

SECTORAL ANALYSIS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL 2010/2011



Central Balance-Sheet Studies
April 2012

7



Banco de Portugal

EUROSYSTEM

SECTORAL ANALYSIS
OF NON-FINANCIAL CORPORATIONS
IN PORTUGAL 2010/2011

Central Balance Sheet Studies

April 2012

7



Banco de Portugal
EUROSYSTEM

BANCO DE PORTUGAL

Av. Almirante Reis, 71

1150-012 Lisboa

www.bportugal.pt

Edition

Statistics Department

Translation

International Relations Department

Translation Unit

Design, printing and finishing

Administrative Services Department

Documentation, Editing and Museum Division

Editing and Publishing Unit

Lisbon, 2013

Number of copies

200

ISBN 978-989-678-221-4 (print)

ISBN 978-989-678-222-1 (online)

ISSN (print) - 2182-1704

ISSN (online) - 2182-1712

Legal Deposit 326546/11

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).

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. 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.

IES relating to 2010 is the first corporate annual account report complying with the new Accounting Normalisation System (SNC - Sistema de Normalização Contabilística), thus discontinuing some of the accounting concepts based on the previous Official Chart of Accounts (POC - Plano Oficial de Contabilidade). These changes have made the quality control process developed within Banco de Portugal on the information reported by the enterprises even more relevant. This process essentially aims to ensure that accounting information for the economic year is coherent and that the main aggregates are consistent throughout the years. That analysis also involves matching the reported information with the data obtained from other statistical systems available within Banco de Portugal.

Therefore, data available for the population of enterprises in Portugal refer to 2010, and may be complemented, for a small group of enterprises, with quarterly information referring to a more recent period. The data for 2011 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 set of economic and financial variables. The answers obtained through this Survey, among approximately 3,000 enterprises, cover a significant proportion of the situation and activity of the NFC sector in Portugal and may be used to estimate 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, namely Manufacturing and large enterprises.

SUMMARY

In 2010, data from the Central Balance Sheet Database of Banco de Portugal show an improvement in NFC activity in Portugal, as well as in the sector's return on equity. However, for 2011, the information available up to the third quarter suggests a sharp deceleration in these indicators. The NFCs' results were in line with the Portuguese GDP performance, which grew by 1.4% in 2010, although showing a downward trend over the year and, according to Statistics Portugal's preliminary data, contracted by 1.6% in 2011.

After falling by 7% in 2009, the NFCs' EBITDA grew by 13% in 2010, but this improvement was not homogeneous across all enterprises. On the other hand, the number of enterprises active in Portugal fell for the second year running, declining by around 3% in 2010.

EBITDA grew in 2010 among large enterprises and microenterprises, but fell among small and medium-sized enterprises (SMEs). Return on equity however grew across all size classes on average, led by large enterprises. *Construction* was the worst-performing activity, with EBITDA in decline. In return on equity terms, the activity with the largest improvement was *Other Services*. Even so, *Electricity and Water* was the most profitable sector and *Agriculture and Fishing* the least.

In 2010, equity financing continued to be low: it represented less than 24% of assets for most enterprises. Microenterprises posted very heterogeneous results but continued to have the highest average capital ratio (41%). By sector, *Construction* continued to have the lowest capital ratio (22%).

Financial debt (bank loans, debt securities and debt to group enterprises) represented over two-thirds of external financing. All financial debt components grew overall compared to 2009, led by the debt to group enterprises component, which grew by 14%. Although borrowing conditions for the Portuguese economy have worsened in 2010, that effect has not been reflected immediately in enterprises' accounts. Thus, NFCs' interest burden continued to fall, although less sharply than in 2009. As a result, interests as a proportion of EBITDA increased to 17%. In contrast, the data available for 2011 show significant growth in the debt burden, namely in the interests paid.

Trade credits represented 17% of NFCs' liabilities in 2010 and have grown by 2%. Even so, accounts receivable were greater than accounts payable (aside from in the *Agriculture and Fishing* sector). Days sales outstanding and days payable outstanding were generally in line with the economic recovery and have fallen in 2010 (except in *Construction*).

According to the information available in the Banco de Portugal's Central Credit Register for 2011, loans granted to NFCs' by resident credit institutions fell by 3%, led by smaller enterprises and the *Trade, Construction and Manufacturing* sectors. The non-performing ratio of loans to NFCs grew strongly in 2011, reaching 7%. This growth was particularly strong among microenterprises and the *Construction* sector.

Finally, additional information available in the Banco de Portugal's Securities Statistics Integrated System reveals a 3% increase in issues of debt securities by NFCs' in 2011. This kind of financing is used mainly by large enterprises and those in *Other Services* and *Electricity and Water*. In 2011, the preference for short-term issues increased, ending the growth trend in the weight of long-term issues that began in 2007.

CONTENTS

I SECTORAL ANALYSIS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL 2010/2011

13	1 Introduction
14	2 Structure and Dynamics
14	2.1 Structure
15	2.2 Dynamics
18	3 Economic and Financial Analysis
18	3.1 Economic environment
18	3.2 Activity and profitability
18	3.2.1 Turnover
20	3.2.2 Operating Costs
22	<i>Box 1 External market importance on non-financial corporations' activity</i>
24	3.2.3 EBITDA
25	3.2.4 Return on equity
27	3.3 Financial situation
27	3.3.1 Financial structure
30	<i>Box 2 Loans from resident credit institutions – characterisation based on the CentralCredit Register</i>
32	3.3.2 Financial costs and solvency
34	<i>Box 3 Credit obtained through debt securities issues – characterisation based on the Securities Statistics Inte-grated System</i>
36	3.3.3 Trade credit financing
39	Methodological Summary
40	References
42	Central Balance Sheet Studies

CHARTS

- 14** Chart 1 Structure of the NFC sector (2010)
- 16** Chart 2 Demographic indicators for NFCs
- 19** Chart 3 Turnover | Annual growth rate
- 19** Chart 4 Turnover | Quartile distribution of the annual growth rate
- 21** Chart 5 Operating costs | Annual growth rate
- 22** *Box 1 - Chart 1.1 Exports and imports of goods and services (2010)*
- 23** *Box 1 - Chart 1.2 Balance of goods and services transactions with the external markets (2009 and 2010)*
- 25** Chart 6 Return on equity
- 27** Chart 7 Capital ratio | Quartile distribution and weighted average
- 28** Chart 8 Liabilities structure (2010)
- 29** Chart 9 Evolution of financial debt and trade credit | Annual growth rate (in %) and contributions (in p.p.)
- 30** *Box 2 - Chart 2.1 Evolution of credit from resident credit institutions | Annual growth rate (in %) and contributions (in p.p.)*
- 31** *Box 2 - Chart 2.2 Non-performing loans ratios*
- 31** *Box 2 - Chart 2.3 Non-performing enterprises*
- 32** Chart 10 Interests paid | Annual growth rate and market interest rate
- 33** Chart 11 Weight of interests in EBITDA
- 34** *Box 3 - Chart 3.1 Debt securities issued (position in 2011)*
- 35** *Box 3 - Chart 3.2 Structure of debt securities holders (2011) | (2010 in brackets)*
- 36** Chart 12 Days Sales Outstanding | Days
- 37** Chart 13 Days Payable Outstanding | Days
- 37** Chart 14 Net Trade Credit Financing | As a % of turnover

TABLES

- 15** Table 1 Structure by size classes (2010)
- 16** Table 2 Birth/death ratio
- 17** Table 3 Birth/death ratio (CAE-REV. 3 Division)
- 18** Table 4 GDP and key components | Annual growth rate
- 20** Table 5 Turnover | Annual growth rate
- 21** Table 6 Operating costs | Structure (2010)
- 24** Table 7 EBITDA | Annual growth rate
- 24** Table 8 EBITDA | Enterprises with annual growth
- 25** Table 9 Return on equity
- 26** Table 10 Enterprises with negative equity
- 35** *Box 3 - Table 3.1 Proportion of short-term debt in total debt securities issued*

ACRONYMS

CAE	Portuguese Classification of Economic Activities
COGS	Cost of goods sold and materials consumed
EBITDA	Earnings before interest, taxes, depreciation and amortisation
SES	Supplies and external services
CI	Credit institutions
IES	Simplified Corporate Information
INE	Statistics Portugal
p.p.	Percentage points
GDP	Gross domestic product
SMEs	Small and medium-sized enterprises (excluding microenterprises)
ESA 95	European System of National and Regional Accounts in 1995
NFCs	Non-financial corporations

SECTORAL ANALYSIS
OF NON-FINANCIAL CORPORATIONS
IN PORTUGAL 2010/2011



INTRODUCTION

1

STRUCTURE AND DYNAMICS

2

ECONOMIC AND FINANCIAL ANALYSIS

3

I SECTORAL ANALYSIS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL 2010/2011

1 INTRODUCTION

The Study *Sectoral Analysis of Non-Financial Corporations in Portugal 2010/2011* 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 Portugal².

The results published in this analysis complement the aggregated enterprise³ data, also found in the Central Balance Sheet Database and released within the scope of Banco de Portugal's statistical publications⁴, and provide an update to the *Central Balance Sheet Study | 3, September 2011 – Sectoral Analysis of Non-Financial Corporations in Portugal*. The analysis focuses mainly on the developments of 2010, using data from the most recent IES submission and, where the data allows, 2011.

The heterogeneous nature of the enterprises within the NFC sector requires the analysis based on aggregated data to be supplemented by microeconomic indicators where possible, to identify subgroups of enterprises, such as the enterprises' economic sectors or size classes.

The analysis begins with a brief reference to the structure and dynamics of the NFC sector in 2010. Afterwards, it reviews recent turnover developments to determine the extent to which these are reflected in business profitability. This involves a breakdown of the effects that influence this profitability into operating and financial components, while also aiming to provide some information on the solvency capacity of the sector.

Finally, based on complementary information available in other databases from the Statistics Department of Banco de Portugal, details are given on the financial debt of Portuguese NFCs, especially as regards bank loans and securities issued.

The Annex provides a methodological summary and the definition of the main concepts used throughout the *Study*.

1 The NFC sector represents 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 reference on the compilation methodology and 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 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 is a database with economic and financial information on NFCs in Portugal. Information used in this Study is based on annual accounting data (from the Annual Central Balance Sheet Database) reported within the scope of the IES (Simplified Corporate Information) and quarterly accounting data (from the Quarterly Central Balance Sheet Database) reported by enterprises through the Quarterly Survey of 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 detail on the activity 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 publication *Central Balance Sheet Study | 6, December 2011 – New Enterprise and Sector Tables: Adjustment to the Accounting Standards System*.

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

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.

In 2010, the NFC population in Portugal comprised around 370,000 enterprises

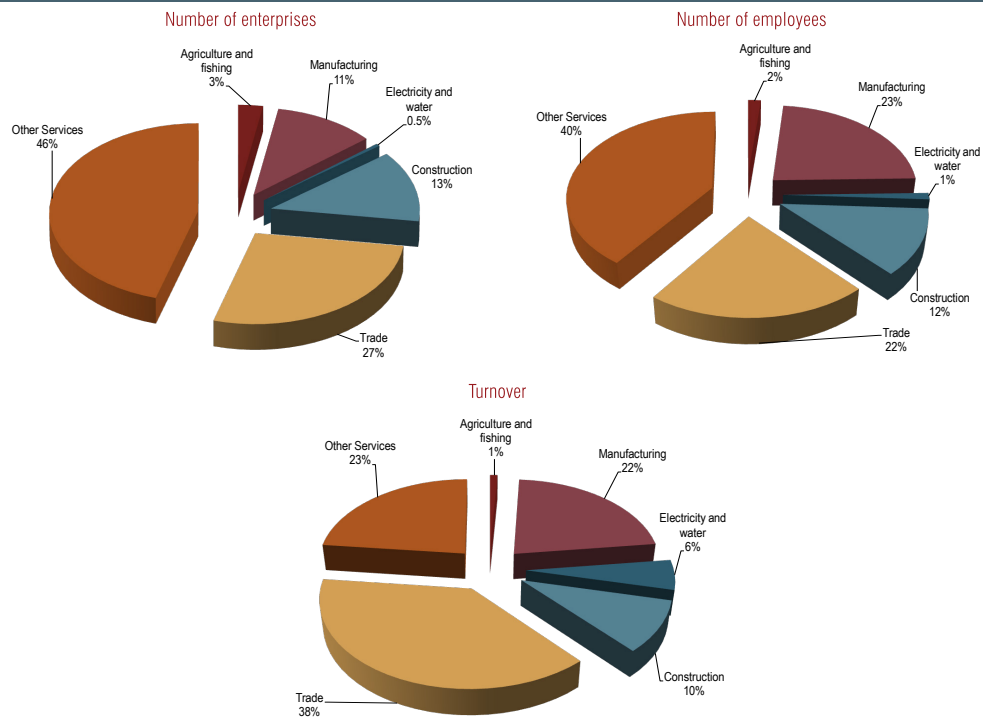
2 STRUCTURE AND DYNAMICS

2.1 Structure

The NFC sector used as reference for the statistics of the Central Balance Sheet Database of Banco de Portugal gathered nearly 370,000 enterprises in 2010. As in 2009, the *Other Services* aggregate contained the most enterprises, with around 166,000, followed by *Trade*, with around 100,000. *Agriculture and Fishing*, with around 10,000 enterprises, and *Electricity and Water*, with under 2,000 enterprises, remained the activities with the fewest enterprises.

Chart 1

STRUCTURE OF THE NFC SECTOR (2010)



Predominance of services activities...

Aggregating 46% of the enterprises and 40% of employees, the *Other Services* sector represented around 23% of total turnover in 2010 (Chart 1), 6% of which were from Section H – *Transportation and storage* and 4% were from Section J – *Information and communication*, which includes telecommunications activities, among others. Considering the number of enterprises, the most important activities for this sector were those of Section M – *Professional, scientific and technical* activities, including management consultancy, legal, engineering and other activities, and those of Section I – *Accommodation and food service activities*, each representing 9% of the NFC total. In terms of the number of employees, the *Other Services* sector featured a considerable contribution from Section N – *Administrative and support service activities* (10% of the NFC total), including temporary work activities, followed by Section I – *Accommodation and food service activities* (7%). In terms of turnover, *Trade* contributed the most (38%). *Manufacturing* was responsible for around 11% of the number of enterprises, 23% of the number of employees, and 22% of total NFC turnover.

As was the case in 2009, 99.7% of the NFCs in Portugal were micro, small or medium-sized. Although large enterprises maintained their share of total enterprises in 2010 (0.3%), they increased both their number of employees (29%, versus 28% in 2009) and their turnover (43%, versus 41% in 2009).

...and of microenterprises and SMEs (99.7% of NFC in Portugal)

Microenterprises were the largest class, in terms of number of enterprises, across all the economic sectors analysed (Chart 1). Even so, *Manufacturing* and *Electricity and Water* held lower relative shares of this size class (68% and 71% respectively).

In terms of number of employees, small and medium-sized enterprises (SMEs) dominated, both in the NFC aggregate and across most economic sectors. The exceptions were in *Electricity and Water* and *Other Services*, where large enterprises were predominant (49% and 40% respectively).

In terms of turnover, large enterprises contributed more than SMEs to the NFC aggregate amount (43% vis-à-vis 42% for SMEs). This larger contribution span across almost all activity sectors, particularly *Manufacturing*, whose large enterprises together contributed with 48% of turnover, a 3 p.p. increase on 2009. The only exception was *Electricity and Water* whose large enterprises contributed 1 p.p. less, at 78%, remaining nevertheless the activity where large enterprises were relatively more relevant.

Large enterprises were responsible for 43% of NFCs' turnover

Table 1

STRUCTURE BY SIZE CLASSES (2010)								
Analysis Dimension	Size	Total	By economic sector					
			Agriculture and fishing	Manufacturing	Electricity and water	Construction	Trade	Other Services
Number of enterprises	Micro	87.3%	90.1%	68.3%	71.0%	83.9%	89.3%	91.8%
	SMEs	12.4%	9.8%	31.0%	26.7%	15.9%	10.5%	8.0%
	Large	0.3%	0.1%	0.7%	2.3%	0.2%	0.2%	0.3%
Number of employees	Micro	26.2%	42.1%	13.8%	5.5%	29.9%	35.3%	27.3%
	SMEs	45.0%	52.8%	65.1%	45.8%	51.8%	41.4%	33.0%
	Large	28.8%	5.1%	21.0%	48.8%	18.3%	23.2%	39.8%
Turnover	Micro	15.3%	38.3%	6.2%	2.0%	17.8%	18.5%	19.8%
	SMEs	41.9%	53.4%	45.7%	19.7%	46.7%	43.6%	38.2%
	Large	42.8%	8.3%	48.1%	78.3%	35.6%	37.8%	42.0%

2.2 Dynamics

During 2010, the NFC population contracted, with the death rate for enterprises exceeding the birth rate for the second consecutive year. The natural balance settled at around -3% (Chart 2).

The number of active enterprises fell in 2010 for the second consecutive year

Chart 2 shows the birth/death ratio for 2006-2010, revealing that microenterprises came close to parity⁵, while SMEs and large enterprises in particular, with the exception of 2007, have fallen in terms of numbers of enterprises in the NFC population.

Despite the relatively low absolute number of terminations and creations among large enterprises, it is notable that for each enterprise created in 2010, around eight were terminated (through closure or merger with other entities). Among SMEs this ratio was 1 to 5, while microenterprises almost balanced out.

Microenterprises showed a better balance between creations and terminations...

⁵ Level reached when the number of enterprises created equals the ones terminated in a given year.

Chart 2

DEMOGRAPHIC INDICATORS FOR NFCS

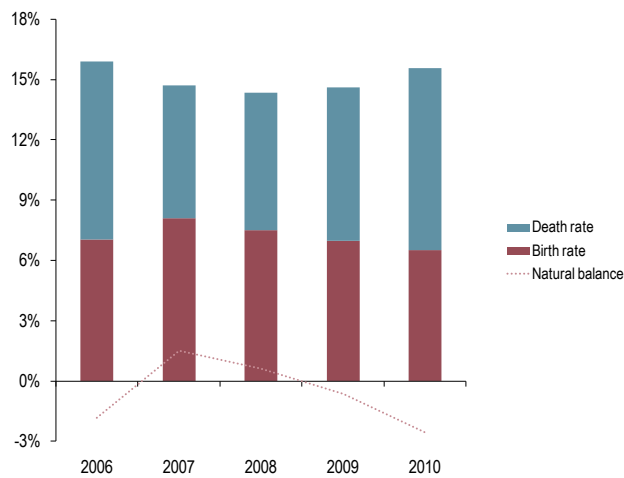


Table 2

BIRTH/DEATH RATIO					
	2006	2007	2008	2009	2010
Microenterprises	0.78	1.27	1.13	0.94	0.75
Small and medium-sized enterprises	0.74	0.99	0.76	0.59	0.22
Large enterprises	0.42	1.29	0.47	0.73	0.13
Total	0.78	1.25	1.10	0.91	0.70

Table 3 shows the same kind of analysis by economic sector, with the darker colours showing a higher birth/death ratio, i.e., an effective increase in the number of enterprises.

...as well
as services
activities

The proliferation of services in the Portuguese economy is clear with the *Other Services* sector highly dynamic, with birth/death ratios systematically above 1.25. Also the *Electricity and Water* sector has seen some growth, partially explained by the recent liberalisation of the Portuguese energy market. *Manufacturing* is in the opposite situation, with ratios for most of its activities falling below parity.

It is interesting to note the resilience of *Agriculture and Fishing*. However, within the sector distinct behaviours are visible, with the number of enterprises in *Agriculture, Animal production* and *Forestry* increasing, while *Fishing* is falling sharply.

Table 3

BIRTH/DEATH RATIO (CAE-REV. 3 DIVISION)													
Sector	Div.	2006	2007	2008	2009	2010	Sector	Div.	2006	2007	2008	2009	2010
Agriculture and Fishing	01						Trade	45					
	02							46					
	03							47					
Manufacturing	05						Other Services	49					
	06							50					
	07							51					
	08							52					
	09							53					
	10							55					
	11							56					
	12							58					
	13							59					
	14							60					
	15							61					
	16							62					
	17							63					
	18							68					
	19							69					
	20							70					
	21							71					
	22							72					
	23							73					
	24							74					
25						75							
26						77							
27						78							
28						79							
29						80							
30						81							
31						82							
32						85							
33						86							
35						87							
Electricity and Water	36						88						
	37						90						
	38						91						
	39						92						
Construction	41						93						
	42						94						
	43						95						
						96							

Legend: The Division codes correspond to those of CAE-Rev. 3 (see <http://www.ine.pt/xportal/xmain?xpgid=caerev3&xpid=INE>). The birth/death ratios were grouped into four bands, each with its own colour.

- Above 1.25;
- Between 1 and 1.25;
- Between 0.75 and 1;
- Below 0.75.

3 ECONOMIC AND FINANCIAL ANALYSIS

3.1 Economic environment

Portugal's GDP grew by 1.4% in 2010, although it decelerated over the year

In 2010 economic activity in Portugal grew by 1.4%, although it decelerated over the year, following a strong contraction in 2009 (2.9%) (Table 4). On the demand side, this acceleration was based on the dynamics of exports – in line with international trade flow performance – as well as a notable growth in private consumption, partly influenced by fiscal changes which led to earlier decisions to acquire durable goods.

With strong tension in the international financial market in 2011, the Portuguese public sector – and the banking sector as a result – lost access to market financing under normal conditions. Thus the Portuguese State requested financial assistance from the International Monetary Fund and the European Union, which led to the formalisation of an economic and financial assistance programme in which the Portuguese Government agreed to adopt measures to adjust the macroeconomic imbalances as well as others of a structural nature. Although these measures are designed to provide conditions needed for growth in the Portuguese economy, in the short term they have an inevitable contractionary effect.

In 2011 GDP fell by 1.6%

Thus, 2011 ended with economic activity falling by 1.6% as a result of considerable reductions in private and public consumption, as well as in gross fixed capital formation. Offsetting these effects was the upward trend of net exports⁶.

Table 4

GDP AND KEY COMPONENTS <i>Annual growth rate</i>					
	2007	2008	2009	2010	2011
GDP	2.4%	0.0%	-2.9%	1.4%	-1.6%
Private consumption	2.5%	1.3%	-2.3%	2.1%	-3.9%
Public consumption	0.5%	0.3%	4.7%	0.9%	-3.9%
Gross fixed capital formation	2.6%	-0.3%	-8.6%	-4.1%	-11.4%
Exports	7.5%	-0.1%	-10.9%	8.8%	7.4%
Imports	5.5%	2.3%	-10.0%	5.4%	-5.5%

Source: Statistics Portugal and Banco de Portugal.

3.2 Activity and profitability

3.2.1 Turnover⁷

NFCs' turnover returned to growth in 2010 (3%), after the decrease of 2009 (8%)

According to annual data from the Central Balance Sheet Database, NFCs' turnover increased by 3% in 2010, having fallen by 8% in 2009. Preliminary information from the same database (obtained from the Quarterly Survey of Non-Financial Corporations) suggests however a new deceleration in this indicator up until the third quarter of 2011 (Chart 3).

⁶ For more 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>.

⁷ 'Box 1 | External market importance on non-financial corporations' activity' provides complementary information on the external market's weight on the activity of NFCs resident in Portugal.

Chart 3

TURNOVER | Annual growth rate

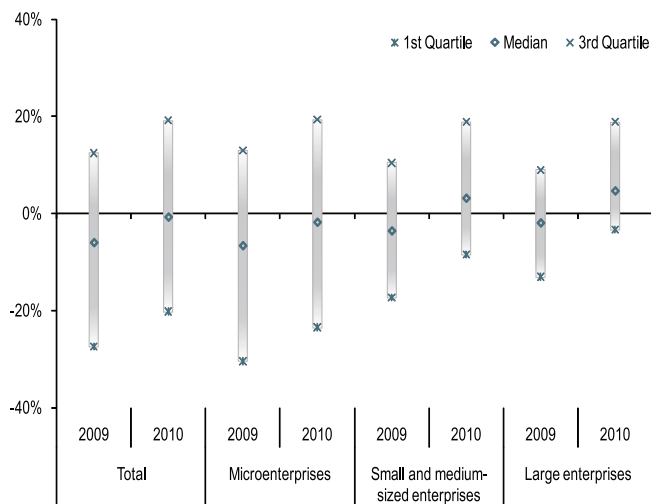


On average, the recovery of turnover in 2010 was mainly driven by large enterprises (7%), as both microenterprises and SMEs showed slightly negative growth. However, detailed analysis of individual data demonstrates that all size classes showed improvements in this indicator (Chart 4). The median value of the distribution of individual turnover growth rates rose from -7% to -2% among microenterprises, from -4% to 3% among SMEs and from -2% to 5% among large enterprises. This improvement is found across all distribution quartiles.

Growth in 2010 was, above all, due to large enterprises.

Chart 4

TURNOVER | Quartile distribution of the annual growth rate



Turnover growth by economic sector was found in *Manufacturing* (7%), *Trade* (6%) and *Agriculture and Fishing* (3%) (Table 5). *Other Services* decreased (2%), a worse performance than that of the year before (-1%), with the largest decreases in Sections L – *Real estate activities* and M – *Professional, scientific and technical activities*, where turnover fell by 17% and 13%, respectively.

...and to enterprises in *Manufacturing and Trade*

Electricity and Water had the highest proportion of enterprises with growth in turnover...

...while Construction had the opposite situation

Electricity and Water aggregate turnover also decreased by 2%. However this was the sector with the greatest proportion of enterprises with growth in this indicator. This is explained by the dynamic within the sector, with new enterprises gradually managing to grow their market shares, even though the sector continues to be dominated by a small group of large enterprises which determine the sector's average values.

In *Construction*, despite the growth since 2009, only 45% of enterprises saw their turnover increase in 2010. This sector had the worst results in this indicator, whilst in 2009 this situation was registered in *Trade*.

Table 5

TURNOVER Annual growth rate								
Analysis measure	Year	Total	By economic sector					
			Agriculture and fishing	Manufacturing	Electricity and water	Construction	Trade	Other Services
Annual growth rate of turnover	2009	-8.1%	-7.8%	-16.2%	-17.9%	-3.8%	-6.6%	-1.4%
	2010	2.8%	3.4%	6.9%	-2.3%	0.0%	5.5%	-2.4%
Number of enterprises with growth	2009	39.8%	39.0%	34.4%	48.7%	38.4%	36.3%	44.0%
	2010	48.4%	52.0%	51.2%	69.9%	45.1%	47.2%	48.8%

3.2.2 Operating costs⁸

In line with activity, operating costs grew by 3% in 2010

Positive developments were mainly due to large enterprises, while the other size classes had marginal variations

In 2010 NFCs' operating costs grew by 3% year-on-year (Chart 5). This performance, which matches that of turnover, was essentially driven by growth of CoGS (4%) and Supplies and External Services (1%), as employee costs continued its downward trend which began in 2008, achieving -1% in 2010. Preliminary data from the Central Balance Sheet Database for 2011 suggest a fall in operating costs, in line with the contracting economic activity among NFCs.

The growth during 2010 in NFCs' operating costs was driven mainly by large enterprises (7%), since microenterprises and SMEs only showed marginal growth. All large enterprises' analysed costs increased, including the employee costs item, rising almost 1%. In other size classes this item fell more sharply and was also accompanied by decreases in CoGS for microenterprises and Supplies and External Services for SMEs.

⁸ The "operating costs" aggregate aims to draw a parallel with what the Official Chart of Accounts had defined as so, only aggregating the most relevant items of the previously established concept: Cost of Goods Sold and Materials Consumed (CoGS), Supplies and External Services and Employee Costs.

Chart 5

OPERATING COSTS | Annual growth rate



Table 6

OPERATING COSTS | Structure (2010)

Item	Total	By enterprise size			By economic sector					
		Micro	SMEs	Large	Agric. and fishing	Manufac.	Electr. and water	Constr.	Trade	Other Services
CoGS	56.6%	53.4%	55.1%	59.3%	52.6%	63.7%	77.0%	25.9%	80.8%	16.0%
Supplies and External Services	27.7%	29.1%	27.9%	27.0%	30.2%	20.4%	16.1%	55.4%	11.0%	54.9%
Employee Costs	15.7%	17.5%	17.0%	13.7%	17.3%	15.9%	6.9%	18.7%	8.2%	29.1%

Operating costs increased the most in *Manufacturing* (7%) and *Trade* (5%). Thus the different cost structures among the sectors implied different operating costs performances. In *Construction* and *Other Services*, *Supplies and External Services* was the largest item in relative terms, accounting for 55% of the respective operating costs (Table 6). For other sectors, the largest item was *CoGS* (53% and 81% in *Agriculture and Fishing* and *Trade* respectively). *Employee costs* were more significant in *Other Services* (29%), while in *Electricity and Water* and *Trade* their share was lower (7% and 8% respectively).

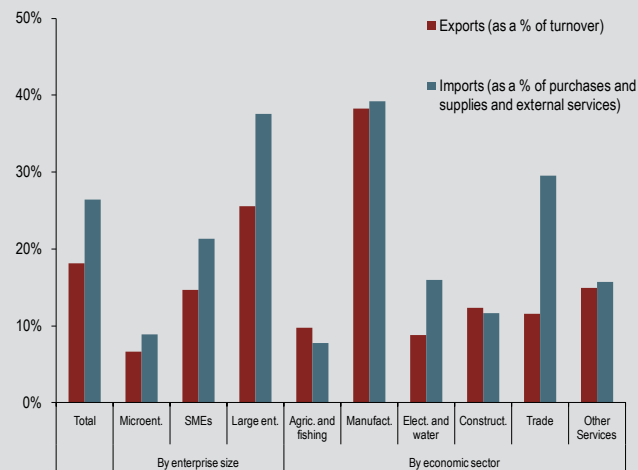
BOX 1 | EXTERNAL MARKET IMPORTANCE ON NON-FINANCIAL CORPORATIONS' ACTIVITY

This Box evaluates the weight of the external market on the operating activity of NFCs in Portugal, based on IES data⁹. In 2010 exports of goods and services grew by 14%, accounting for 18% of aggregate turnover of NFCs versus 16% in 2009. As had been the case in previous years, NFCs' exports (as a % of turnover) were directly proportional to enterprise's size classes: 7% among microenterprises and over 25% among large enterprises (Chart 1.1).

By economic sector, *Manufacturing* continued to have the largest share of turnover generated in the external market in 2010 (38%), growth of 2 p.p. versus 2009. In terms of growth, only *Trade* outperformed it, growing from 9% in 2009 to 12% in 2010.

Chart 1.1

EXPORTS AND IMPORTS OF GOODS AND SERVICES (2010)



With regard to imports, 26% of goods and services acquisitions by NFCs had their origin abroad (25% in 2009), even though imports had grown 12%, lower than the growth recorded by exports. Here too the level of interaction with other countries grows according to enterprise size. Thus, while among microenterprises only 9% of purchases were made outside Portugal, among SMEs this was 21% and among large enterprises 38%. Large enterprises' imports increased by 4 p.p. while in the other classes this item fell by 1 p.p..

By economic sectors, *Manufacturing* stood, again, apart, as 39% of purchases took place abroad (2 p.p. up on 2009). Next was *Trade* (30%), which grew by 4 p.p. in 2012 in this indicator. In contrast, *Electricity and Water* notably reduced its dependence on foreign countries, with purchases abroad totalling 21% in 2009, vis-à-vis 16% in 2010.

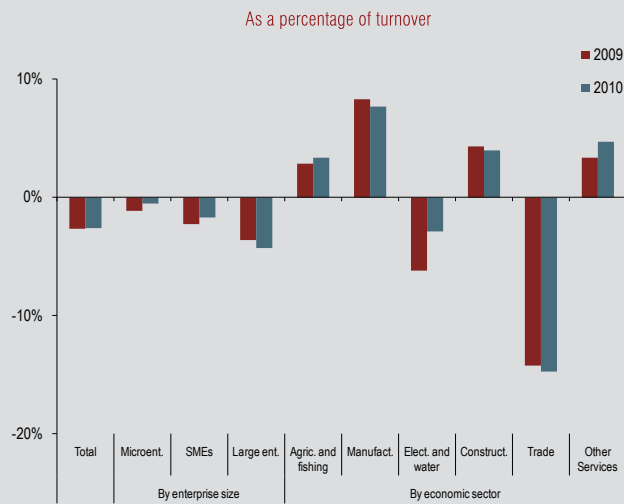
Data from Banco de Portugal's Central Balance Sheet Database confirm the overall deficit of foreign commercial operations in the NFC sector. In 2010 imports by NFCs exceeded exports by over 2% of the respective turnover, a similar situation to 2009 (Chart 1.2).

By enterprise size, although all classes continued to show negative balances, in 2010 there was a slight improvement among microenterprises and SMEs, while large enterprises registered a deterioration.

⁹ Data reported by enterprises within the scope of IES submissions 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 AND 2010)



By economic sector *Trade* and *Electricity and Water* remained with a negative balance, although the latter improved its balance year-on-year comparing with 2009 (3 p.p.).

The performance of *Manufacturing* and *Other Services* is also notable. As a sector structurally more linked to exports, *Manufacturing's* external trade balance totalled 8% of its turnover in 2010 (a similar value to that of 2009). *Other Services* meanwhile achieved an export balance in 2010 of around 5% of its turnover, significantly up from 2009 (by 1.4 p.p.); within these, Section H – Transportation and storage performed notably, with a balance of 18% (from 11% in 2009) of its turnover. This performance, along with that of *Construction* enterprises, reveals the dynamism in exports from sectors traditionally seen as 'non-tradable' in the Portuguese economy.

3.2.3 EBITDA¹⁰

EBITDA grew in 2010 (13%), after having fallen in 2009 (7%)

NFCs' EBITDA grew by around 13% in 2010, having decreased by 7% in 2009 (Table 7). However, preliminary Central Balance Sheet Database data suggest a new negative performance in what relates to EBITDA in 2011 (6% in the third quarter of 2011, year-on-year).

Table 7

EBITDA Annual growth rate										
Year	Total	By enterprise size			By economic sector					
		Micro	SMEs	Large	Agric. and fishing	Manufac.	Electr. and water	Constr.	Trade	Other Services
2009	-6.6%	-11.8%	-3.8%	-6.9%	-7.3%	-20.5%	4.7%	-2.8%	-7.3%	-3.2%
2010	12.7%	13.3%	-13.3%	33.2%	12.0%	5.2%	-3.9%	-10.5%	-0.2%	32.3%

The exceptions to EBITDA's improvement in 2010 were *Construction and Electricity and Water*

The behaviour of NFCs' EBITDA in 2010 was essentially driven by large enterprises (growth of 33%)¹¹. EBITDA among microenterprises and SMEs behaved in opposite ways, rising 13% in the first group and falling in the second by the same amount.

The exceptions to EBITDA's improvement came from *Construction* (-11%) and *Electricity and Water* (-4%). Regarding *Trade*, although it effectively did not register a growth, its variation was less negative than that of 2009 (-7% in 2009 versus -0.2% in 2010).

The proportion of enterprises with EBITDA growth was lower in 2010

The positive performance of this indicator in aggregate terms did not reach all NFCs. Analysis of Table 8 indicates only 47% of the enterprises had a growth in its EBITDA in 2010, which compares unfavourably with 2009 (48%). This situation is clear among microenterprises and SMEs, whilst large enterprises are the only size class showing a greater number of companies with year-on-year EBITDA growth in 2010.

Table 8

EBITDA Enterprises with annual growth										
Year	Total	By enterprise size			By economic sector					
		Micro	SMEs	Large	Agric. and fishing	Manufac.	Electr. and water	Constr.	Trade	Other Services
2009	48.4%	48.9%	45.2%	47.1%	46.4%	45.2%	51.9%	46.4%	48.1%	50.1%
2010	46.5%	47.3%	41.2%	48.4%	52.0%	45.3%	53.8%	44.8%	46.0%	47.1%

All the other sectors showed growth in EBITDA, especially *Other Services* (32%). However, it is notable that in this sector the percentage of enterprises with growth in EBITDA year-on-year (47% in 2010 vis-à-vis 50% in 2009). Finally, the enterprises of Section J - *Information and communication* saw significant growth in their EBITDA (over 150%, although linked to a smaller group of enterprises: 48% versus 50% in 2009). The enterprises of Section L - *Real estate activities* saw a fall of almost 32% in this indicator.

¹⁰ 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.

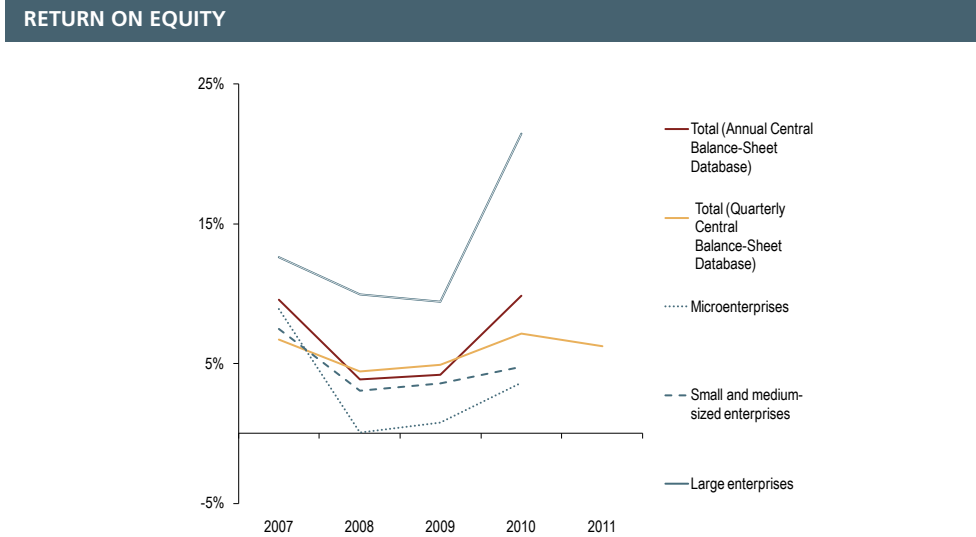
¹¹ EBITDA in 2010 includes the sale of Portugal Telecom's stake in the Brazilian enterprise Vivo, which yielded a revenue. This had an impact on NFCs' overall performance, in particular within large enterprises, and on the enterprises of the *Other Services* sector (Section J - *Information and communication*).

3.2.4 Return on equity¹²

NFCs' return on equity increased by around 6 p.p. in 2010 (to 10%), driven mainly by the large enterprises (12 p.p.)¹³. Among microenterprises this increase reached 3 p.p. and among SMEs 1 p.p.. For 2011, preliminary Central Balance Sheet Database data point to a reduction in NFCs' return on equity (Chart 6).

NFCs' return on equity increased in 2010 to 10%

Chart 6



All sectors achieved a positive variation on their average return on equity, with notable performances by *Other Services* (8 p.p.), due to the behaviour of Section J – *Information and communication* and Section M – *Professional, scientific and technical activities*, while *Trade's* grew less (2 p.p.). Even so, in 2010 *Electricity and Water* achieved the highest average return on equity (16%) and *Agriculture and Fishing* the lowest (2%) (Table 9).

All sectors achieved a positive variation of this indicator

Table 9

RETURN ON EQUITY								
Analysis measure	Year	Total	By economic sector					Other Services
			Agriculture and fishing	Manufact.	Electricity and water	Constr.	Trade	
Weighted average	2009	4.2%	-1.9%	2.6%	10.2%	0.1%	5.8%	3.7%
	2010	9.8%	1.7%	7.7%	15.5%	3.8%	8.3%	11.7%
Number of enterprises with positive return on equity	2009	65.7%	59.4%	69.7%	60.4%	63.7%	68.6%	63.9%
	2010	65.9%	63.0%	71.3%	66.4%	63.8%	68.9%	63.6%

¹² 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, as mentioned in *Central Balance Sheet Database Study | 6, December 2011 – New Enterprise and Sector Tables: Adjustment to the Accounting Standards System*, is only carried out on enterprises with positive equity levels.

¹³ As was mentioned with regards EBITDA, the return on equity level was also affected in 2010 by the sale of Portugal Telecom's stake in the Brazilian enterprise Vivo, through the revenue obtained by enterprises from Portugal Telecom Group.

Despite the above mentioned average profitability developments, the proportion of enterprises with positive returns remained the same (66%), a situation similar among *Construction*, *Trade* and *Other Services*. *Electricity and Water*, *Agriculture and Fishing* and *Manufacturing* increased the number of enterprises with positive return (by 6 p.p., 4 p.p. and 2 p.p. respectively).

It should be noted, nonetheless, that only enterprises with positive equity are analysed, which means that a quarter of NFCs are excluded (Table 10).

The proportion of NFCs with negative equity remained unchanged in 2010, despite a slight expansion in *Electricity and Water* (1.2 p.p.) and a decrease in *Agriculture and Fishing* (2.5 p.p.).

Table 10

ENTERPRISES WITH NEGATIVE EQUITY							
Year	Total	By economic sector					
		Agriculture and fishing	Manufacturing	Electricity and water	Construction	Trade	Other Services
2009	25.3%	24.4%	22.5%	18.5%	19.3%	27.6%	26.5%
2010	25.3%	21.9%	22.0%	19.7%	19.7%	27.6%	26.6%

3.3 Financial situation

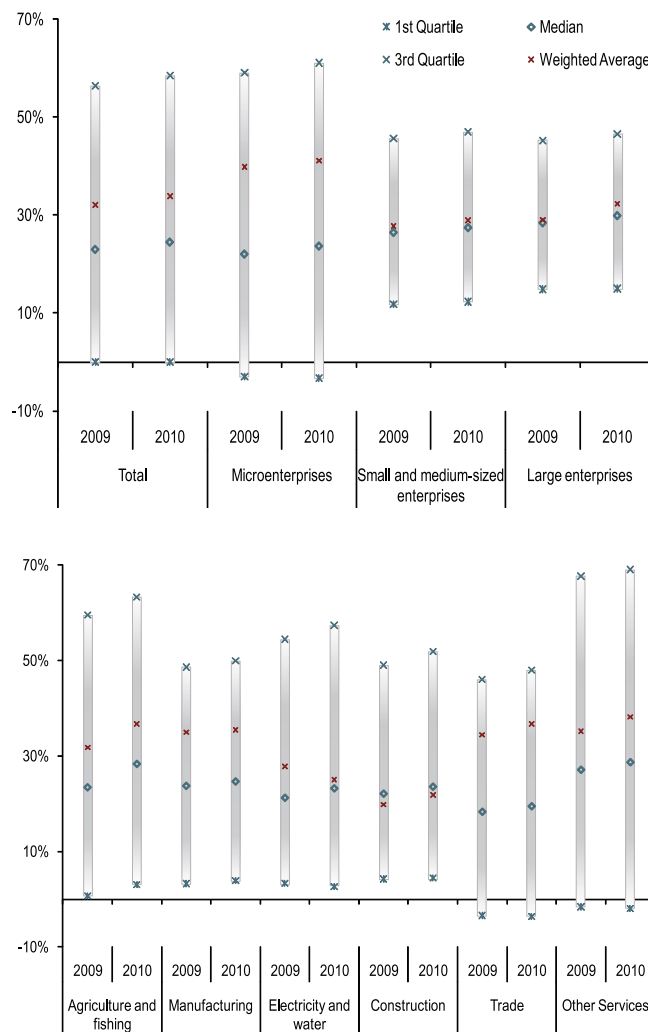
3.3.1 Financial structure

According to Central Balance Sheet Database data, NFCs' capital ratio reached 34% in 2010, a 2 p.p. increase on 2009 (Chart 7). This increase was noted across all distribution quartiles and in general across all size classes. However, over half of the enterprises in Portugal had a lower financial capital ratio than this, with a subset of around 25% of enterprises which exclusively financed their activity from debt. At the opposite end of the distribution, another 25% of enterprises have capital ratios exceeding 58%.

NFCs' capital ratio increased by 2 p.p. in 2010, reaching 34%

Chart 7

CAPITAL RATIO | Quartile distribution and weighted average



On average, microenterprises continued to be the size class with the largest proportion of assets financed by equity (41%). However, that result is greatly influenced by a small set of enterprises with high equity levels, given that the average is 17 p.p. above the median. In fact, half of the enterprises in that class have a capital ratio below 24%. Microenterprises are the size class with the most varied results in this indicator, with an interquartile range of 64 p.p..

On average, microenterprises continued to be the size class with the largest capital ratio

Construction had the lowest capital ratio across the economic sectors

In contrast, SMEs and large enterprises showed more homogeneous results in terms of capital ratio (interquartile range below 35 p.p.). The average result for these classes is also more representative than that found in all enterprises as a whole, since it generally coincides with the median (27% for SMEs and 30% for large enterprises, compared to average values of 29% and 32% respectively).

Across the economic sectors there was a general increase in the average value of the capital ratio in 2010, apart from *Electricity and Water* (Chart 7). *Construction* continued to have a lower capital ratio (22%), with around half of the enterprises in the sector showing lower capital ratios than the sector's average.

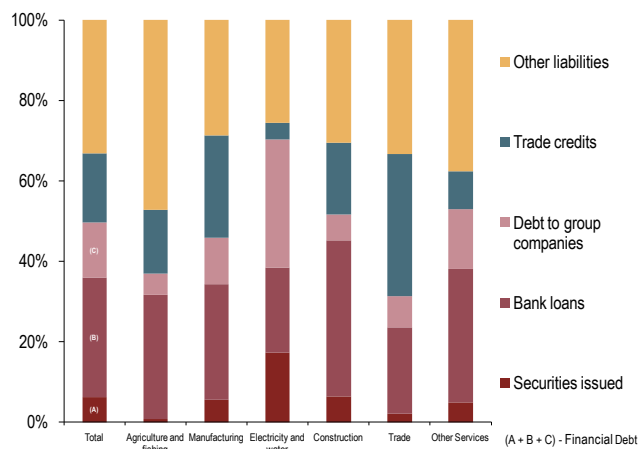
Trade and *Other Services* continued to hold the highest proportion of enterprises with negative equity, as is shown by the first quartile of the distribution. However, these two sectors also show the highest average capital ratios level (38% for *Other Services* and 37% for *Trade*), which is driven by a subset of more capitalised enterprises in these sectors and shows the high diversity registered among these aggregates.

Financial debt and trade credits together represented over two-thirds of the sources of NFCs financing

The conclusion to be drawn from this is that debt has a very important role in financing NFCs in Portugal, requiring a detailed analysis of its characteristics. Chart 8 sets out the sources of external financing in 2010 and shows that financial debt¹⁴ and trade credits together amounted to over two-thirds of the sources of NFCs external financing. However, the relative importance of each of these sources of financing differs among the various economic sectors¹⁵.

Chart 8

LIABILITIES STRUCTURE (2010)



Thus, trade credits were particularly relevant in *Trade* (35%) and *Manufacturing* (26%), while their share in *Electricity and Water's* liabilities was no greater than 4%.

¹⁴ This refers to the set of interest bearing debt obtained through issuing debt securities, debt from banks and other financial institutions and debt from group companies

¹⁵ The analysis excludes liabilities' components considered eminently related with accounting procedures, such as deferrals and provisions. Thus, "Other liabilities" includes debt to the Public Administration and other public entities, debt to shareholders and other current liabilities and accounts payable.

Financial debt represented over half of the financing of *Electricity and Water* (70%), *Other Services* (53%) and *Construction* (52%). Bank loans in particular represented 21% and 39% of the liabilities of *Electricity and Water* and *Construction*, respectively. Debt to group companies ranged between 5% in the case of *Agriculture and Fishing*, and 32% for *Electricity and Water*. Debt securities played an important role in *Electricity and Water* (17%), but in *Trade* and *Agriculture and Fishing* they only represented 2% of their liabilities.

Financial debt represented over half of the financing of *Electricity and Water*, *Other Services* and *Construction*

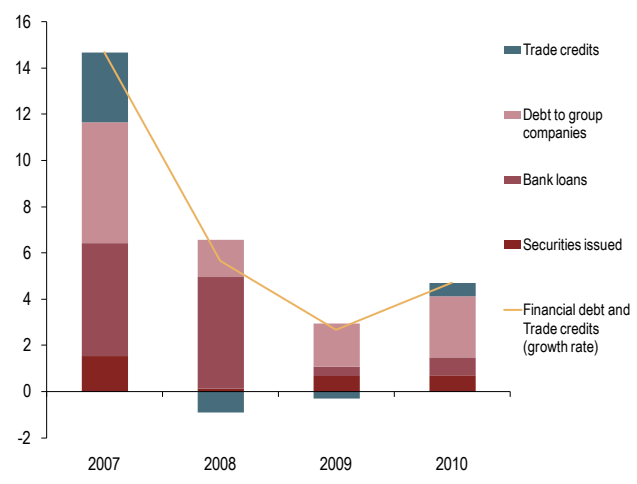
Other liabilities were more important in *Agriculture and Fishing* (47% of its total liabilities), and were driven largely by debt to shareholders.

These structures remained largely the same comparing with the previous year, with the only major difference being the 5 p.p. fall in the weight of bank loans in *Construction's* total liabilities.

Analysis of financial debt and trade credits as a whole shows that the aggregate grew by around 5% in 2010, with all components contributing positively. Thus, debt to group companies stood apart from other sources of financing, growing by 14% in 2010, thereby contributing decisively to the growth of the aggregate item (Chart 9).

Chart 9

EVOLUTION OF FINANCIAL DEBT AND TRADE CREDIT | Annual growth rate (in %) and contributions (in p.p.)



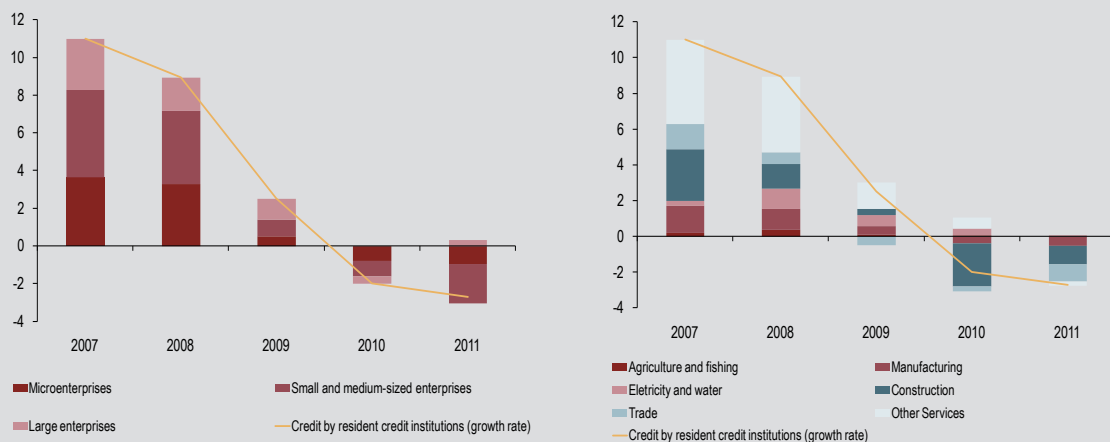
BOX 2 | LOANS FROM RESIDENT CREDIT INSTITUTIONS - CHARACTERISATION BASED ON THE CENTRAL CREDIT REGISTER¹⁶

Loans from credit institutions (CI¹⁷) are one of the enterprises' main financial debt components (60% of financial debt and around 30% of total liabilities in 2010). Loans from CIs resident in Portugal were analysed on the basis of information available in Banco de Portugal's Central Credit Register. In 2010 this represented around 90% of total loans obtained by NFCs from credit institutions and involved 66% of the enterprises in the sector.

Credit from resident CIs decreased 3% in 2011 after a similar behaviour in 2010 (2% fall). The 2011 contraction was driven by SMEs and microenterprises, as large enterprises contributed positively to the aggregate performance (2% increase) (Chart 2.1).

Chart 2.1

EVOLUTION OF CREDIT FROM RESIDENT CREDIT INSTITUTIONS | Annual growth rate (in %) and contributions (in p.p.)



By economic sectors, only *Electricity and Water* increased its credit (1%). Among the other activities it is noteworthy the decrease registered by *Trade* (6%), *Construction* (5%) and *Manufacturing* (4%).

The non-performing ratio¹⁸ of credit granted to NFCs by resident CIs continued the upward trend started in 2007. In fact, NFCs non-performing ratio in 2011 was over 7%, having been under 5% in 2010. This growth was especially strong among microenterprises, whose non-performing ratio hit 10%. Large enterprises also saw this indicator grow reaching around 2%, despite having lower non-performing levels (Chart 2.2).

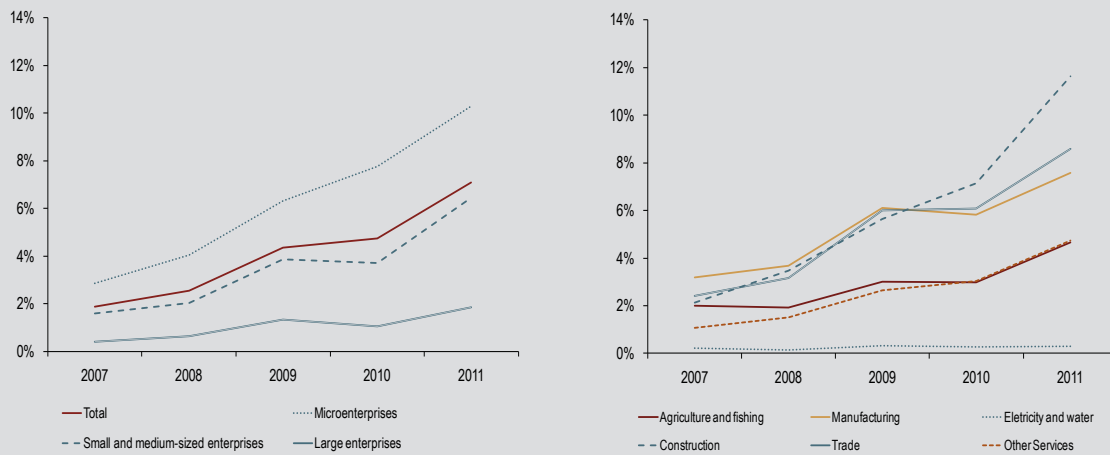
¹⁶ The Central Credit Register is a database managed by Banco de Portugal, which gathers information provided by participating entities (credit-granting resident institutions) regarding credit granted. For further information, please refer to Supplement 1/2005 to Banco de Portugal's Statistical Bulletin, *A New Source for Monetary and Financial Statistics: the Central Credit Register*.

¹⁷ Credit institutions are the set of enterprises whose activity consists in receiving deposits and other repayable funds from the public, to be invested on their own account by granting credit. These include banks, savings banks and mutual agricultural credit banks (generally called 'banks' in this Study), as well as factoring enterprises, credit-purchasing financial companies and leasing companies. Over 95% of credit granted by resident credit institutions to NFCs in 2011 came from banks.

¹⁸ The non-performing ratio, also known as the credit overdue 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 is deemed to be overdue when the respective repayments are not paid on the due payment dates. Credit customers may be in default as regards the principal and/or interest and other expenditure. In the case of principal this is deemed to have taken place 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 2.2

NON-PERFORMING LOANS RATIOS

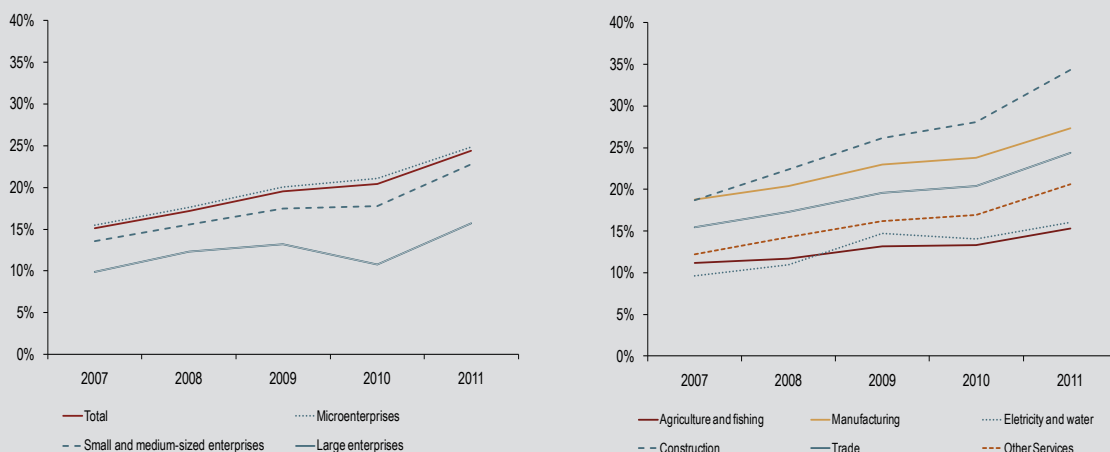


In 2011 default grew across all the economic sectors (including among *Electricity and Water*, although marginally). In particular, *Construction* enterprises, whose average non-performing ratio came to around 12%, grew by 4.5 p.p. versus 2010. *Trade* and *Manufacturing* were the two sectors with the highest non-performing ratios, of 9% and 8%, respectively.

Nearly 25% of NFCs receiving credit from resident CIs contributed to the non-performing ratio in 2011, which compares with 15% in 2007 and 20% in 2010 (Chart 2.3). 25% of microenterprises and 23% of SMEs were in default in 2011, representing over 99% of the total non-performing NFCs. Among large enterprises, 16% were in default in 2011, even so a substantially higher level than that of 2010 (11%).

Chart 2.3

NON-PERFORMING ENTERPRISES



By economic sectors, *Construction* stands out again, with over 34% of enterprises in default in 2011, and growing the most of all the sectors (by 6 p.p. versus 2010). *Manufacturing* was the sector coming closest to this value, with non-performing enterprises approaching 27%. *Electricity and Water* and *Agriculture and Fishing* stood at the other end of the spectrum, with historically fewer enterprises in default and around 16% in default in 2011.

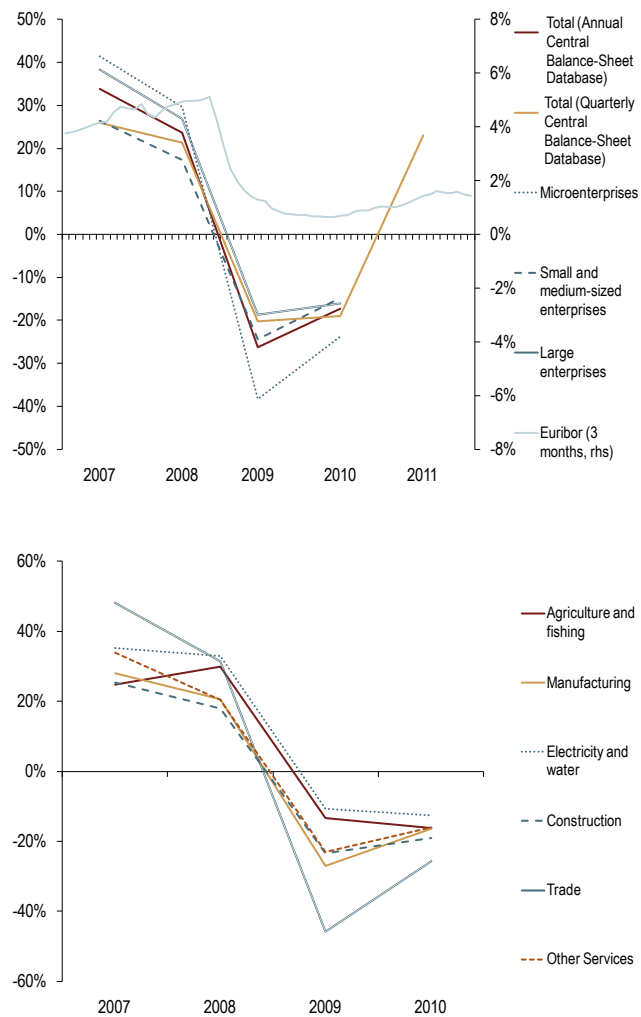
3.3.2 Financial costs and solvency

As a large proportion of NFC financing in Portugal comes through financial debt, it is very important to analyse the evolution of the costs this kind of debt bears, as well as the capacity of the enterprises to fulfil their commitments.

Although 2010 was marked by the sovereign debt crisis in the euro area, the increase in the risk premium had no immediate effect on interests paid by NFCs, which continued to have negative growth rates (Chart 10). The adverse effect of the Portuguese economy's financing conditions is well reflected in the 2011 results of the Central Balance Sheet Database enterprises, with preliminary data suggesting strong growth in interests paid.

Chart 10

INTERESTS PAID | Annual growth rate and market interest rate



Interests paid by NFCs continued to decline in 2010 across all size classes and economic sectors

Interests paid by NFCs in 2010 fell by 17% vis-à-vis 2009, with major decreases across all size classes (24% for microenterprises; 15% for SMEs and 16% for large enterprises). Even so, the decrease in interests paid was lower than in 2009, but higher among SMEs and microenterprises.

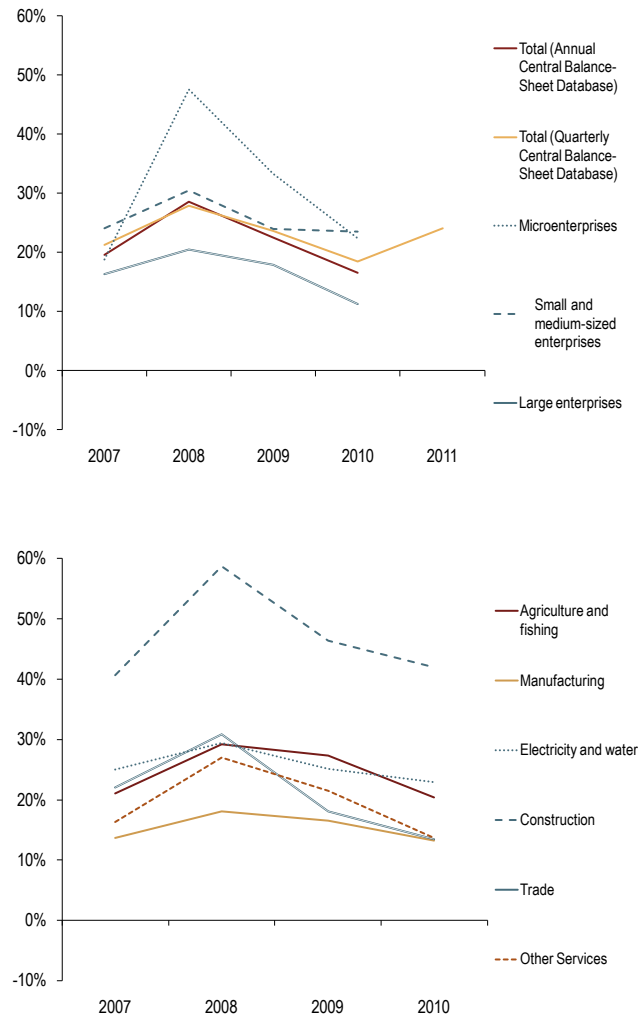
The decrease of interests paid also span across all economic sectors, with Trade decreasing the most (26%). However, *Electricity and Water* and *Agriculture and Fishing* saw larger decreases in interests in percentage terms than in 2009 (Chart 10).

Although 2010 saw a slight increase in financial debt, the fall in interests paid linked to the growth in EBITDA meant that there was less financial pressure on these enterprises. Thus in 2010, the proportion of EBITDA consumed by interest payments came to 17%, representing a fall of 6 p.p. versus 2009. The improvement in this indicator was felt essentially by microenterprises (-11 p.p.) and large enterprises (-7 p.p.), as SMEs saw only marginal improvement (-0.5 p.p.). Large enterprises maintained the best level of interest coverage (Chart 11).

Financial pressure, evaluated by the weight of interests paid on EBITDA, also declined in 2010

Chart 11

WEIGHT OF INTERESTS IN EBITDA



By economic sectors, the interests paid by *Construction* consumed 42% of its EBITDA, remaining the sector with the highest results in what regards this indicator. In contrast, *Manufacturing* had the lowest level of interests covered by EBITDA (13%), followed by *Trade* and *Other Services* (with values around 14%).

Construction is the sector with the highest financial pressure level

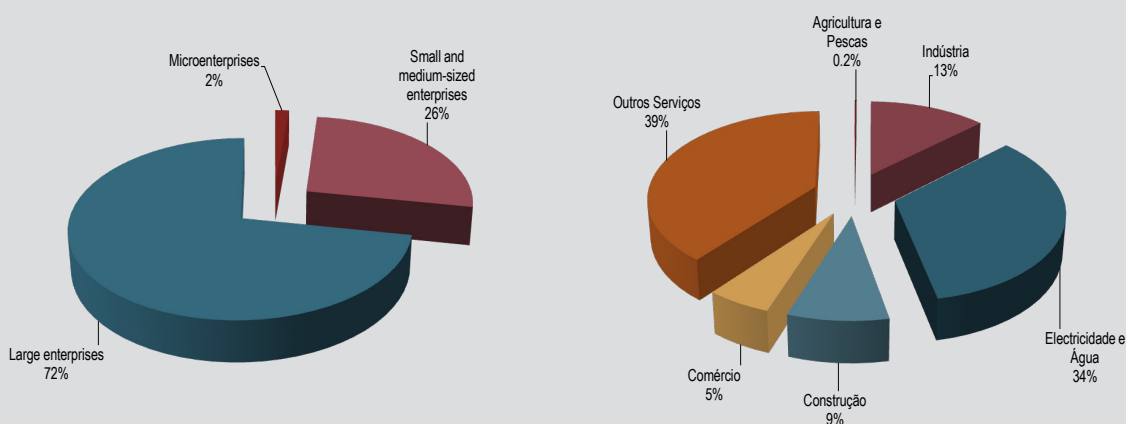
BOX 3 | CREDIT OBTAINED THROUGH DEBT SECURITIES ISSUES – CHARACTERISATION BASED ON THE SECURITIES STATISTICS INTEGRATED SYSTEM¹⁹

Financing obtained through issue of debt securities represented 13% of NFCs' financial debt in 2010 (6% of total liabilities). With the information available from the Banco de Portugal's Securities Statistics Integrated System, a brief description of this source of financing is done, with a focus on the most recent information for 2011.

The total amount of financing through debt securities grew by 3% in 2011, reaching over EUR 22 billion. By enterprise size, large enterprises use this kind of financing the most, being responsible for 72% of all securities issued (Chart 3.1). SMEs represent 26% and microenterprises just 2%, which shows the low importance of this kind of debt for smaller-sized enterprises. However, the sustained increase in SMEs' contribution to total securities issued is notable. In 2007 it came to 14%, in 2009 25% and in 2011 26%.

Chart 3.1

DEBT SECURITIES ISSUED (POSITION IN 2011)



By economic sector, *Other Services* (and in particular Sections H – *Transportation and storage* and M – *Professional, scientific and technical activities*, which includes the activity of head offices and management consultancy) and *Electricity and Water* were responsible for nearly 73% of the total amount issued. In terms of importance, *Manufacturing* (13%) and *Construction* (9%) follow. This structure has remained largely unchanged from 2010, aside from a slight increase in the contribution of *Electricity and Water* (3 p.p.) offsetting *Other Services* (-2 p.p.).

In what concerns securities' maturity, short-term issues grew by 2 p.p. in 2011, reaching 64% of the total issued. This situation broke the growth trend of long-term issues that had begun in 2007.

By enterprise size, short-term issues have a greater proportion among large enterprises, where they represent 71% of the total debt securities issued by the class, an increase of 4 p.p. versus 2010. In the other size classes, there is a relative balance between the two maturities.

By economic sector, *Electricity and Water* had short-term debt securities representing 78% of the total for the sector in 2011, reflecting a year-on-year growth of 11 p.p.. Meanwhile, *Agriculture and Fishing* had the greatest relative proportion of securities with maturity up to one year (94%). *Other Services*, with 52%, was the sector with the lowest proportion of short-term issues (Table 3.1).

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

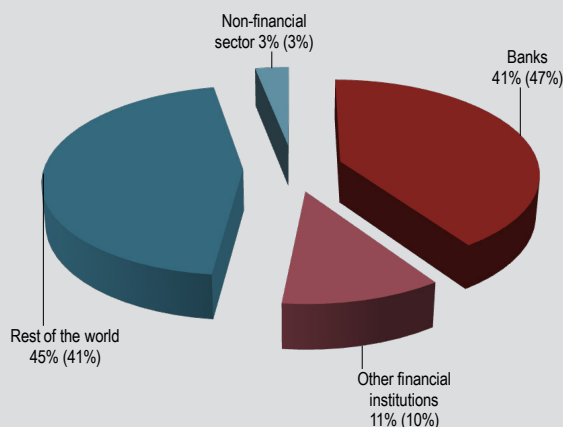
Table 3.1

PROPORTION OF SHORT-TERM DEBT IN TOTAL DEBT SECURITIES ISSUED		
Economic sector	2010	2011
Agriculture and fishing	94%	94%
Manufacturing	68%	67%
Electricity and water	67%	78%
Construction	68%	63%
Trade	63%	60%
Other Services	54%	52%
Total	62%	64%

Analysis of the holders of debt securities issued by the enterprises offers an insight into which institutional sectors granted financing to NFCs through this means²⁰. In 2011 the resident banking system reduced its exposure to debt securities issued by NFCs. In fact, the banks held 41% of debt securities issued by NFCs, a 6 p.p. fall vis-à-vis 2010. This decrease was offset by the increase in the rest of the world portfolio (5 p.p.), which held 45% of the NFCs debt securities (Chart 3.2).

Chart 3.2

STRUCTURE OF DEBT SECURITIES HOLDERS (2011) | 2010 in brackets



By securities' maturity, resident banks held 47% of short-term debt securities and non-resident entities held close to 46% in 2011. The main holder of long-term debt securities was the rest of the world (44%), followed by resident banks (31%) and other financial institutions (19%).

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

Trade credit financing increased in 2010

3.3.3 Trade credit financing

After two consecutive years of decreases, trade credit financing increased by 2% in 2010, to represent 17% of NFCs' total liabilities.

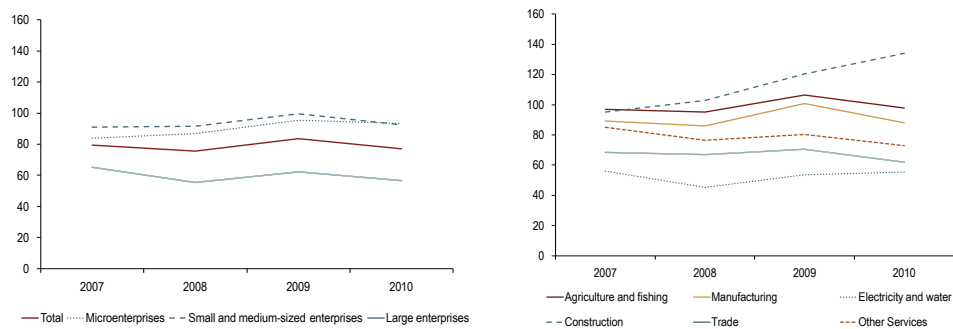
Trade credit's flows are an important indicator of financial pressure on enterprises. The growing average days sales outstanding leads to cash difficulties for enterprises, which will grow in importance with their inability to increase the days payable outstanding to suppliers or to obtain resources from other lenders, namely banks.

Average days payable outstanding and average days receivable outstanding fell in 2010

In line with the economic recovery, 2010 saw a decrease in average days sales outstanding and average days payable outstanding levels, with the decrease in days receivables being greater, closing in on values observed in 2008 (Charts 12 and 13). On average, days sales outstanding reached 77 (84 in 2009), while days payable outstanding came to 83 (86 in 2009).

Chart 12

DAYS SALES OUTSTANDING | Days



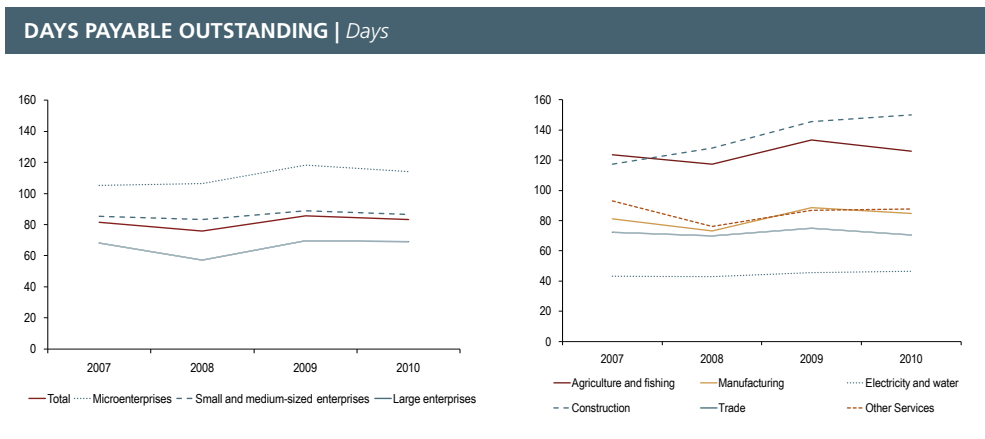
Average days payable and receivable outstanding in microenterprises and SMEs continued to be significantly higher than in large enterprises

The falling average days sales outstanding was noted across all size classes, although with greater intensity among SMEs and large enterprises. Thus, the average days sales outstanding for microenterprises (94) and SMEs (93) remained considerably higher than that of large enterprises (57) in 2010. This was also the situation for average days payable outstanding, although here SMEs came closer to the values of the large enterprises (114 days for microenterprises, 87 for SMEs and 69 for large enterprises).

Construction continued to have the highest average days payable and receivable outstanding, which even increased in 2010

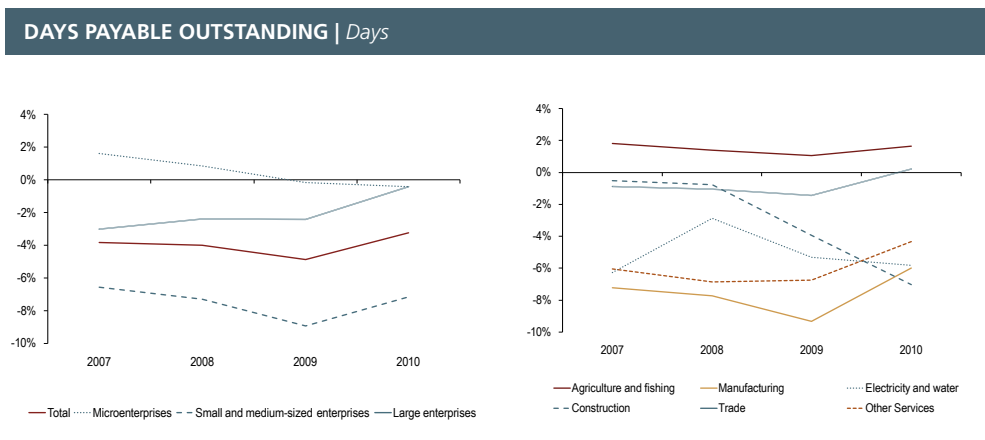
By economic sector, average days sales and payable outstanding decreased in *Manufacturing*, *Agriculture and fishing* and *Trade*. In contrast, *Construction* increased its average days sales outstanding by 14 days and average days payable outstanding by 4 days vis à vis 2009. This is a trend that has arisen over the last few years, which is easily observed by comparing 2010 values with those of 2007. Over this period, average days sales outstanding increased by 39 days and average days payable outstanding increased by 32 days. Electricity and water maintained lower average days sales and payable outstanding (55 and 47), despite increasing slightly on 2010.

Chart 13



Days sales and days payable outstanding shed light on the time delay of receivables and payables in the enterprises' trade credits. To complement this analysis and evaluate how enterprises finance themselves through this type of credit, a net indicator of trade credit financing was calculated, consisting of the relationship between accounts payable and accounts receivable versus turnover (Chart 14). A negative value implies accounts receivable are higher than accounts payable, meaning that overall the enterprise is financing its clients; a positive value implies that accounts payable are higher than accounts receivable and thus the enterprise is obtaining financing through its suppliers.

Chart 14



Note: Net trade credit financing was calculated using the difference between accounts payable and accounts receivable (accounts payable less accounts receivable).

As this indicator for NFCs ranged between -3% and -5% in the 2007-2010 period, the sector, in net terms, was not financed through trade credits.

This is especially true for SMEs, with -7% in 2010 and -9% in 2009 in this indicator. Large enterprises continued the trend of previous years, with an improvement in this indicator in 2010, coming close to parity (-0.4%). This value is the same as that recorded by microenterprises, which had been showing the opposite trend however. This size class used to be the only one showing net financing capacity through trade credits, but the situation changed from 2009 onward.

By economic sector, in 2010 the trade assets and liabilities relationship only deteriorated in *Electricity and Water* and *Construction*. In the first of these sectors this deterioration was mild (-1 p.p.), but in *Construction* this was substantial (-3 p.p.) as a result of the near 12% increase in accounts receivable, which compares to an increase of below 3% in accounts payable. This

In net terms, NFCs have not been financed through trade credit

deterioration began in 2008, when the sector's enterprises held a relatively balanced position between financing obtained and granted through trade credits. In 2009 the difference was estimated at around -4% of the sector's turnover, reaching around -7% in 2010, which was also more than that of the *Manufacturing* sector, a sector which from 2007 to 2009 had always been in last place in what concerns this indicator. *Agriculture and Fishing* remained the only sector where net financing by trade credits has been positive and constant, a position which even improved in 2010.

METHODOLOGICAL SUMMARY

Capital ratio: Ratio between equity and 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 also stopped allowing unambiguous identification of financial components. Thus the decision was taken to use the EBITDA definition as under the Accounting Normalisation System, adjusting the data reported under the old standard (POC - Plano Oficial de Contabilidade, Official Chart of Accounts) where possible, for the 2006-2009 period.

Economic sector: To simplify the analysis, in general, 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, apart from Sections K and O). As a result, 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 in CAE-Rev.3, were excluded from this analysis as they do not fall within the NFC institutional sector. Also excluded were enterprises 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 due to their very specific characteristics that set them apart from 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, please refer to the *Central Balance Sheet Study | 6, December 2011 – New Enterprise and Sector Tables: Adjustment to the Accounting Standards System*.

Return on equity: Ratio between net income for the year and equity. As both items (numerator and denominator) may be positive or negative, at individual level, the indicator is only calculated 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 whose annual turnover and/or balance sheet total does not exceed EUR 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 EUR 50 million and/or an annual balance sheet total that does not exceed EUR 43 million. Large enterprises are any enterprises which are not classified above.

REFERENCES

[1] Banco de Portugal (2005), *A New Source for Monetary and Financial Statistics: the Central Credit Register*, Supplement 1/2005 to the Statistical Bulletin, April 2005.

<http://www.bportugal.pt/en-US/Estatisticas/PublicacoesEstatisticas/Tumbnails%20List%20Template/sup-be-1-2005-en.pdf>

[2] Banco de Portugal (2005), *Statistics on Non-Financial Corporations from the Central Balance Sheet Database*, Supplement 5/2005 to the Statistical Bulletin, December 2005.

<http://www.bportugal.pt/en-US/Estatisticas/PublicacoesEstatisticas/Tumbnails%20List%20Template/sup-be-5-2005-en.pdf>

[3] Banco de Portugal (2008), *Simplified reporting: Inclusion of Simplified Corporate Information in the Statistics on Non-Financial Corporations from the Central Balance Sheet Database*, Supplement 1/2008 to the Statistical Bulletin, May 2008.

<http://www.bportugal.pt/en-US/Estatisticas/PublicacoesEstatisticas/Tumbnails%20List%20Template/sup-be-1-2008-en.pdf>

[4] Banco de Portugal (2008), *Securities Statistics: Integrated System Features and Main Results*, Supplement 2/2008 to the Statistical Bulletin, June 2008.

<http://www.bportugal.pt/en-US/Estatisticas/PublicacoesEstatisticas/Tumbnails%20List%20Template/Sup-be-2-2008-en.pdf>

[5] Banco de Portugal (2010), *Structure and dynamics of non-financial corporations in Portugal*, Central Balance Sheet Studies | 2, December 2010.

<http://www.bportugal.pt/en-US/ServicosaoPublico/CentraldeBalancos/Publicacoes/Tumbnails%20List%20Template/Structure%20and%20dynamics%20of%20non-financial%20corporations%20in%20Portugal.pdf>

[6] Banco de Portugal (2010), *Structure and dynamics of non-financial corporations in Portugal*, Central Balance Sheet Studies | 3, September 2011.

http://www.bportugal.pt/pt-PT/ServicosaoPublico/CentraldeBalancos/Publicacoes/Biblioteca%20de%20Tumbnails/Estudos%20da%20CB%203_2011.pdf

[7] Banco de Portugal (2011), *New Enterprise and Sector Tables: Adjustment to the Accounting Standards System*, Central Balance Sheet Studies | 6 December 2011.

<http://www.bportugal.pt/en-US/ServicosaoPublico/CentraldeBalancos/Publicacoes/Tumbnails%20List%20Template/New%20enterprise%20and%20sector%20tables.pdf>

[8] Banco de Portugal (2011), *Financial Stability Report*, November 2011.

http://www.bportugal.pt/pt-PT/EstudosEconomicos/Publicacoes/RelatorioEstabilidadeFinanceira/REFAnteriores/Documents/ref_nov_11_p.pdf

[9] Banco de Portugal (2011), *Annual Report 2010*, May 2011.

http://www.bportugal.pt/en-US/EstudosEconomicos/Publicacoes/RelatorioAnual/RelAnuaisAnteriores/Documents/ra_10_e.pdf

[10] Banco de Portugal (2012), *Economic Bulletin – Winter|2011*, January 2012.

http://www.bportugal.pt/en-US/EstudosEconomicos/Publicacoes/BoletimEconomico/BEAnteriores/Documents/bol_inverno11_e.pdf

[11] Decree-Law No 381/2007 of 14 November 2007. (Only Portuguese-language version available)

<http://digestoconvidados.dre.pt/digesto/pdf/LEX/250/225091.PDF>

[12] Statistics Portugal (2011), Enterprises in Portugal – 2009. (Only Portuguese-language version available)

http://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_publicacoes&PUBLICACOESpub_boui=116399684&PUBLICACOES_tema=55579&PUBLICACOESmodo=2

[13] Statistics Portugal (December 2011), National accounts by institutional sector

http://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_destaques&DESTAQUESdest_boui=107453227&DESTAQUEStema=55557&DESTAQUESmodo=2

[14] Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC).

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:en:PDF>

[15] Council Regulation (EC) No 2223/96 of 25 June 1996.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31996R2223:EN:HTML>

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

6 | NEW ENTERPRISE AND SECTOR TABLES: ADJUSTMENT TO THE ACCOUNTING STANDARDS SYSTEM,
December 2011

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