

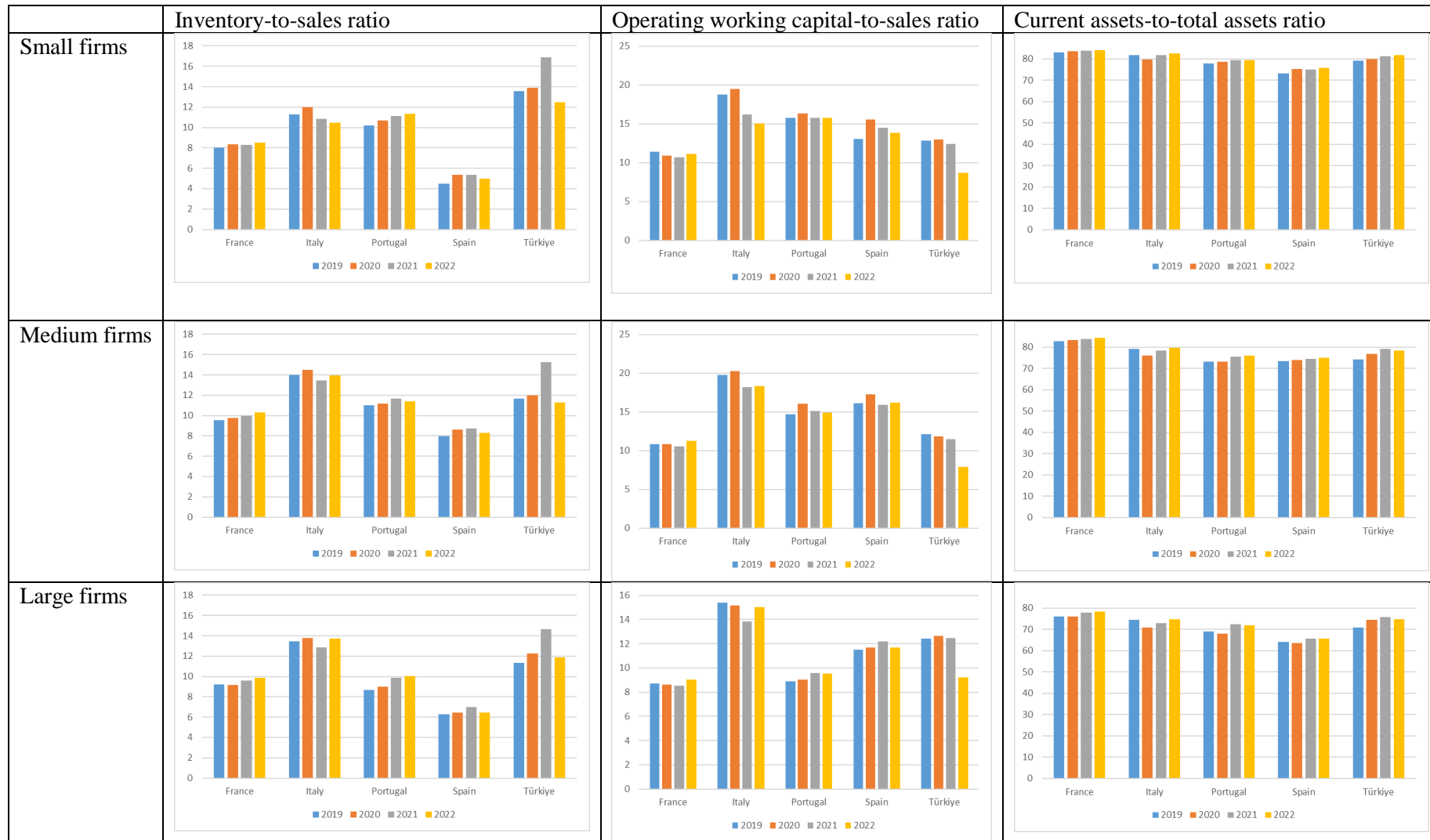


Financial Statement Analysis Working Group

Current activity management of non-financial corporations

- The note focuses on the current activity management of non-financial companies over the period 2019-2022, comparing different indicators across firm sizes. We aim to give a picture of firms' operational management in recent years, challenged by the last crisis (pandemic and energy input shocks). Indeed, during the outbreak of the pandemic, the most affected sectors from the lockdown measures had a large drop in sales. The initial financial strains were mirrored by an increase in trade receivables and payables across all sectors; exceptional policy measures (including public guaranteed loans) supported the firm's liquidity needs and bank credit supply. After the first and second waves of the pandemic, there was a strong rebound in consumer demand, mostly towards good products rather than services. But corporate production also suffered from supply chain disruptions, which were exacerbated in 2022 with the Russian invasion of Ukraine. Lastly, in 2022, the cost of credit begins rapidly to increase and many firms may have preferred to reduce debt and liquidity.
- This study is based on three financial indicators: inventory-to-sales ratio (*Invs*), operating working capital-to-sales ratio (*Owcs*), current assets-to-total assets ratio (*Ca*). The main results are the following. The *Invs* and *Owcs* indicators show a similar trend in the sample period: they increased during the pandemic and then decreased in 2022. This development may reflect both a denominator effect linked to the sharp decline in turnover first and its rise during the recovery afterward, and a numerator effect due to the trend of inventories, trade credit balance and liquidity. The average patterns of both indicators are similar across countries and company sizes, with some exceptions (for example, the *Invs* ratio shows no reduction in 2022 for France and Portugal). The 2022 values have returned to levels similar to pre-pandemic ones in most of the countries, but there is ample heterogeneity across sectors; in particular, the levels remain higher in pharmaceutical products, chemicals, electronic products, electrical equipment, machinery and equipment n.e.c..
The *Ca* ratio reports an increasing trend in recent years, more pronounced for small and medium-sized companies. This may suggest that businesses are investing relatively less in the context of macroeconomic uncertainty and rising credit costs. The final values in 2022 are larger than those in the pre-pandemic years in all countries and across sectors.

Figure. Median values by country, year and firm size (per cent).



Appendix

Countries: France, Italy, Portugal, Spain, Türkiye.

Variables: Inventory-to-sales ratio (*Invs*), operating working capital-to-sales ratio (*Owcs*), current assets-to-total assets ratio (*Ca*). The items to build these ratios are presented in Table 1 (based on BACH database items definitions).

	<i>Invs ratio</i>	<i>Owcs ratio</i>	<i>Ca ratio</i>
Numerator	A2	A2+A3-L4-L5	A2 + A3 + A41 + A51 + A6 + A7
Denominator	I1	I1	A

Legend:

A2: inventories, A3: trade receivables, A41: other current receivables, A51: deferred current assets, A6: other current financial assets, A7: cash and deposits; A: total assets, I1: net turnover, L4: trade payables, L5: payments on account of orders.

Financial Statement Analysis Working Group (FSA WG):

- Nicoletta Berardi (Chairwoman) Banque de France
- Gonca Zeynep Özdemir (Vice-chairwoman) Central Bank of the Republic of Türkiye
- Santiago Martinez Asensio Banco de España
- Valentina Nigro Banca d'Italia
- Letizia Sampoli Cerved Group Spa
- Paula Silva Banco de Portugal
- Ewa Sokolowska Narodowy Bank Polski
- Heraklios Lykiardopoulos Bank of Greece

Disclaimer: The views expressed in this paper are those of authors and do not necessarily represent those of the ECCBSO or those of the national central banks.