statistics: Integrated System Features and Main Results.

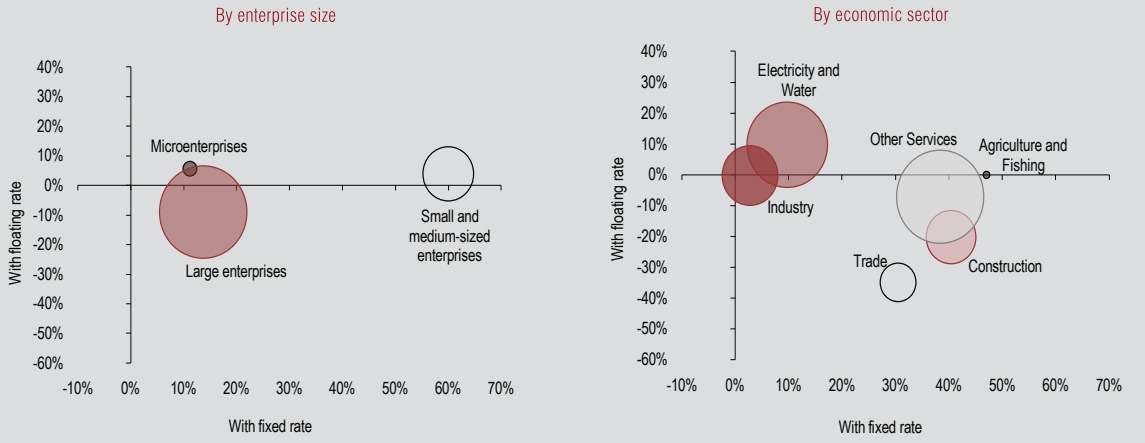
33 This aggregate includes holding companies acting as head offices, i.e. those involved in the management of the owned subsidiaries. As previously mentioned, the other holding companies classified in Section K of CAE Rev.3 are excluded from this Study.

The option for shorter-term securities largely explains the relevance of fixed-rate issues. At the end of 2010, these reached 84% of the total value of debt securities issued by NFCs, i.e. 4 p.p. growth since 2008.

By enterprise size, large enterprises were mainly behind these developments, considering their weight in this operation segment. In effect, from 2008 to 2010, large enterprises increased their fixed-rate issues by 14%, and, in the same period, reduced their indexed-rate issues by 9% (Chart 4.2). The other size classes grew in both rates, but more markedly in fixed-rate issues. At the end of 2010, debt issued at a fixed rate was thus clearly predominant in all size classes (64% in microenterprises, 86% in SMEs and 84% in large enterprises).

Chart 4.2

GROWTH OF NET ISSUES OF DEBT SECURITIES | *(2008-2010)*



Note: The circle areas indicate the weight of each aggregate in NFCs' net issues of debt securities in 2010..

By economic sector, the preference for fixed-rate issues was broadly based, except in *Electricity and Water*, which had a rise similar to that observed in fixed-rate and indexed-rate issues. These developments were reflected in the debt balance at the end of 2010, with *Agriculture and Fishing* and *Trade* standing only at 6% of their total debt securities issued in the indexed-rate segment. Nevertheless, that result did not exceed 36% in *Industry*, the activity with higher weight in this type of securities.

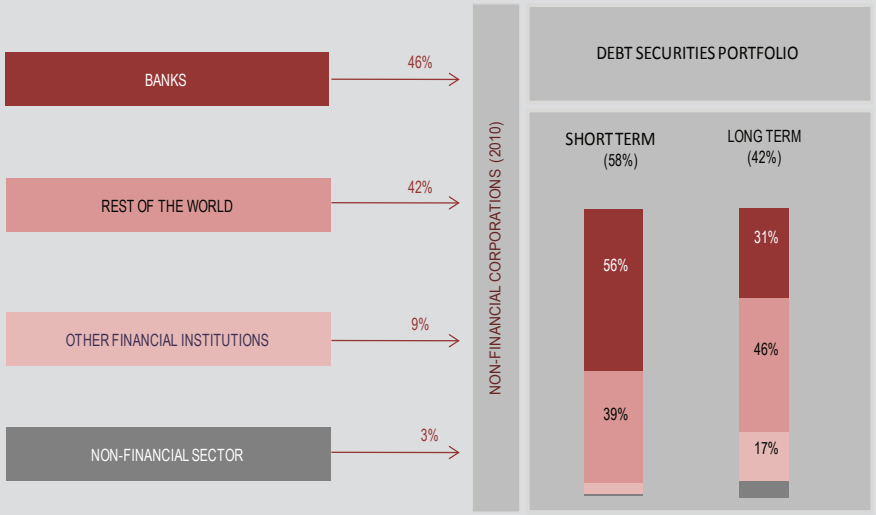
The analysis of holders of debt securities issued by enterprises shows which sectors have financed NFCs this way[34], with a special reference to the resident financial sector and the rest of the world. In effect, banks and the other resident financial institutions in Portugal held in their portfolio 55% of total debt securities issued by NFCs in Portugal, whereas non-resident entities, as a whole, held 42% of those securities (Chart 4.3).

34 Contrary to the analysis on issues, this component includes securities issued by holding companies classified in Section K of CAE Rev.3.

By security maturity, banks held 56% of short-term debt securities and non-resident entities held close to 39%. As regards long-term debt securities, the situation was reversed, and the rest of the world was the main holder (46%), followed by the resident banking system (31%) and other resident financial institutions (17%), with stress on insurance corporations and pension funds.

Chart 4.3

STRUCTURE OF DEBT SECURITY HOLDER | *(2010)*



3.3.3 Trade credit financing

Trade debt financing, which represented approximately 18% of NFCs' total liabilities in 2009, grew by 3% in the 2006-2009 period. Annual growth, however, has shown a downward trend since 2007.

In principle, trade credits do not have an explicit associated cost, and are a relatively accessible manner to obtain short-term financing. Since, theoretically, this corresponds to very short-term financing, the net contribution of commercial debt lending and borrowing to enterprise financing is frequently analysed. One way to evaluate this net contribution is by analysing days payable outstanding and days sales outstanding and the respective differential.

In the period under review, the difference between days payable outstanding and days sales outstanding is not significant at total NFC level. In the same years, both stood above 80 days, closing in to 90 days in 2009.

Chart 25

RATIO OF SHORT-TERM FINANCIAL DEBT TO EBITDA | *Total and by enterprise size*

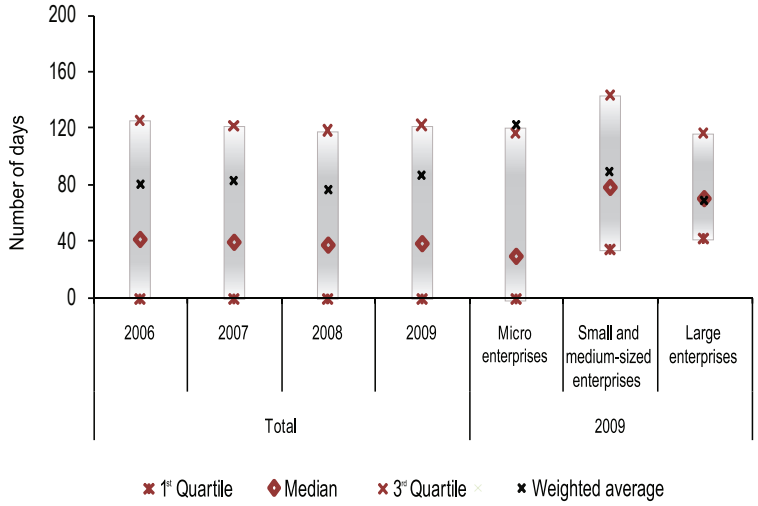
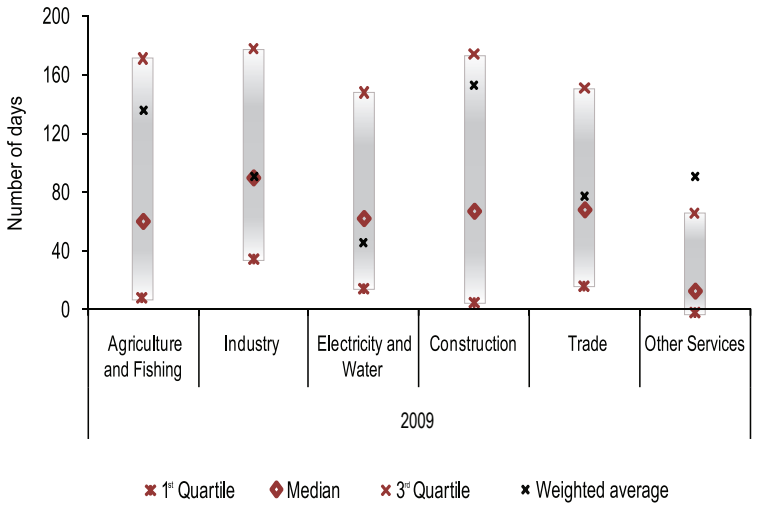


Chart 26

DAYS PAYABLE OUTSTANDING | *By economic sector (2009)*



By **enterprise size**, microenterprises had very high days payable and sales outstanding. The differential vis-à-vis days the other size classes was rather significant, chiefly in the days payable outstanding (124 days, compared with 91 days in SMEs and 71 days in large enterprises) (Chart 25). Days sales outstanding were 103 days for microenterprises, 104 days for SMEs and 68 days for large enterprises (Chart 27). The microenterprise class, however, showed wide disparity of individual results. In turn, high days payable and sales outstanding obtained for the microenterprise class were strongly influenced by only 25% of the enterprises in the aggregate, given that the large majority of microenterprises had days outstanding (payable and sales) below their class average.

Chart 27

DAYS SALES OUTSTANDING | *Total and by enterprise size*

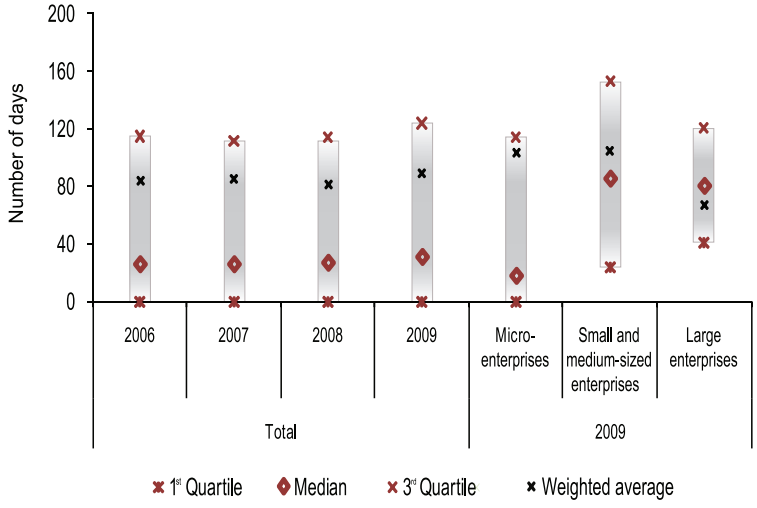
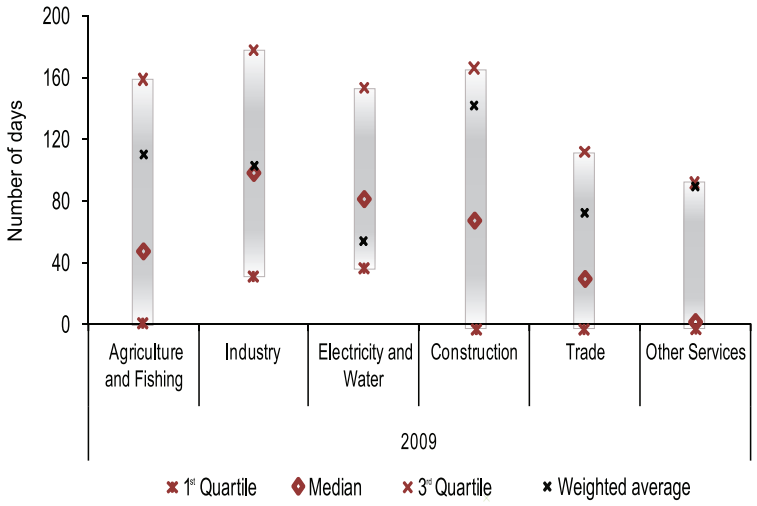


Chart 28

DAYS SALES OUTSTANDING | *By economic sector (2009)*



Large enterprises had the most homogeneous results, and were also the class with overall lower days payable outstanding and days sales outstanding.

By **economic sector**, *Construction* and *Agriculture and Fishing* had the highest number both of days payable outstanding and days sales outstanding (Charts 26 and 28). However, these sectors, together with *Other Services*, had the most biased results, given that the aggregate days payable and sales outstanding were strongly influenced by the results in a small number of enterprises. On the contrary, the sector with the lowest days outstanding was *Electricity and Water*.

For a more detailed analysis of the trade financing dimension, the distributions of individual results for the differential between days payable outstanding and days sales outstanding is shown, by enterprise size and economic sector (Charts 29 and 30).

Chart 29

DIFFERENTIAL BETWEEN DAYS PAYABLE OUTSTANDING AND DAYS SALES OUTSTANDING | *Total and by enterprise size*

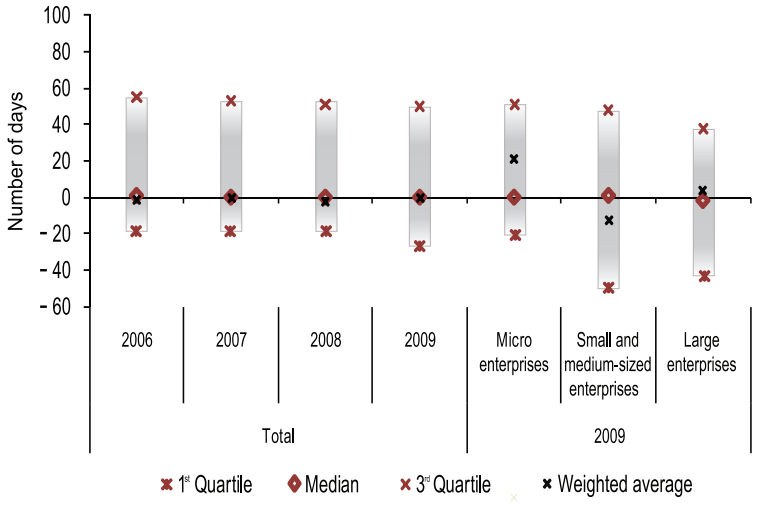
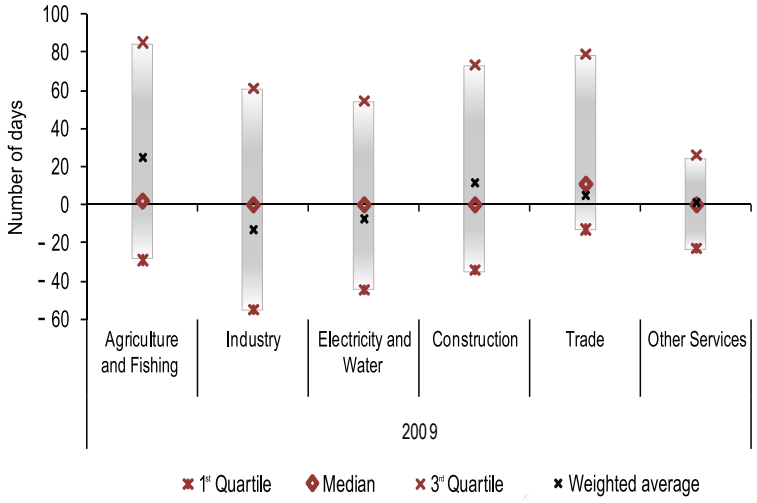


Chart 30

DIFFERENTIAL BETWEEN THE DAYS PAYABLE OUTSTANDING AND DAYS SALES OUTSTANDING | *By economic sector (2009)*



The difference between days payable outstanding and days sales outstanding, by enterprise size, was only unfavourable in the SME class (-13 days); symmetrically, the largest positive difference was in the microenterprise class (21 days, vis-à-vis 3 days in large enterprises). By economic sector, the differential between days payable outstanding and days sales outstanding was favourable in *Agriculture and Fishing*, *Construction* and *Trade* (25 days, 11 days and 5 days respectively) and unfavourable in *Electricity and Water* and *Industry* (-8 days and -13 days respectively).

Nevertheless, Chart 29 leads to the conclusion that the differential between days payable outstanding and days sales outstanding was only favourable for half the NFCs in Portugal. Irrespective of the size class and the economic sector, approximately 50% of the enterprises showed higher days sales outstanding than days payable outstanding, and could not be financed in this way. This was particularly expressive in SMEs and large enterprise classes, with 25% of the enterprises showing differentials in excess of 50 days and 43 days respectively.

As regards the breakdown by economic sector, *Industry* is also worth noting, in which 25% of the enterprises had days payable outstanding at least 55 days shorter than days sales outstanding. *Trade*, in turn, was the sector where most enterprises benefitted from their trade debt management, especially through positive differentials between days payable outstanding and days sales outstanding.

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CENTRAL BALANCE-SHEET STUDIES

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3 | SECTORAL ANALYSIS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL