BRIEF NOTE ON THE CURRENT ACTIVITY MANAGEMENT OF NON-FINANCIAL CORPORATIONS IN EUROPEAN COUNTRIES

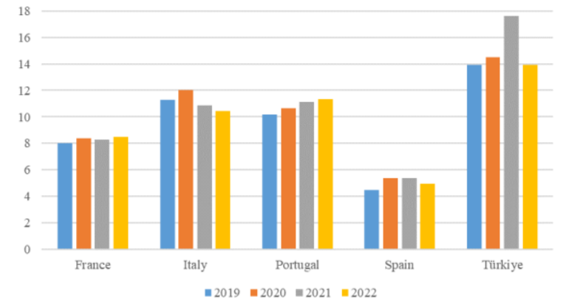
This brief note focuses on the current activity management of non-financial companies in European countries over the period 2019-2022, comparing different indicators across firm sizes. The aim is providing a picture of firms' operational management in recent years, during which they were challenged by the Covid crisis and energy input shocks. Indeed, during the outbreak of the pandemic, the most affected sectors by lockdowns suffered 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 firms' 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.

The analysis of three financial indicators (namely, inventory-to-sales ratio, operating working capital-to-sales ratio, and current assets-to-total assets ratio) leads to the following main findings:

- The inventory-to-sales and operating working capital-to-sales ratios overall shared a similar trend in the sample period, increasing during the pandemic and then decreasing in 2022. This evolution 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. This pattern is similar across company sizes and most countries under analysis, with some exceptions (for example, the inventory-to-sales ratio did not decrease in 2022 for France and Portugal). The 2022 values returned to levels similar to pre-pandemic ones in most of the countries. Note, however, that there is ample heterogeneity across sectors; in particular, the levels remained higher in pharmaceutical products, chemicals, electronic products, electrical equipment, machinery and equipment n.e.c..

- The current assets-to-total assets ratio increased between 2019 and 2022 overall. This may suggest that businesses invested relatively less in the context of macroeconomic uncertainty and rising credit costs. The values in 2022 were larger than before the Covid crisis in all countries under analysis, across all company sizes and across most sectors.

Figure. Median values of inventory-to-sales, operating working capital-to-sales, and current assets-to-total assets ratios by country, year and firm size *(per cent)*

<table>
<tr><th></th><th>Inventory-to-sales ratio</th><th>Operating working capital-to-sales ratio</th><th>Current assets-to-total assets ratio</th></tr>
<tr><td>Small firms (excl. Micro)</td>
<td>
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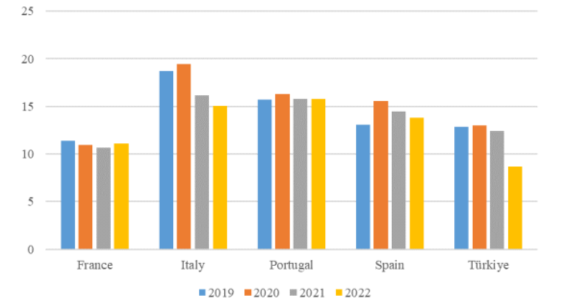
<td>
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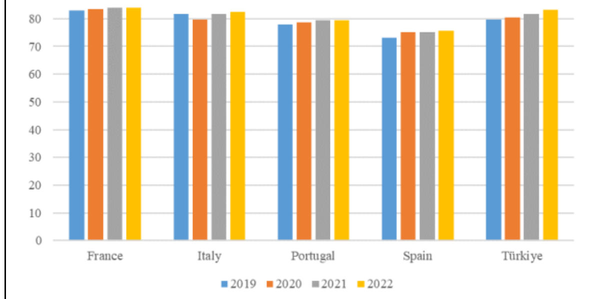
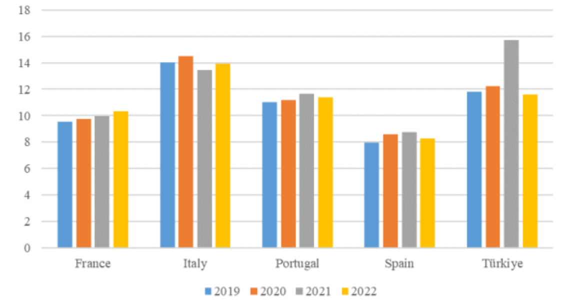
<td>
</td></tr>
<tr><td>Medium firms</td>
<td>
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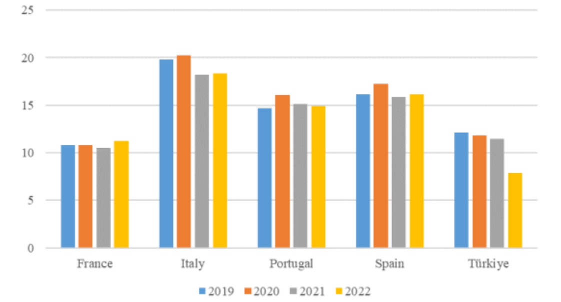
<td>
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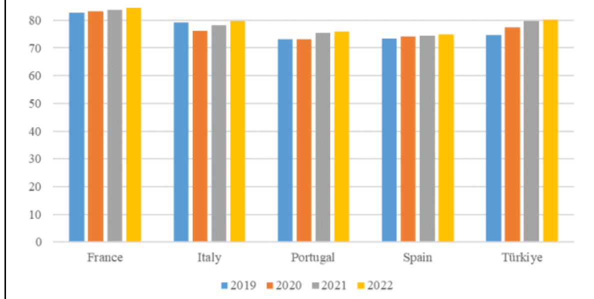
<td>
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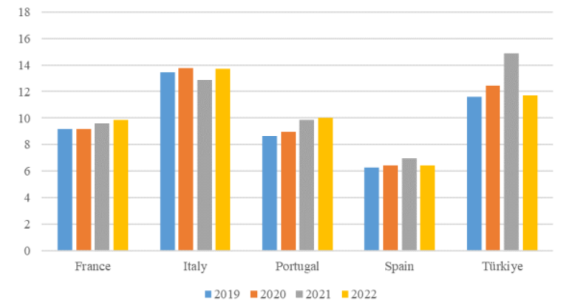
<tr><td>Large firms</td>
<td>
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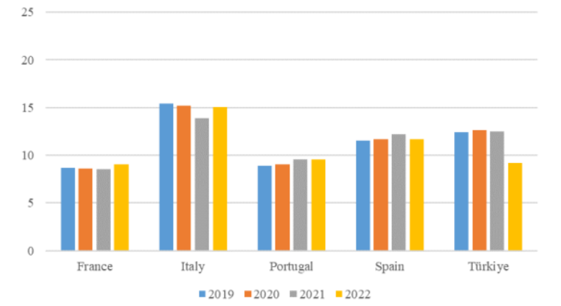
<td>
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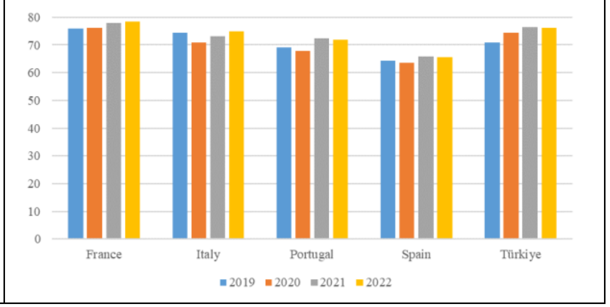
<td>
</td></tr>
</table>

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 components of these ratios are reported below and correspond to BACH database definitions:

	Invs ratio	*Owcs ratio*	*Ca ratio*
Numerator	A2	A2+A3-L4-L5	A2 + A3 + A41 + A51 + A6 + A7
Denominator	I1	I1	A

Note: 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.

Size thresholds: in millions of Euros, deflated by HICP (Harmonized Index of Consumer Prices), 2015 base year

- Small €2M<Sales≤€10M
- Medium €10M<Sales≤€50M
- Large Sales>€50M

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