

RESULTS OF NON-FINANCIAL CORPORATIONS IN 2008 AND IN THE FIRST THREE  
QUARTERS OF 2009

Overview<sup>1</sup>

Following the practice of previous years, this edition of the Banco de España's *Economic Bulletin* gives the results for 2008 of the non-financial corporations contributing to the Central Balance Sheet Data Office Annual Survey (CBA), and those for 2009 Q1-Q3 of the corporations contributing to the Central Balance Sheet Data Office Quarterly Survey (CBQ). The latter are a preliminary indicator of the results for the full year, which will be released in April 2010 and will subsequently be completed with the presentation of the CBA results in November of that year.

The CBA 2008 data (see Table 1 and Chart 1) broadly confirm the data previously released by the CBQ for that period. Thus productive activity, as measured by the change in gross value added (GVA), fell at a rate of 2.9%, in contrast with the growth of 6.4% of this surplus in 2007. This contraction affected virtually all sectors of activity, as a result of the severe adjustment of consumption and investment, especially in the second half of the year. Particularly noteworthy were the decreases in the GVA of firms in industry (-10%), in wholesale and retail trade and accommodation and food service activities (-1.5%) and in the aggregate "Other activities" (-3.1%), which includes construction and real estate firms.<sup>2</sup> By contrast, the energy sector, with GVA up by 2.9% in 2008, was the only one in which GVA performed similarly to the previous year.

This contractionary trend, which progressively intensified over the course of 2008, remained in place in the first nine months of 2009, when the rate of contraction of GVA reached -13.1% (see Table 1 and Chart 1) and spread to all sectors of activity, without exception. Within this general pattern, the industrial sector (see Box 1) again posted the largest falls in GVA (-30.7%), against a background of worsening capital goods investment and falling construction that directly affect demand at the industrial firms. The rate of contraction of GVA eased somewhat over the first three quarters of 2009, in contrast to 2008. Thus, in Q3, GVA decreased by 8.9%, compared with declines of 13.4% and 16.4% in the preceding quarters. Meanwhile, the contribution of external activity to GDP remained positive, as imports fell off by more than exports.

Personnel costs moderated notably in 2008 (a rise of 3.2%, less than half that observed in 2007) and decreased by 1.1% in the first three quarters of 2009, in both periods as a result of lower wage growth and the progressive worsening of the employment figures. Employment growth was virtually flat in 2008 at 0.4%, well below the increase of 3.1% seen in 2007 (see

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1. This article provides information on the results obtained by the non-financial corporations reporting to the annual database (CBA) to 2008 and to the quarterly database (CBQ) to 2009 Q3. The annual information used is a summary of that included in the Banco de España publication *Central de Balances. Resultados anuales de las empresas no financieras, 2008*, released to the press on 4 December 2009. The annual survey, to which 6,853 corporations reported in 2008, represents 25.4% of the total activity of the non-financial corporations sector, while the quarterly survey, which contains information on the 724 corporations that, on average, reported their data to 2008 Q3, accounts in terms of GVA for 12% of the sector total. 2. The sectoral information in all the CBSO databases and publications has been adapted to the new Spanish National Classification of Economic Activities (CNAE 2009). This work involved the sectorisation of all the firms in the time series, which began in 1984, in accordance with the new CNAE 2009, by application of conversion tables and ad hoc revision in specific cases. From now on, this article includes a modified presentation of the breakdown by activity (see Tables 2.A and 5). This basically affects the appearance of the sectoral aggregates «Wholesale and retail trade and accommodation and food service activities» and «Information and communication» and entails, inter alia, the incorporation of transportation (previously included in "Transport and communications") in an "Other activities" aggregate. For the time being, no substantial change has been made to the "Industry" and "Energy" aggregates, for the sake of comparison with the National Accounts data which will continue to use the old classification until 2011.

**PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES AND PROFIT RATIOS**  
Growth rates of the same corporations on the same period a year earlier

TABLE 1

|   | CBA<br>STRUCTURE | CBA   |       | CBQ (a)               |                       |                       |
|---|------------------|-------|-------|-----------------------|-----------------------|-----------------------|
|   | 2008             | 2007  | 2008  | 08 Q1-Q4/<br>07 Q1-Q4 | 08 Q1-Q3/<br>07 Q1-Q3 | 09 Q1-Q3/<br>08 Q1-Q3 |
| <b>DATABASES</b>  |                  |       |       |                       |                       |                       |
| Number of corporations                                      |                  | 9,243 | 6,853 | 800                   | 819                   | 724                   |
| Total national coverage                                     |                  | 33.7% | 25.2% | 12.6%                 | 13.6%                 | 12.0%                 |
| <b>PROFIT AND LOSS ACCOUNT</b>                              |                  |       |       |                       |                       |                       |
| 1 VALUE OF OUTPUT (including subsidies)                     | 100.0            | 8.0   | 0.3   | 2.0                   | 7.3                   | -17.8                 |
| <i>Of which:</i>  |                  |       |       |                       |                       |                       |
| — Net amount of turnover and other operating income         | 148.2            | 5.9   | 1.7   | 0.2                   | 4.4                   | -17.2                 |
| 2 INPUTS (including taxes)                                  | 67.7             | 8.7   | 1.9   | 4.6                   | 10.6                  | -20.3                 |
| <i>Of which:</i>  |                  |       |       |                       |                       |                       |
| — Net purchases   | 94.8             | 4.4   | 1.4   | 2.9                   | 14.5                  | -29.9                 |
| — Other operating costs                                     | 21.0             | 8.9   | 1.5   | 6.7                   | 7.1                   | -4.3                  |
| S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]                | 32.3             | 6.4   | -2.9  | -2.7                  | 1.5                   | -13.1                 |
| 3 Personnel costs   | 17.6             | 6.9   | 3.2   | 3.5                   | 4.7                   | -1.1                  |
| S.2 GROSS OPERATING PROFIT [S.1 – 3]                        | 14.7             | 5.9   | -9.4  | -7.3                  | -0.8                  | -22.0                 |
| 4 Financial revenue   | 6.1              | 19.4  | 12.6  | 2.3                   | 18.0                  | -10.6                 |
| 5 Financial costs   | 5.4              | 38.1  | 15.8  | 16.7                  | 19.8                  | -28.6                 |
| 6 Net depreciation, impairment and operating provisions     | 6.6              | -0.2  | 16.2  | 1.9                   | -2.8                  | -2.4                  |
| S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]                   | 8.8              | 4.2   | -22.1 | -17.0                 | -1.3                  | -21.8                 |
| 7 Gains (losses) from disposals and impairment (c)          | -2.2             | (b)   | -36.8 | (b)                   | 19.5                  | -42.4                 |
| 7' As a percentage of GVA (7 / S.1)                         |                  | -2.9  | -6.8  | -8.2                  | 8.7                   | 6.5                   |
| 8 Changes in fair value and other gains (losses) (c)        | -1.1             | (b)   | (b)   | 64.7                  | 62.8                  | -31.7                 |
| 8' As a percentage of GVA (8 / S.1)                         |                  | 4.0   | -3.5  | -3.2                  | -2.3                  | -2.3                  |
| 9 Corporate income tax                                      | 0.6              | -15.3 | -68.9 | -86.3                 | 8.8                   | -19.0                 |
| S.4 NET PROFIT [S.3 + 7 + 8 – 9]                            | 4.8              | 8.6   | -48.2 | -39.1                 | 12.7                  | -29.7                 |
| S. 4'. As a percentage of GVA (S.4 / S.1)                   |                  | 25.5  | 15.0  | 23.0                  | 38.0                  | 30.8                  |
| <b>PROFIT RATIOS</b>  |                  |       |       |                       |                       |                       |
|   | Formulas (d)     |       |       |                       |                       |                       |
| R.1 Return on investment (before taxes)                     | (S.3+5.1) / NA   | 8.9   | 7.5   | 7.9                   | 7.3                   | 5.6                   |
| R.2 Interest on borrowed funds / interest-bearing borrowing | 5.1 / IBB        | 4.8   | 5.1   | 5.0                   | 5.0                   | 3.5                   |
| R.3 Ordinary return on equity (before taxes)                | S.3 / E          | 12.5  | 9.8   | 10.4                  | 9.3                   | 7.4                   |
| R.4 ROI - cost of debt (R.1 – R.2)                          | R.1-R.2          | 4.1   | 2.5   | 2.9                   | 2.3                   | 2.1                   |

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.

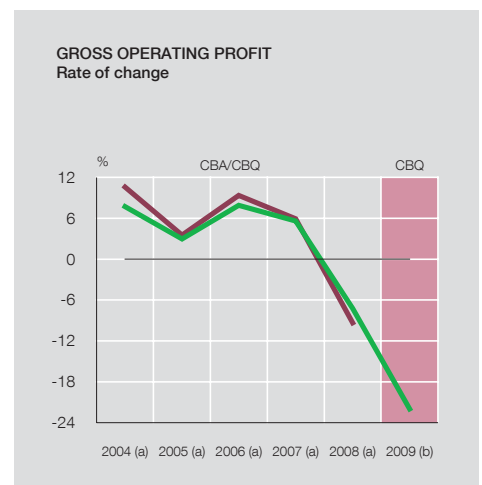
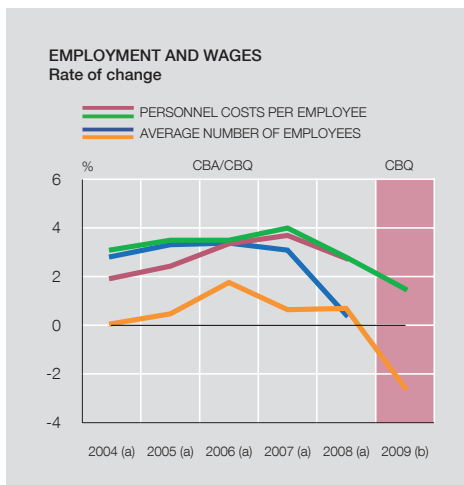
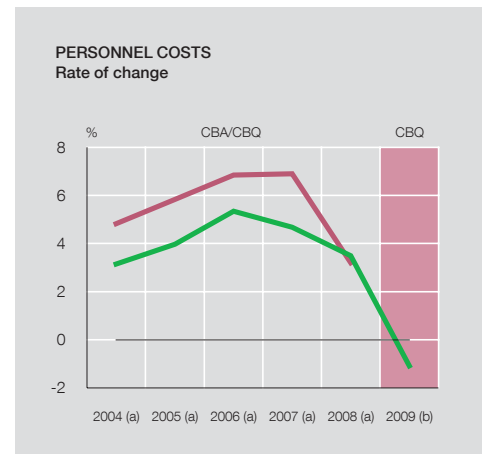
b. Rate not significant or not calculable because the relevant figures are of opposite sign.

c. New P&L headings resulting from application of the new general chart of accounts (PGC 2007).

d. NA = Net Assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-Bearing Borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include the portion of financial costs that is interest on borrowed funds (5.1) and not other financial costs (5.2).

NB: In calculating rates, internal accounting movements have been edited out of items 4, 5 and 7.

Table 2.A). In the first three quarters of 2009, the employment figures of the CBQ reporting corporations (a decline of 2.6%) reflect the severe workforce reductions made, mainly affecting temporary employees, in response to the sharp fall in productive activity. The workforce reductions progressively extended to an increasing number of firms and sectors, and ended up affecting all sectors of activity in both 2008 and the first three quarters of 2009. Of these, the industrial sector suffered the largest fall in its average labour force (-1.4%) in 2008, in line with the decline in its productive activity. However, also noteworthy in 2008 was the sharp drop in employment in “Wholesale and retail trade and accommodation and food service activities” (growth down from 4% in 2007 to 0.7% in 2008) and in “Other activities” (growth down from 4.4% in 2007 to 1.3% in 2008). As mentioned above, this latter sector includes construction and real estate firms, which saw particularly sharp falls in both productive activity and employ-



| REPORTING NON-FINANCIAL CORPORATIONS              |     | 2004  | 2005  | 2006  | 2007  | 2008  | 2009 |
|---|-----|-------|-------|-------|-------|-------|------|
| Number of corporations                            | CBA | 9,056 | 9,135 | 9,286 | 9,243 | 6,853 | —    |
|   | CBQ | 830   | 811   | 829   | 847   | 800   | 724  |
| % of GDP of the sector non-financial corporations | CBA | 32.3  | 32.7  | 33.5  | 33.7  | 25.2  | —    |
|   | CBQ | 14.9  | 14.6  | 14.4  | 14.3  | 12.6  | 12.0 |

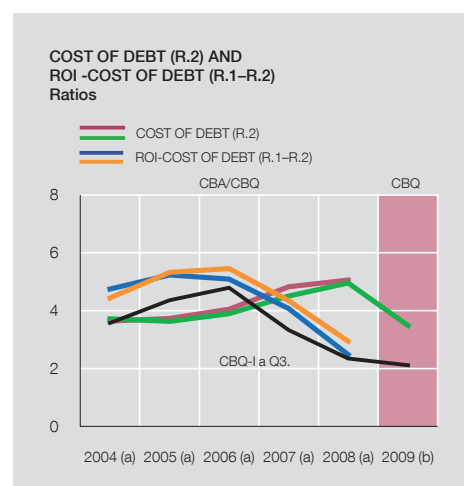
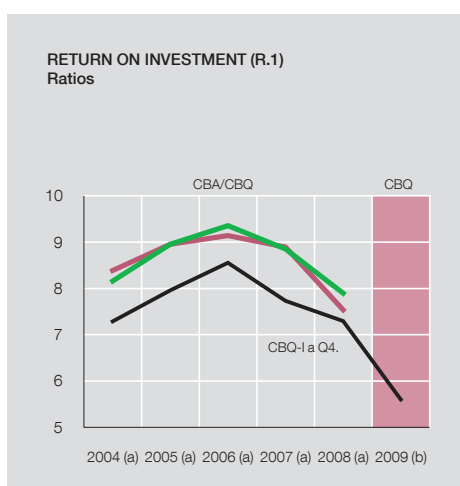
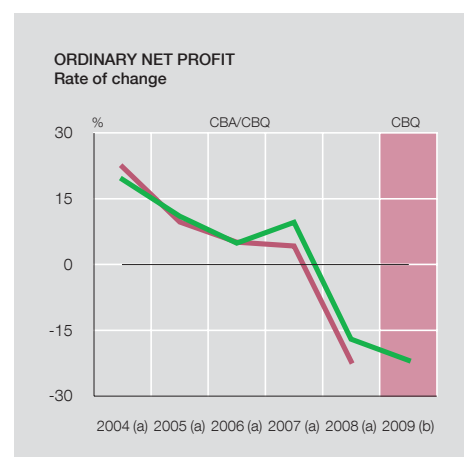
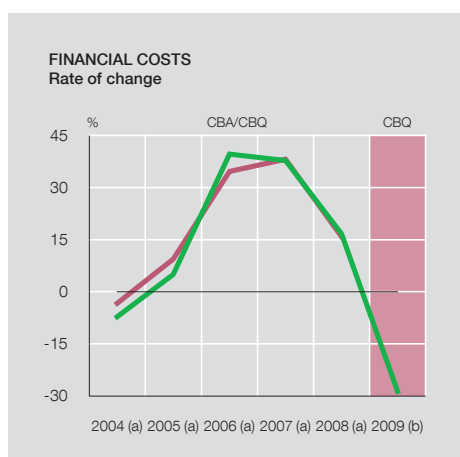
SOURCE: Banco de España.

a. 2004, 2005, 2006, 2007 and 2008 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).

b. Average for the first three quarters of 2009 in relation to the same period of 2008.

ment in 2008.<sup>3</sup> The data for the first three quarters of 2009 indicate a steeper fall in employment, sharper in some sectors such as industry and wholesale and retail trade, in which the number of workers decreased by 6.6% and 4.1%, respectively. Average compensation showed

3. Analysis of the data contained in the Mercantile Registries (CBB database) for 2008 yields the same conclusion: they reflect a fall in employment of 4.9% in small construction firms and of 6.5% in small real estate firms. The database referred to here is that kept by the Central Balance Sheet Data Office. It contains information filed by firms in Mercantile Registries (see Box 2 of this article) and has an adequate coverage of small firms, specifically in the services and construction sectors, which are those least represented in the annual CBA sample (see Annex of the CBSO Annual Report referred to above).



REPORTING NON-FINANCIAL CORPORATIONS

|                            | 2004      | 2005  | 2006  | 2007  | 2008  | 2009 |
|----------------------------|-----------|-------|-------|-------|-------|------|
| Number of corporations     | CBA 9,056 | 9,135 | 9,286 | 9,243 | 6,853 | —    |
|                            | CBQ 830   | 811   | 829   | 847   | 800   | 724  |
| % of GDP of the sector     | CBA 32.3  | 32.7  | 33.5  | 33.7  | 25.2  | —    |
| non-financial corporations | CBQ 14.9  | 14.6  | 14.4  | 14.3  | 12.6  | 12.0 |

SOURCE: Banco de España.

a. 2004, 2005, 2006, 2007 and 2008 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).

b. Average for the first three quarters of 2009 in relation to the same period of 2008.

a marked moderation in both 2008 and the first nine months of 2009 (personnel costs per employee rose by 2.8% and 1.5%, respectively), against a backdrop in which the increases negotiated in collective labour agreements began to reflect the climate of lower prices and weaker labour demand.

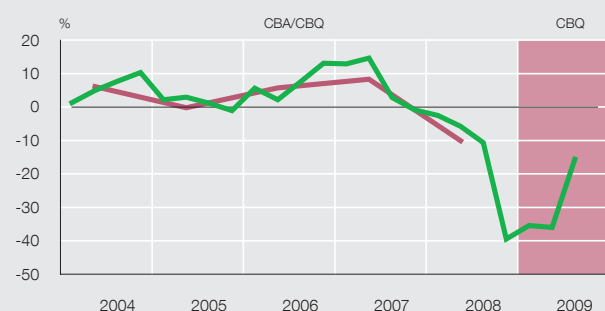
The decrease in productive activity, only partly offset by the containment of personnel costs, caused corporate surpluses to worsen in both the periods analysed. Thus, gross operating profit (GOP) fell sharply in 2008 (-9.4%), and most especially in the first nine months of 2009 (-22%). In turn, financial revenue and costs also followed a declining trend, recording progressively smaller

On Central Balance Sheet Data Office data, over the last two years the productive activity of the industrial sector has contracted sharply, leading to heavy falls in its GVA (-10% in 2008; -30.7% in the first nine months of 2009). This is due to the adverse impact the decline in investment in capital goods has had on this sector, and to the impact the construction sector crisis has had on some industrial sub-sectors whose activity is closely linked to construction. However, as occurs in the total sample, the quarterly GVA figures are less negative in 2009 Q3 (-15.6%) than in the first two quarters of the year (-35.4% in Q1; -36.1% in Q2). Although this decline in activity extended to all industrial sub-sectors, those most affected, in 2008, were manufacture of mineral and metal products and manufacture of transport equipment, where GVA fell by 20.9% and by 14.7%, respectively. In the first three quarters of 2009, GVA fell substantially again in manufacture of mineral and metal products (-64.4%), and also in manufacture of computer and electronic products and electrical equipment (-34.7%) and in the chemical industry (-34%). In turn, personnel costs at industrial corporations in the sample progressively moderated, growing by 1.1% in 2008, before falling by 7.4% in the first three quarters of 2009. This was due, on the one hand, to increasingly severe cuts in employment (-1.4% in 2008; -6.6% to September 2009) and, on

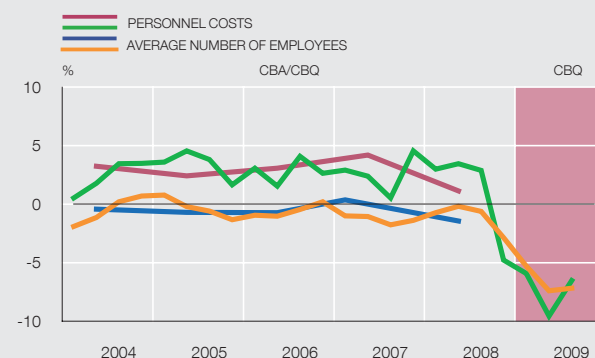
the other, to growing moderation in wage costs, which rose by 2.6% in 2008 (as opposed to 3.8% in 2007) and fell by 0.9% in the first nine months of 2009. The sharp cut in performance-related variable compensation at some large corporations, together with the lower wage rises negotiated in the latest collective bargaining agreements, played a significant part in this moderation. However, although the rate of growth of personnel costs moderated, and even turned negative in 2009, the deterioration in productive activity passed through both to gross operating profit (GOP) and ordinary net profit (ONP). Thus, GOP posted strong negative growth in both the periods analysed (-23.3% in 2008; -61% in the first nine months of 2009), as did ONP in 2008 (-37.7%) and, most especially, in the first three quarters of 2009 (-90.5%). This ordinary profit performance passed through directly to rates of return, so that, in 2008, return on investment fell by 4 pp in comparison with the previous year, to 6.8%, before sliding further, to 2.2%, in the first three quarters of 2009. In view of all the above, and despite the positive performance of financial costs, favourably influenced by the impact of the successive interest rate cuts, the difference between the rate of return and the cost of debt progressively narrowed, recording negative values in 2009 (-1.6%), summing up the difficult situation facing the Spanish industrial sector.

## PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

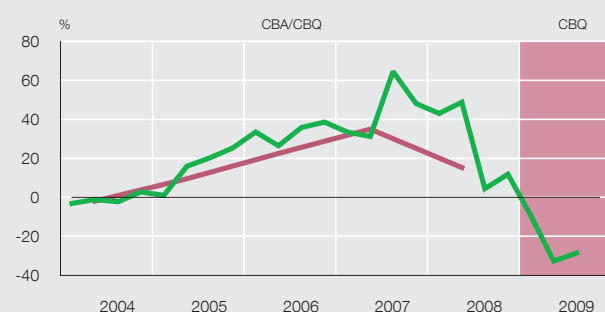
**GROSS VALUE ADDED AT FACTOR COST**  
Rate of change



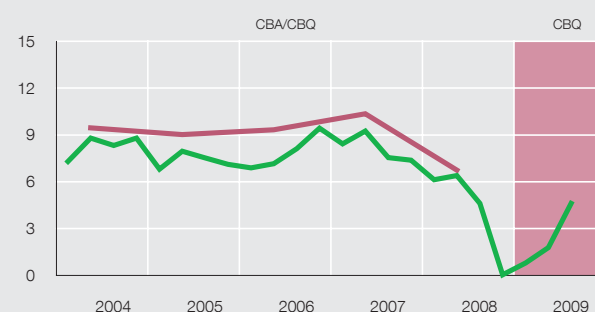
**EMPLOYMENT AND WAGES**  
Rate of change



**FINANCIAL COSTS**  
Rate of change



**RETURN ON INVESTMENT**  
Ratios



| REPORTING INDUSTRIAL CORPORATIONS                  |     | 2004  |      |      |      | 2005  |      |      |      | 2006  |      |      |      | 2007  |      |      |      | 2008  |      |      |     | 2009 |      |     |   |
|--|-----|-------|------|------|------|-------|------|------|------|-------|------|------|------|-------|------|------|------|-------|------|------|-----|------|------|-----|---|
| Number of corporations                             | CBA | 2,472 |      |      |      | 2,410 |      |      |      | 2,397 |      |      |      | 2,356 |      |      |      | 1,723 |      |      |     | -    |      |     |   |
|  | CBQ | 347   | 337  | 330  | 328  | 320   | 309  | 302  | 294  | 315   | 300  | 288  | 279  | 309   | 299  | 285  | 280  | 282   | 271  | 258  | 244 | 240  | 232  | 192 | - |
| % of GDP of the sub-sector industrial corporations | CBA | 28.7  |      |      |      | 28.7  |      |      |      | 31.1  |      |      |      | 33.6  |      |      |      | 21.6  |      |      |     | -    |      |     |   |
|  | CBQ | 19.7  | 19.8 | 18.1 | 19.3 | 19.1  | 19.6 | 16.9 | 17.1 | 18.5  | 17.5 | 16.3 | 17.4 | 19.4  | 19.6 | 16.6 | 17.0 | 16.2  | 16.2 | 12.8 | 8.5 | 10.2 | 10.3 | 8.7 | - |

SOURCE: Banco de España.

**VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE.  
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS**

TABLE 2.A

Growth rate of the same corporations on the same period a year earlier

|  | GROSS VALUE ADDED<br>AT FACTOR COST |              |              |              | EMPLOYEES<br>(AVERAGE FOR PERIOD) |              |              |              | PERSONNEL COSTS |              |              |              | COMPENSATION PER<br>EMPLOYEE |              |              |              |
|--|-------------------------------------|--------------|--------------|--------------|-----------------------------------|--------------|--------------|--------------|-----------------|--------------|--------------|--------------|------------------------------|--------------|--------------|--------------|
|  | CBA                                 |              | CBQ (a)      |              | CBA                               |              | CBQ (a)      |              | CBA             |              | CBQ (a)      |              | CBA                          |              | CBQ (a)      |              |
|  | 2008                                | 08 Q1<br>-Q4 | 08 Q1<br>-Q3 | 09 Q1<br>-Q3 | 2008                              | 08 Q1<br>-Q4 | 08 Q1<br>-Q3 | 09 Q1<br>-Q3 | 2008            | 08 Q1<br>-Q4 | 08 Q1<br>-Q3 | 09 Q1<br>-Q3 | 2008                         | 08 Q1<br>-Q4 | 08 Q1<br>-Q3 | 09 Q1<br>-Q3 |
| Total  | -2.9                                | -2.7         | 1.5          | -13.1        | 0.4                               | 0.7          | 1.1          | -2.6         | 3.2             | 3.5          | 4.7          | -1.1         | 2.8                          | 2.8          | 3.5          | 1.5          |
| <b>SIZE</b>  |                                     |              |              |              |                                   |              |              |              |                 |              |              |              |                              |              |              |              |
| Small  | -8.4                                | —            | —            | —            | -3.8                              | —            | —            | —            | 2.2             | —            | —            | —            | 6.2                          | —            | —            | —            |
| Medium   | -2.5                                | -0.8         | 0.7          | -12.8        | -1.1                              | -2.4         | -1.8         | -5.9         | 4.1             | 2.2          | 3.9          | -5.0         | 5.3                          | 4.7          | 5.8          | 0.9          |
| Large  | -2.8                                | -2.8         | 1.5          | -13.1        | 0.8                               | 0.9          | 1.3          | -2.4         | 3.2             | 3.6          | 4.7          | -0.9         | 2.4                          | 2.6          | 3.4          | 1.5          |
| <b>BREAKDOWN BY ACTIVITY</b>   |                                     |              |              |              |                                   |              |              |              |                 |              |              |              |                              |              |              |              |
| Energy   | 2.9                                 | 3.0          | 10.4         | -15.2        | 1.8                               | 2.3          | 2.5          | -0.2         | 6.4             | 4.4          | 5.9          | 1.3          | 4.5                          | 2.1          | 3.3          | 1.5          |
| Industry   | -10.0                               | -13.2        | -6.0         | -30.7        | -1.4                              | -1.0         | -0.5         | -6.6         | 1.1             | 1.2          | 3.1          | -7.4         | 2.6                          | 2.3          | 3.6          | -0.9         |
| Wholesale & retail trade and<br>accommodation & food<br>service activities | -1.5                                | -4.4         | -2.4         | -9.2         | 0.7                               | 1.9          | 2.8          | -4.1         | 3.5             | 4.3          | 5.2          | -4.8         | 2.8                          | 2.3          | 2.3          | -0.7         |
| Information and communication  | 0.7                                 | -1.2         | -0.7         | -9.1         | -1.5                              | -2.7         | -3.1         | -0.5         | 1.4             | -0.3         | -0.5         | 1.9          | 2.9                          | 2.4          | 2.7          | 2.4          |
| Other activities   | -3.1                                | -1.2         | 2.5          | -7.3         | 1.3                               | 1.2          | 1.4          | -0.4         | 4.1             | 5.1          | 6.3          | 2.2          | 2.8                          | 3.9          | 4.8          | 2.6          |

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.

**EMPLOYMENT AND PERSONNEL COSTS  
Details based on changes in staff levels**

TABLE 2.B

|                                   | TOTAL CBQ<br>CORPORATIONS<br>2009 Q1-Q3 | CORPORATIONS<br>INCREASING<br>(OR NOT<br>CHANGING)<br>STAFF LEVELS | CORPORATIONS<br>REDUCING<br>STAFF LEVELS |
|-----------------------------------|---|--|--|
| Number of corporations            | 724                                     | 293  | 431                                      |
| <b>PERSONNEL COSTS</b>            |   |  |  |
| Initial situation 08 Q1-Q3 (€m)   | 21,065.1                                | 8,008.4  | 13,056.7                                 |
| Rate 09 Q1-Q3 / 08 Q1-Q3          | -1.1                                    | 5.5  | -5.1                                     |
| <b>AVERAGE COMPENSATION</b>       |   |  |  |
| Initial situation 08 Q1-Q3 (€)    | 33,022.7                                | 34,946.8   | 31,993.7                                 |
| Rate 09 Q1-Q3 / 08 Q1-Q3          | 1.5                                     | 0.0  | 2.1                                      |
| <b>NUMBER OF EMPLOYEES</b>        |   |  |  |
| Initial situation 08 Q1-Q3 (000s) | 637                                     | 229  | 408                                      |
| Rate 09 Q1-Q3 / 08 Q1-Q3          | -2.6                                    | 5.5  | -7.1                                     |
| Permanent                         |   |  |  |
| Initial situation 08 Q1-Q3 (000s) | 538                                     | 191  | 347                                      |
| Rate 09 Q1-Q3 / 08 Q1-Q3          | -0.2                                    | 4.1  | -2.6                                     |
| Non-permanent                     |   |  |  |
| Initial situation 08 Q1-Q3 (000s) | 100                                     | 38   | 62                                       |
| Rate 09 Q1-Q3 / 08 Q1-Q3          | -15.1                                   | 12.9   | -32.6                                    |

SOURCE: Banco de España.

Large Spanish non-financial corporations are readily studied using the CBA and CBQ databases, as they are a segment of the population that is well represented in their samples. However, it is useful to supplement this with analysis of smaller firms (fewer than 50 employees) and with a more detailed study of the behaviour of certain sectors of activity that are more highly segmented (such as the services or construction sectors) whose analysis using CBA and CBQ data may, in some cases, prove incomplete. For this purpose, the Central Balance Sheet Data Office (CBSO) has an agreement with the Mercantile Registries that enables it to maintain a database (CBBE/RM or CBB) using the accounts lodged with them. This database permits, inter alia, inclusion of an Annex to the CBSO's Annual Report presenting the aggregated data of Spain's small corporations. Based on a summary of these data, this box provides a brief analysis of how these smaller firms have per-

formed. This information only becomes available with a certain time-lag vis-à-vis the CBQ and CBA data, but this shortcoming is offset by its exhaustive nature, as it covers more than 600,000 firms in 2007 and 100,000 firms in 2008, with data still being received for this period (see panel). Together, the CBA data (on large and medium-sized corporations) and the CBB data (on small corporations) provide extensive cover of all the different population segments; in 2007 they covered almost 54% of the total GVA of the non-financial sector (33.8% in the case of the CBA and 20.1% in the case of the CBB).

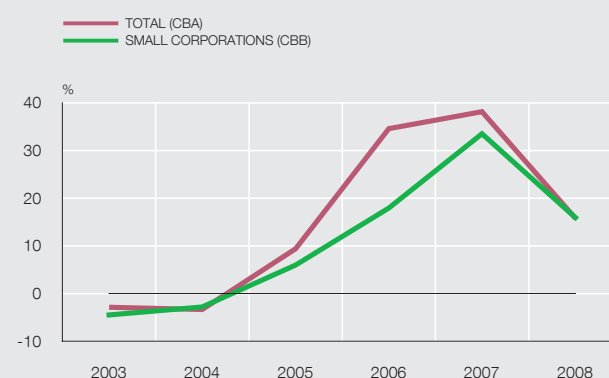
According to the results of the CBB, the activity of small Spanish corporations contracted in 2008, reflected in a decline of 3.4% in their GVA, in contrast to the growth of 6.8% recorded in 2007. This adverse performance, very similar to that of the CBA corporations for

## RESULTS OF SMALL CORPORATIONS

### GROSS VALUE ADDED AT FACTOR COST Rate of change



### FINANCIAL COSTS Rate of change



### EMPLOYMENT Rate of change



### COMPENSATION PER EMPLOYEE Rate of change



|   |         | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    |
|---|---------|---------|---------|---------|---------|---------|---------|
| Number of corporations                            | CBA     | 8,830   | 9,056   | 9,135   | 9,286   | 9,243   | 6,853   |
|   | CBB (a) | 481,757 | 442,004 | 522,502 | 559,165 | 604,912 | 104,725 |
| % of GDP of the sector non-financial corporations | CBA     | 30.0    | 32.3    | 32.7    | 33.5    | 33.7    | 25.2    |
|   | CBB (a) | 20.7    | 16.2    | 18.4    | 19.2    | 20.1    | 3.0     |

SOURCE: Banco de España.

a. In the case of the "Employment" and "Compensation per Employee" panels, the data relate to the sub-set of corporations with consistent employment figures (65% of the CBB total).

the same period, extended to almost all sectors of activity, with the sole exception of the electricity supply sector (also coinciding with the CBA data) whose positive behaviour was due to the extraordinary growth of the small renewable energy firms. There was a clear slow-down in activity in all other sectors, but especially in the construction and real estate aggregates where the impact of the economic downturn was most marked. In these two sub-sectors, GVA fell at a rate of 8.4% and 5.9%, respectively, and together they account for more than half the decline in activity in the sample as a whole. In turn, personnel costs rose more moderately in 2008 (at a rate of 4.4%, almost 3 pp lower than in 2007), fundamentally due to the poor employment performance, as average employment fell by 0.6%, in comparison with growth of 2.6% a year earlier. Workforce reductions were concentrated, in particular, in the sectors recording the greatest deterioration in activity. As a result of the contraction in productive activity,

and despite the lower rate of growth of personnel costs, GOP fell sharply (-27.8%). Financial costs also grew more moderately (15.9%) in 2008, virtually half the rate of growth recorded a year earlier (33.5%), but this did not prevent ONP from falling sharply (-55.4%). Return on equity (the only ratio that can be calculated using CBB information) reflected this deterioration in ordinary profit, with a brusque drop, from 7.8% in 2007 to 3.8% in 2008, affecting all sectors of the sample, without exception.

In short, there was a severe contraction in 2008 in the productive activity of the aggregate of small corporations that make up the CBB, which severely limited their capacity to generate surpluses and create new jobs and prompted a notable decline in their rates of return. This performance, which was seen in the vast majority of productive sectors, was especially marked in construction and real estate.

increases in 2008 and then negative growth rates in 2009. This is due, first, to the lower interest rates, which affect revenue and, especially, costs. It is also due, on the revenue side, to the smaller dividend inflows, and, in respect of costs, to the lesser resort to new financial resources, against a background of deceleration in investment activity and decline in corporate acquisitions, which were significant in the preceding periods. Overall, the net effect of financial revenue and costs on ordinary net profit (ONP) was small in 2008, and slightly favourable in the first three quarters of 2009, given that in this period costs decreased more sharply than revenue. Meanwhile, the item reflecting operating depreciation and provisions grew by 16.2% in 2008, as a result of the considerable provisioning by construction and real estate firms recorded in that year to reflect the lower value of their stocks on their balance sheets. By contrast, the 2009 data do not reflect this phenomenon, although these firms have a lower level of representation in the CBQ so it will be necessary to wait until the 2009 CBA data are available to assess the possible impact of this provisioning on the corporate results for 2009. In short, the increase in operating provisions, together with the practically zero impact of financial revenue and costs, meant that ONP underwent a further decline with respect to GOP, falling by 22.1% in 2008. In the quarterly data for 2009, the absence of these provisions and the larger reduction in financial costs than in financial revenue did not result in any additional worsening of ONP, which fell by 21.8%, virtually unchanged on 2008 and similar to the fall in GOP for the first three quarters of 2009.

The fall in ONP resulted in a progressive worsening of the returns on ordinary activities, such that return on investment (R.1) stood at 7.5% in 2008, nearly 1.5 pp less than a year earlier, while, on the information available for 2009, this ratio fell further, to 5.6%. The decline in returns was seen in all sectors of activity, although it was sharpest in those recording the greatest fall-off in their productive activity. The ratio that measures the cost of debt (R.2) clearly changed trend in 2008, essentially as a result of the falling interest rates and their progressive pass-through to firms' costs, whose growth rate slowed as from mid-2008 and fell in 2009. Thus, the R.2 ratio rose slightly, to 5.1%, in 2008 as a whole, before dropping to 3.5% in the first nine months of 2009. The fact that financial costs rose in the first period analysed and declined in the second meant they had opposite effects on the difference between ROE and the cost of debt. In 2008, the rise in financial costs added to the effect of the decrease in returns, so the difference contracted notably, to 2.5, compared with 4.1 in 2007, while in the first three quar-

ters of 2009 the decrease in the cost of debt cushioned the effect of the fall in returns and, as a result, this difference fell only a few tenths of a percentage point with respect to 2008, to stand at 2.1.

Lastly, an analysis of extraordinary results in 2008 shows a sharp decrease in gains from disposals and impairment. Accordingly, despite the substantial fall in income tax (-68.9%), profit for the year fell by 48.2%; this is a sharper fall than that seen in ONP, and is the most negative rate for this surplus since 2002. The first three quarters of 2009 also saw decreases in extraordinary results, mainly because the substantial gains on the sale of shareholdings in the first nine months of 2008 were not repeated in 2009, meaning that the cumulative result to 2009 Q3 fell by 29.7%, also exceeding the fall in ONP. Despite these decreases, corporate profits expressed as a proportion of GVA remained high, although on a downward path that was steeper in 2008 than in the first three quarters of 2009.

In short, information provided by the annual and quarterly databases for 2008 and the first three quarters of 2009 confirms a progressive worsening of productive activity, resulting in a notable deterioration in employment. This negative trend gradually extended to increasing numbers of firms and sectors, and had a particular impact on industry, on wholesale and retail trade and accommodation and food service activities, and on construction, all of which were severely hit by the contraction in consumption and investment. In this setting of economic slowdown, the decrease in employment, the smaller increase in wages and, in particular, the decline in financial costs (favoured by the lower interest rates) alleviated corporate costs, but they did not prevent a notable fall in firms' surpluses. Although the CBSO reporting firms continue to post profits overall, both these profits and their levels of return are decreasing.

## Activity

The data compiled by the CBSO for 2008 and the first three quarters of 2009 confirm a progressive deterioration of productive activity in both periods, with decreases in GVA of 2.9% and 13.1%, respectively (see Table 1 and Chart 1). Notably however, the rate of contraction of GVA slowed in 2009 Q3 (-8.9%) compared with the previous quarters (-13.4% and -16.4%, respectively).

The fall-off in business activity extended to all sectors of activity (see Table 2.A), as a result of the contraction of consumption and investment, leading some sectors, such as wholesale and retail trade and accommodation and food service activities, and industry, to record their worst rates of change of GVA in the CBSO series. Thus, industrial firms went from GVA increases of 8.3% in 2007 to decreases of 10% in 2008, followed by falls of 30.7% in the first three quarters of 2009. However, the fall moderated in Q3 (-15.6%, compared with -35.4% and -36.1% in the preceding quarters). The contribution to GDP of the external activity of industry continued to be positive: net external demand of industry grew by 55.7% in 2009, while that of other firms amounted to 45.2%, due to the larger decrease in imports than in exports (see Table 3). The wholesale and retail trade and accommodation and food service activities sector also performed negatively, dropping from 7% in 2007 to -1.5% in 2008 and to -9.2% in the first three quarters of 2009, the downward trend becoming steeper in step with the weakness shown by private consumption throughout the period. The information and communication firms aggregate<sup>4</sup> also saw a fall-off in its productive activity, both in 2008, when GVA rose by 0.7%, in comparison with 7.6% a year earlier, and in the first three quarters of 2009, when it fell by 9.1%, largely as a result of the impact of declining consumption on the telecommunications companies. The "Other activities" aggregate also recorded a progressive deterioration in GVA, which fell by 3.1% in 2008 and by 7.3% in the first three quarters of 2009, mainly due to the

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4. In line with the new sectoral classification indicated above (see footnote 1), for the first time this article contains data on information and communication sector companies separate from data on transport companies.

**PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON  
PURCHASING SOURCES AND SALES DESTINATIONS**  
Structure and rate of change

TABLE 3

|  |                           | CBA   |       | CBQ (a)  |          |
|--|---------------------------|-------|-------|----------|----------|
|  |                           | 2007  | 2008  | 08 Q1-Q3 | 09 Q1-Q3 |
| Total corporations   |                           | 6,853 | 6,853 | 724      | 724      |
| Corporations reporting source/destination                            |                           | 6,853 | 6,853 | 679      | 679      |
| Percentage of net purchases according to source                      | Spain                     | 65.7  | 64.9  | 80.4     | 83.9     |
|  | Total abroad              | 34.3  | 35.1  | 19.6     | 16.1     |
|  | <i>EU countries</i>       | 18.7  | 17.1  | 13.3     | 11.3     |
|  | <i>Third countries</i>    | 15.7  | 18.0  | 6.3      | 4.7      |
| Percentage of turnover according to destination                      | Spain                     | 84.8  | 84.4  | 91.0     | 91.9     |
|  | Total abroad              | 15.2  | 15.6  | 9.0      | 8.1      |
|  | <i>EU countries</i>       | 10.6  | 10.4  | 6.9      | 6.1      |
|  | <i>Third countries</i>    | 4.6   | 5.2   | 2.1      | 2.1      |
| Change in net external demand (exports less imports), rate of change | <i>Industry</i>           | -11.5 | -16.6 | (b)      | 55.7     |
|  | <i>Other corporations</i> | -5.8  | 1.8   | 13.1     | 45.2     |

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.

b. Rate not significant or not calculable because the relevant figures are of opposite sign.

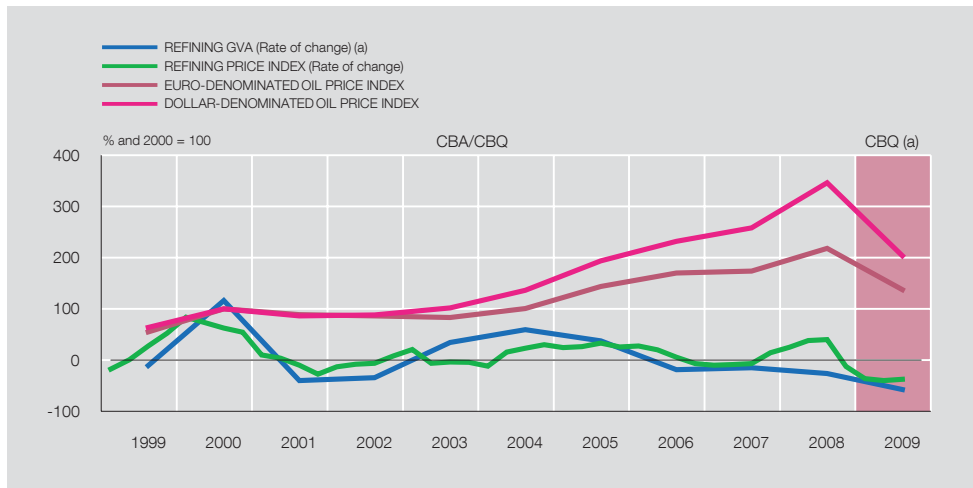
construction and real estate sector companies which form part of this aggregate. Lastly, the energy sector was the only one to record growth in GVA in 2008 (2.9%, 0.2 pp more than in 2007), due, above all, to the increase of 7.8% in GVA at the utility companies (electricity, gas and water). However, in 2009, GVA in the energy sector fell by 15.2%, due to the sharp drop at the refining companies (-57.6%), as a result of the contraction in their surpluses in view of the falling oil price (see Chart 2), and to the decrease at the utility companies, whose GVA declined by 3.8% as a result of the negative effect of the fall-off in demand.

To conclude, Chart 3, which depicts the distribution of corporations according to the rate of change in GVA, shows a shift towards the side that reflects reductions in GVA. Thus, GVA decreased at 63.5% of firms in the first three quarters of 2009, in contrast to 47.1% a year earlier. Moreover, in the first three quarters of 2009, 35.8% of corporations recorded a contraction in GVA in excess of 20%, up from 22.4% a year earlier.

**Employment and  
personnel costs**

In 2008 and during the first nine months of 2009, personnel costs tended to become progressively contained, going from growth of 6.9% in 2007 to less than half that rate in 2008 (3.2%), to a decline of 1.1% in the first nine months of 2009. This containment was due to the greater moderation in average compensation growth and to progressive workforce reductions.

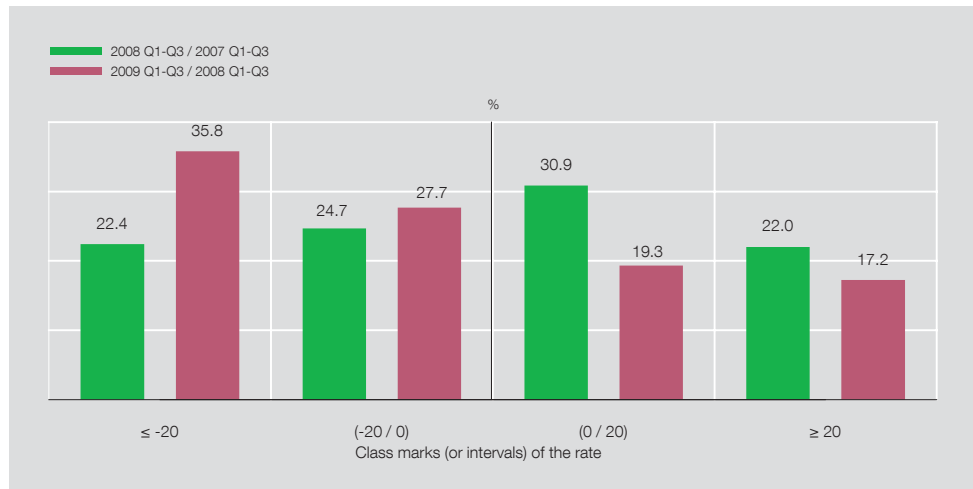
In effect, in 2008 average employment growth became progressively more moderate, closing the year virtually flat at 0.4%, down from 3.1% in 2007. This pattern intensified in 2009, so that over the first nine months, employment fell at a rate of 2.6%. As was the case in previous quarters, this decrease extended to all sectors of activity, affecting temporary employment (-15.1%) much more than permanent employment (-0.2%). As Table 4 shows, in the first three quarters of 2009, 62% of firms cut their workforces, as opposed to 44% a year earlier. By sec-



SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (Informe mensual de precios).

a. 2009 data relate to the CBQ.

DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE IN GVA AT FACTOR COST



SOURCE: Banco de España.

tor of activity, employment in industry fell by 1.4% in 2008, and then by 6.6% to September 2009, while in wholesale and retail trade, average employment rose slightly (0.7%) in 2008, before falling by 4.1% in the first nine months of 2009. Lastly, the information and communication sector posted a negative employment performance in 2008 (-1.5%), but this was largely due to early retirement programmes at some corporations that were not directly connected to the present situation facing the sector companies. In the first three quarters of 2009, the sector performed somewhat more positively, with lower workforce reductions (-0.5%).

Average compensation growth moderated in 2008 and in 2009. Thus, in 2008, the ratio rose by 2.8%, almost 1 pp less than a year earlier, and then by just 1.5% in the first three quarters of 2009, as a result of the lower wage rises negotiated in the latest collective bargaining agreements,

|                             | CBA   |       | CBQ (a)  |          |          |          |
|-----------------------------|-------|-------|----------|----------|----------|----------|
|                             | 2007  | 2008  | 07 Q1-Q4 | 08 Q1-Q4 | 08 Q1-Q3 | 09 Q1-Q3 |
| Number of corporations      | 9,243 | 6,853 | 847      | 800      | 819      | 724      |
| PERSONNEL COSTS             | 100   | 100   | 100      | 100      | 100      | 100      |
| Falling                     | 26.0  | 32.1  | 28.7     | 33.4     | 29.1     | 56.8     |
| Constant or rising          | 74.0  | 67.9  | 71.3     | 66.6     | 70.9     | 43.2     |
| AVERAGE NUMBER OF EMPLOYEES | 100   | 100   | 100      | 100      | 100      | 100      |
| Falling                     | 31.4  | 41.2  | 38.8     | 46.1     | 44.0     | 62.0     |
| Constant or rising          | 68.6  | 58.8  | 61.2     | 53.9     | 56.0     | 38.0     |

SOURCE: Banco de España.

a. Weighted average of the relevant quarters for each column.

against the backdrop of uncertainty and low inflation, and of the decline in performance-related variable compensation. This wage containment extended to all sectors of activity, without exception, and in fact some sectors, such as industry, or wholesale and retail trade and accommodation and food service activities, recorded negative rates of change (0.9% and 0.7%, respectively) in 2009. These falls are due to the cuts made in performance-related variable compensation at some big corporations. Lastly, Table 2.B shows how personnel costs have evolved in corporations that have increased or not changed their average staff levels and in those that have cut their average staff levels. As is customary, average compensation grew the least (in fact it was flat) at companies that created jobs, and it grew the most (2.1%) at companies that cut their workforce.

### Profits, rates of return and debt

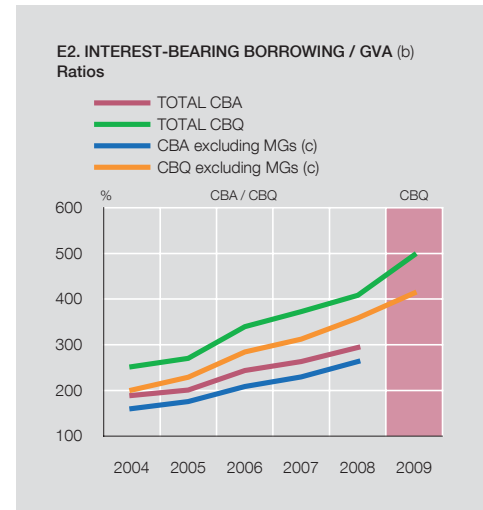
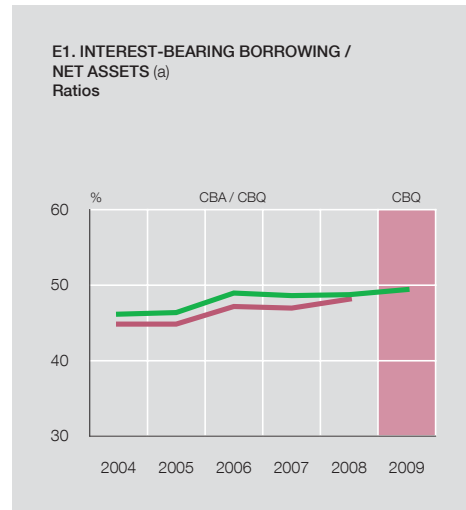
As a result of the contraction in productive activity, gross operating profit (GOP) fell significantly, both in 2008 (-9.4%) and in the first three quarters of 2009 (-22%). In turn, financial revenue also declined notably in both periods, going from growth of 19.4% in 2007 to growth of 12.6% in 2008 and to negative growth of -10.6% in the first three quarters of 2009. This was primarily due to the lower dividends received from foreign subsidiaries and to the progressive fall in interest rates, which has reduced the revenue from interest received as consideration for loans and deposits. The lower interest rate scenario explains almost all the decline in financial costs which, after years of strong growth, began to moderate in 2008, rising by 15.8%, and then fell, in the first nine months of 2009, by 28.6%. The following table outlines the components (financing costs and the cost of debt) behind this change:

|   | 2008/2007   | 09 Q1-Q3/08 Q1-Q3 |
|---|-------------|-------------------|
| <b>Change in financial costs (%)</b>                | <b>15.8</b> | <b>-28.6</b>      |
| <i>A Interest on borrowed funds</i>                 | 16.4        | -29.0             |
| 1 Change due to cost (interest rate)                | +4.9        | -30.1             |
| 2 Change due to the amount of interest-bearing debt | +11.5       | +1.1              |
| <i>B Commissions and cash discounts</i>             | -0.6        | +0.4              |

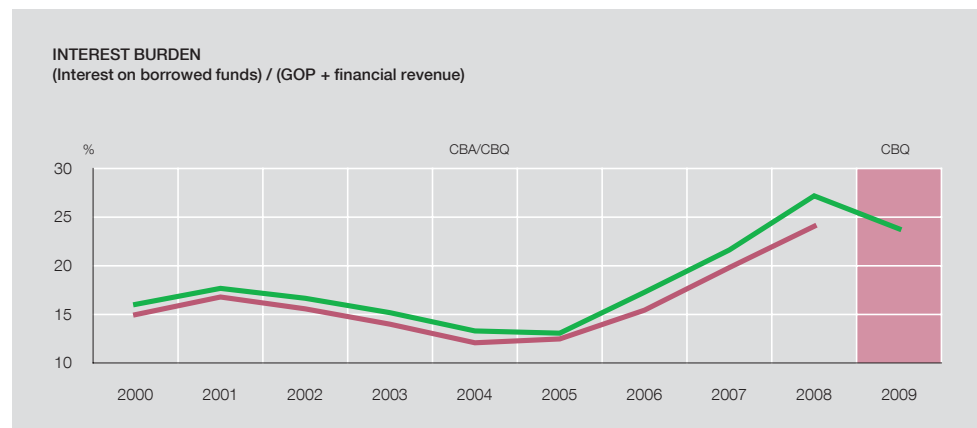
As the table shows, the reasons for the lower growth of financial costs in 2008 and for their significant decline in 2009 are twofold. On the one hand, companies have reduced their resort to new credit, so the impact of new debt on financial costs in 2009 was just 1.1%, compared with more than 20 pp in 2006 and 2007, and on the other, the lower interest rates have gradually passed through to companies' financial costs, resulting in their sharp decline in 2009. The ratio that measures the interest burden vis-à-vis ordinary income (see Chart 4), which tracks a downward path in 2009, also reflects this drop in financial costs.

DEBT RATIOS

CHART 4



|               | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  |
|---------------|-------|-------|-------|-------|-------|-------|
| CBA           | 188.6 | 200.7 | 243.5 | 263.5 | 293.9 | 293.9 |
| CBQ           | 251.9 | 270.2 | 339.7 | 372.5 | 408.4 | 496.6 |
| CBA excl. MGs | 160.5 | 175.8 | 208.6 | 229.2 | 263.4 | 263.4 |
| CBQ excl. MGs | 201.1 | 228.8 | 284.0 | 312.1 | 358.7 | 413.4 |



|     | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----|------|------|------|------|------|------|------|------|------|------|
| CBA | 15.0 | 16.8 | 15.6 | 14.0 | 12.1 | 12.5 | 15.4 | 19.8 | 24.1 | 23.8 |
| CBQ | 16.0 | 17.7 | 16.7 | 15.2 | 13.3 | 13.1 | 17.3 | 21.6 | 27.2 | 23.8 |

SOURCE: Banco de España.

- a. Ratio calculated from final balance sheet figures. Net assets include an adjustment to current prices.
- b. Ratio calculated from final balance sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intragroup debt (approximation of consolidated debt).
- c. MGs: sample corporations belonging to the main reporting multinational groups. These do not include the large construction sector companies.

**GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND  
ROI-COST OF DEBT (R.1 – R.2)  
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS**  
Ratios and growth rates of the same corporations on the same period a year earlier

TABLE 5

|  | GROSS OPERATING PROFIT |          |          |          | ORDINARY NET PROFIT |          |          |          | RETURN ON INVESTMENT (R.1) |          |          |          | ROI-COST OF DEBT (R.1-R.2) |          |          |          |
|--|------------------------|----------|----------|----------|---------------------|----------|----------|----------|----------------------------|----------|----------|----------|----------------------------|----------|----------|----------|
|  | CBA                    | CBQ (a)  |          |          | CBA                 | CBQ (a)  |          |          | CBA                        | CBQ (a)  |          |          | CBA                        | CBQ (a)  |          |          |
|  | 2008                   | 08 Q1-Q4 | 08 Q1-Q3 | 09 Q1-Q3 | 2008                | 08 Q1-Q4 | 08 Q1-Q3 | 09 Q1-Q3 | 2008                       | 08 Q1-Q4 | 08 Q1-Q3 | 09 Q1-Q3 | 2008                       | 08 Q1-Q4 | 08 Q1-Q3 | 09 Q1-Q3 |
| Total  | -9.4                   | -7.3     | -0.8     | -22.0    | -22.1               | -17.0    | -1.3     | -21.8    | 7.5                        | 7.9      | 7.3      | 5.6      | 2.5                        | 2.9      | 2.3      | 2.1      |
| SIZE   |                        |          |          |          |                     |          |          |          |                            |          |          |          |                            |          |          |          |
| Small  | -27.0                  | —        | —        | —        | -50.7               | —        | —        | —        | 4.1                        | —        | —        | —        | 0.0                        | —        | —        | —        |
| Medium   | -11.6                  | -4.5     | -3.3     | -23.0    | -26.6               | -5.1     | 1.0      | -33.2    | 6.1                        | 7.0      | 7.2      | 4.3      | 1.2                        | 0.9      | 2.3      | 0.8      |
| Large  | -8.9                   | -7.3     | -0.7     | -21.9    | -21.4               | -17.4    | -1.3     | -21.5    | 7.6                        | 7.9      | 7.3      | 5.6      | 2.6                        | 3.0      | 2.3      | 2.1      |
| BREAKDOWN BY ACTIVITY  |                        |          |          |          |                     |          |          |          |                            |          |          |          |                            |          |          |          |
| Energy   | 1.4                    | 2.7      | 11.6     | -19.2    | -2.4                | -2.8     | 13.5     | -14.5    | 7.7                        | 8.0      | 8.1      | 6.2      | 2.8                        | 3.2      | 3.3      | 2.7      |
| Industry   | -23.3                  | -30.0    | -16.0    | -61.0    | -37.7               | -54.9    | -38.8    | -90.5    | 6.8                        | 5.1      | 6.2      | 2.2      | 1.6                        | 0.2      | 1.2      | -1.6     |
| Wholesale & retail trade and accommodation & food service activities | -8.3                   | -15.5    | -12.0    | -16.5    | -18.5               | -16.2    | -6.5     | -33.7    | 8.7                        | 6.3      | 6.7      | 5.3      | 3.4                        | 1.6      | 2.1      | 1.3      |
| Information and communication  | 0.4                    | -1.4     | -0.7     | -11.9    | 6.4                 | 3.3      | 5.8      | -18.3    | 23.8                       | 43.9     | 44.2     | 41.4     | 18.3                       | 38.2     | 38.5     | 35.9     |
| Other activities   | -19.0                  | -12.4    | -4.1     | -24.8    | -62.6               | -61.5    | -13.4    | (b)      | 5.8                        | 6.4      | 5.0      | 4.0      | 0.8                        | 1.5      | 0.0      | 0.7      |

SOURCE: Banco de España.

- a. All the data in these columns have been calculated as the weighted average of the quarterly data.  
b. Rate not significant or not calculable because the relevant figures are of opposite sign.

**STRUCTURE OF REPORTING CORPORATIONS' RETURN ON INVESTMENT AND  
ORDINARY RETURN ON EQUITY**

TABLE 6

|   |             | CBQ (a)                    |          |                                 |          |
|---|-------------|----------------------------|----------|---------------------------------|----------|
|   |             | RETURN ON INVESTMENT (R.1) |          | ORDINARY RETURN ON EQUITY (R.3) |          |
|   |             | 08 Q1-Q3                   | 09 Q1-Q3 | 08 Q1-Q3                        | 09 Q1-Q3 |
| Number of corporations                              |             | 819                        | 724      | 819                             | 724      |
| Percentage of corporations by profitability bracket | R ≤ 0       | 24.7                       | 34.3     | 32.6                            | 39.0     |
|   | 0 < R ≤ 5   | 22.6                       | 24.7     | 14.6                            | 18.0     |
|   | 5 < R ≤ 10  | 17.3                       | 14.0     | 12.7                            | 9.9      |
|   | 10 < R ≤ 15 | 9.5                        | 6.8      | 8.1                             | 6.6      |
|   | 15 < R      | 25.9                       | 20.1     | 31.9                            | 26.5     |
| MEMORANDUM ITEM: Average return                     |             | 7.3                        | 5.6      | 9.3                             | 7.4      |

SOURCE: Banco de España.

- a. All the data in these columns have been calculated as the weighted average of the quarterly data.

The entry into force of the new chart of accounts (PGC 2007) meant that the Central Balance Sheet Data Office's annual (CBA) and quarterly (CBQ) surveys had to be revised. As part of this process, the key headings of both questionnaires were streamlined (making the annual and quarterly databases more uniform) and the questionnaires were adapted, insofar as possible, to the official formats for filing of annual accounts with the Mercantile Registries (reducing the reporting burden for corporations). Before launching the new quarterly questionnaire, a survey was conducted among the reporting corporations on the appropriate level of detail, asking them whether they would prefer a more aggregate questionnaire, similar to that used to date, or a more detailed questionnaire coinciding with the filing format. Most corporations opted for the latter, as it entails a lower reporting burden and streamlines their responses to different information demands.

However, despite the advantage described above, the new chart of accounts also presents several analytical limitations on extraordinary items.<sup>1</sup> Under the PGC 2007, extraordinary revenue and expenses are recorded net. This represents a significant loss in analytical terms and increases the volatility of the rates of change vis-à-vis the information available previously, which distinguished between revenue and expenses. Extraordinary revenue and expenses are aggregated under two headings:

Heading "7. Gains (losses) from disposals and impairment" includes gains or losses from the sale of fixed assets (both tangible, including investment property, and intangible fixed assets) and financial instruments, and valuation adjustments made at the end of the period for reversible deterioration in these balances. These ad-

justments do not include changes in the fair value of the trading portfolio and the available-for-sale portfolio, which fall under heading 8.

Heading "8. Changes in fair value and other gains (losses)", as shown in the accompanying table, includes provision excess, exchange differences, severance pay, other extraordinary gains (losses) not included under other headings and, as the key new feature under the PGC 2007, changes in the fair value of the financial assets that form part of the trading portfolio, and of those that form part of the available-for-sale portfolio, once sold.

An analysis of the extraordinary items for 2008 and the first three quarters of 2009 (see the accompanying table) shows that:

- Sub-heading 7.2, "Gains (losses) from disposals and impairment of financial instruments", records the highest figures, with a decline of almost 7% in 2008 as a percentage of GVA (primarily due to impairment losses on financial assets), and of 5.2% in the first three quarters of 2009, although in this case, the Q4 data will be essential to determine the final trend, as impairment losses tend to concentrate in the fourth quarter.
- Sub-heading 8.1, which reflects the effect of changes in fair value, had a relatively small but negative impact in both the periods analysed (-1.5% as a percentage of GVA in 2008; -1.1% in 2009), confirming the scant repercussion that the adoption of fair value criteria for valuation of financial assets has had, to date, on the aggregate of non-financial corporations.
- Lastly, sub-heading 8.5, which records other extraordinary gains (losses), was also noteworthy in 2008 (-2.8% as a percentage of GVA), primarily due to restatement of certain asset values. However, in the 2009 quarterly data, the impact of this sub-heading is negligible (-0.2% as a percentage of GVA in the period).

<sup>1</sup> Box 2 of the article on 2009 Q1 contained the first information on this issue; this box updates these data and adds the data available in the CBA database.

## BREAKDOWN OF EXTRAORDINARY GAINS (LOSSES)

€m and %

|   | CBA    |       | CBQ      |       |
|---|--------|-------|----------|-------|
|   | 2008   | % GVA | 09 Q1-Q3 | % GVA |
| 7 Gains (losses) from disposals and impairment    | -8,905 | -6.8  | 2,820    | 6.6   |
| 7.1 Of fixed assets                               | 185    | 0.1   | 610      | 1.4   |
| 7.2 Of financial instruments                      | -9,090 | -6.9  | 2,211    | 5.2   |
| 8 Changes in fair value and other gains (losses)  | -4,526 | -3.5  | -1,004   | -2.4  |
| 8.1 Change in fair value of financial instruments | -1,971 | -1.5  | -486     | -1.1  |
| 8.2 Provision excess                              | 2,471  | 1.9   | 347      | 0.8   |
| 8.3 Exchange differences                          | -174   | -0.1  | -375     | -0.9  |
| 8.4 Severance pay                                 | 1,196  | 0.9   | 404      | 0.9   |
| 8.5 Other extraordinary gains (losses)            | -3,656 | -2.8  | -86      | -0.2  |

SOURCE: Banco de España.

Lastly, the E1 and E2 ratios complement the analysis of the debt position which was marked, in both 2008 and 2009, by the notable decrease in mergers and acquisitions in comparison with previous years and by the freeze on investment decisions, which has extended to all sectors of activity, with the exception of transport, reaching -19.5% in 2009 across the entire sample. Thus, in the wake of a minor increase in debt levels in 2008, as a result of limited inflows of borrowed funds and, above all, of a drop in the weight of own funds, the E1 ratio remained virtually unchanged in 2009, as companies froze their resort to new external financing. In turn, the E2 ratio continued to rise as a result of the decline in GVA (the ratio denominator) in both the periods analysed.

Overall, the net impact of financial revenue and costs on ONP was small in 2008, as the changes recorded virtually cancelled each other out. However, the decline in ONP was considerably greater than that in GOP (-22.1%, as opposed to -9.4%), due to the adverse impact of the sharp increase (16.2%) in operating depreciation and provisions. The growth in this expense item in the 2008 CBA data is a result of the provisioning by construction and real estate firms for the lower value of their stocks. By contrast, in the first three quarters of 2009, the sharp fall in financial costs cushioned the impact on ONP, so that the decline, although very severe (-21.8%), was similar to that in GOP for the same period. In any case, the sharp drop in ONP in both periods prompted a deterioration in the rates of return. Thus, return on investment fell to 7.5% in 2008, 1.5 pp less than in 2007, while the CBQ data to September 2009 place it at 5.6%, a drop of almost 2 pp. In turn, the ratio that approximates the cost of debt performed differently in the two periods, as interest rates first rose in 2008, before falling back as from the end of the year. Thus, the cost of borrowing continued to rise in 2008, albeit marginally, to reach a high in the recent time series (peaking at 5.1%, 0.3 pp more than in 2007), and then fell off quickly, to reach 3.5% in 2009, 1.5 pp lower than in the first nine months of 2008. Thanks to this decline in the cost of debt, the difference between the rate of return and the cost of debt, which had narrowed considerably, from 4.1 in 2007 to 2.5 in 2008, narrowed again, but to a much lesser extent (to 2.1) in 2009, even though the rate of return fell more sharply in this period.

Lastly, extraordinary items recorded a similar performance in 2008 and in the first three quarters of 2009 (see Box 3), falling in both cases as a result of the decline in gains obtained on sales of subsidiaries made in previous years. Accordingly, profit for the period fell more sharply than ONP, at a rate of -48.2% in 2008 and of -29.7% in the first three quarters of 2009. Expressed as a percentage of GVA, profit for the period stood at 15% in 2008, well short of the 2007 figure (25.5%), and at 30.8% on 2009 CBQ data, more than 7 pp below the figure recorded a year earlier by the same quarterly sample.

23.11.2009.