THE FINANCING OF CORPORATE INVESTMENT IN SPAIN ALONG THE CURRENT RECOVERY PHASE

Roberto Blanco
Head of the Financial Analysis Division

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DIRECTORATE GENERAL ECONOMICS, STATISTICS AND RESEARCH
Strong corporate investment recovery in Spain in spite of the intense deleveraging

INVESTMENT (MACHINERY AND EQUIPMENT)

INVESTMENT AND NFC DEBT

Sources: Banco de España, Eurostat
Internal funding has been key during the crisis and the recovery, buffering debt contraction.

INVESTMENT AND FINANCING FLOWS

% of NFC GVA

Sources: INE, Banco de España
Aggregate deleveraging has been compatible with a significant share of investing firms raising their indebtedness.

ASSETS AND LIABILITIES OF NFCs WITH POSITIVE OR ZERO NET INVESTMENT. FLOWS

ASSETS AND LIABILITIES OF NFCs WITH NEGATIVE NET INVESTMENT. FLOWS

Source: Banco de España
Business investment determinants

Firms with positive net investment are more profitable, more productive and have a stronger financial position than those whose investment does not cover the depreciation of their fixed assets. Following the crisis, firms’ investment decisions are more sensitive to their indebtedness.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Profitability(_{it-1})</td>
<td>0.030***</td>
<td>-0.006</td>
<td>0.024***</td>
</tr>
<tr>
<td>Debt burden(_{it-1})</td>
<td>-0.009***</td>
<td>-0.012***</td>
<td>-0.009***</td>
</tr>
<tr>
<td>Indebtedness(_{it-1})</td>
<td>-0.038***</td>
<td>-0.065***</td>
<td>-0.058***</td>
</tr>
<tr>
<td>Sales growth(_{it-1})</td>
<td>0.041***</td>
<td>0.032***</td>
<td>0.032***</td>
</tr>
<tr>
<td>Total factor productivity(_{it-1})</td>
<td>0.035***</td>
<td>0.010***</td>
<td>0.041***</td>
</tr>
</tbody>
</table>

Source: Banco de España
Since the crisis, the efficiency of credit allocation has improved...

**MEDIAN DEBT BURDEN OF NON-FINANCIAL CORPORATIONS (t-1) (a)**

**AVERAGE DIFFERENCE IN TOTAL FACTOR PRODUCTIVITY, IN t-1, BETWEEN FIRMS WHOSE CREDIT IS NOT DECLINING AND THOSE WHOSE CREDIT IS DECLINING**

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**MEDIAN DEBT BURDEN OF NON-FINANCIAL CORPORATIONS (t-1) (a)**

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(a) The debt burden is defined as the ratio between interest payments on financing received and gross income (sum of gross operating profit and financial revenue).

**Source:** Banco de España
... a process that has been accompanied by an improvement in the selection of borrowers by credit institutions

### Impact on the probability of a firm obtaining credit from any bank

<table>
<thead>
<tr>
<th>Metric</th>
<th>Coefficients for 05Q1-08Q1</th>
<th>Coefficients for 08Q2-13Q3</th>
<th>Coefficients for 13Q4-16Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous NPLs</td>
<td>-0.021</td>
<td>0.003</td>
<td>-0.042***</td>
</tr>
<tr>
<td>Indebtedness</td>
<td>-0.036***</td>
<td>-0.078***</td>
<td>-0.102***</td>
</tr>
<tr>
<td>Debt burden</td>
<td>0.000</td>
<td>-0.002***</td>
<td>-0.003***</td>
</tr>
<tr>
<td>No. of previous relationships with banks</td>
<td>0.006***</td>
<td>0.014***</td>
<td>0.015***</td>
</tr>
<tr>
<td>Total assets</td>
<td>-0.001</td>
<td>0.009***</td>
<td>0.005**</td>
</tr>
<tr>
<td>Age</td>
<td>0.004</td>
<td>0.018***</td>
<td>0.003</td>
</tr>
</tbody>
</table>

Source: Banco de España

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**PROBABILITY OF OBTAINING CREDIT**

![Graph showing probability of obtaining credit over time for different financial scenarios.](image)

**MEDIAN FIRM**

**LESS FINANCIALLY SOUND FIRM**

**MORE FINANCIALLY SOUND FIRM**
Conclusions

- How have Spanish firms financed investment along the recovery?
  - Heterogeneity at the firm level is key to account for aggregate dynamics: Some companies invest, others reduce their debts
  - Internal funding has played an important role

- Improvement in credit allocation accompanied by changes in the selection of borrowers by banks