CHAPTER III

FRENCH AND SPANISH INDUSTRIAL CORPORATIONS: A COMPARATIVE STUDY USING ACCOUNTING DATA (*)

All the tables and graphs in this work are part of a statistical annex disseminated separately on the Internet at www.bde.es. *This chapter includes only those that are most relevant, but retains the same numbering as for the statistical annex. That explains any gaps in the numbering used in this chapter.*

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1. FRENCH AND SPANISH INDUSTRIAL CORPORATIONS: ANALYSIS OF THE BALANCE SHEET STRUCTURES 1991-1999

This chapter examines the way in which French and Spanish companies' balance sheets are structured and how this structure changed during the nineties. Our analysis concerned industry (including agri-food) and used samples that were held constant over two consecutive years (1). We broke down the findings by size and sector in order to refine our comments on the aggregate population.

1.1. Assets

Companies' behaviour in terms of financing is heavily influenced by the borrowing requirements arising from their portfolio of assets.

If we classify assets according to their maturity, we see that corporate behaviour patterns change according to company size in both countries. Whereas the *weighted mean* shows that the breakdown between fixed assets and current assets in the aggregate population is 40/60 in France and 45/55 in Spain, the *median* gives a breakdown of 20/80 in France and 30/70 in Spain. (See graph III.1.1.1 for weighted mean)

This difference arises because unlike the weighted mean, the median shows the central distribution value. Each firm has the same weighting and as a result, the median reflects the influence of the largest group in the business community, namely the smallest companies. Meanwhile, large companies have a major impact on the weighted mean in both countries: consequently, the aggregate figures mainly reflect their behaviour.

Bearing these points in mind, an examination of the weighted means of the different assets making up fixed assets reveals the following:

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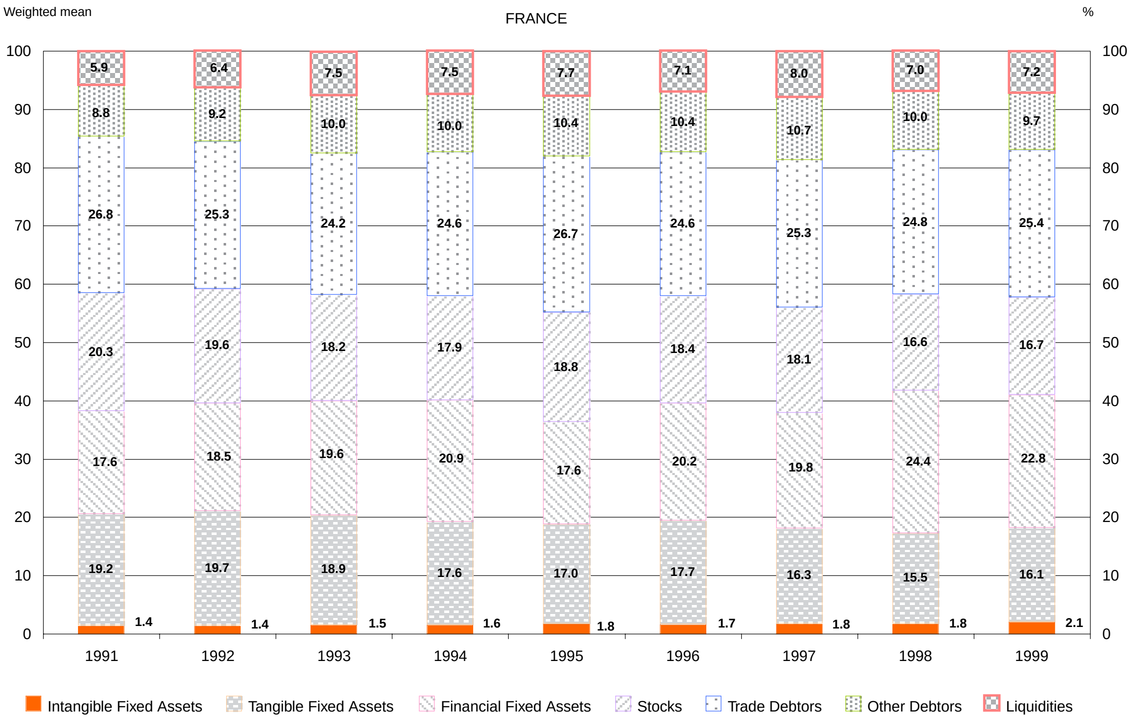
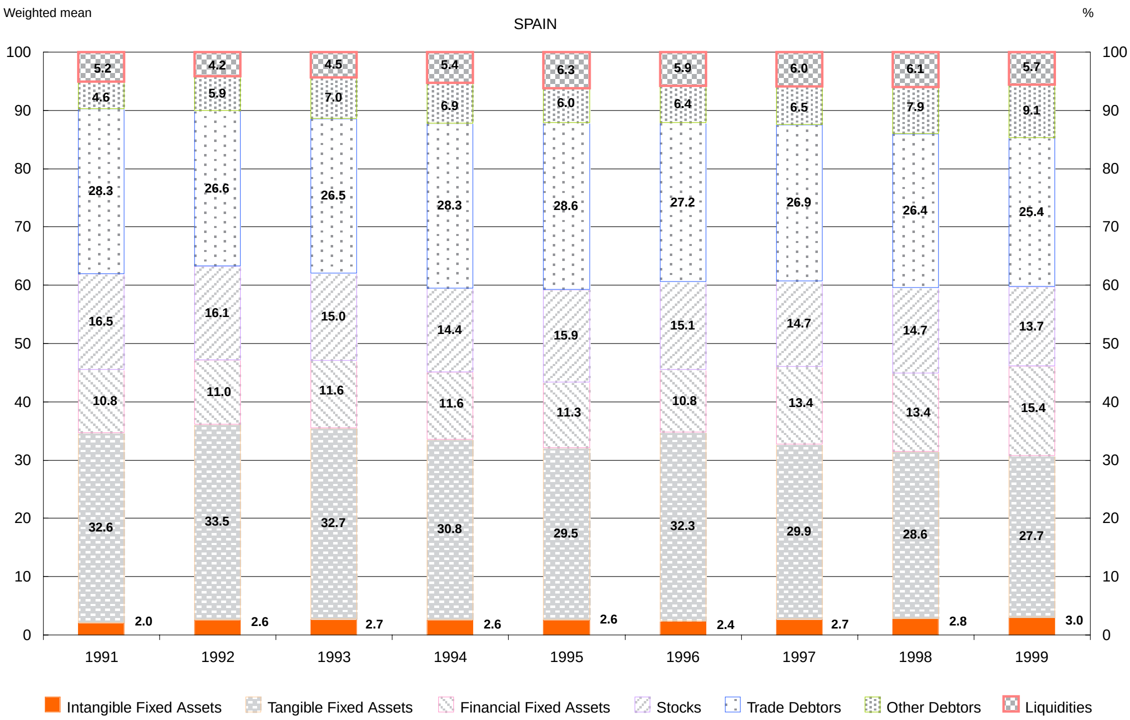
(1) By holding samples constant over two years, it is obtained far more data than if we had used a sample that was held constant over nine years, i.e. between 1991 and 1999. This allowed us to improve the coverage rate and gain a better insight into company behaviour. That said, comparisons between years are made trickier because differences may appear in the values of certain ratios as samples change with the inclusion or exclusion of companies. Accordingly, for a given year, each ratio has two values, which may be different because of changes to the samples. However, for simplicity's sake, the charts appearing in this paper show only one of these values. We made sure that this simplification did not alter our observations regarding the level of, and changes in, the various ratios analysed.

GRAPH III.1.1.1

STRUCTURE OF ASSETS
TOTAL INDUSTRY (SAMPLE)



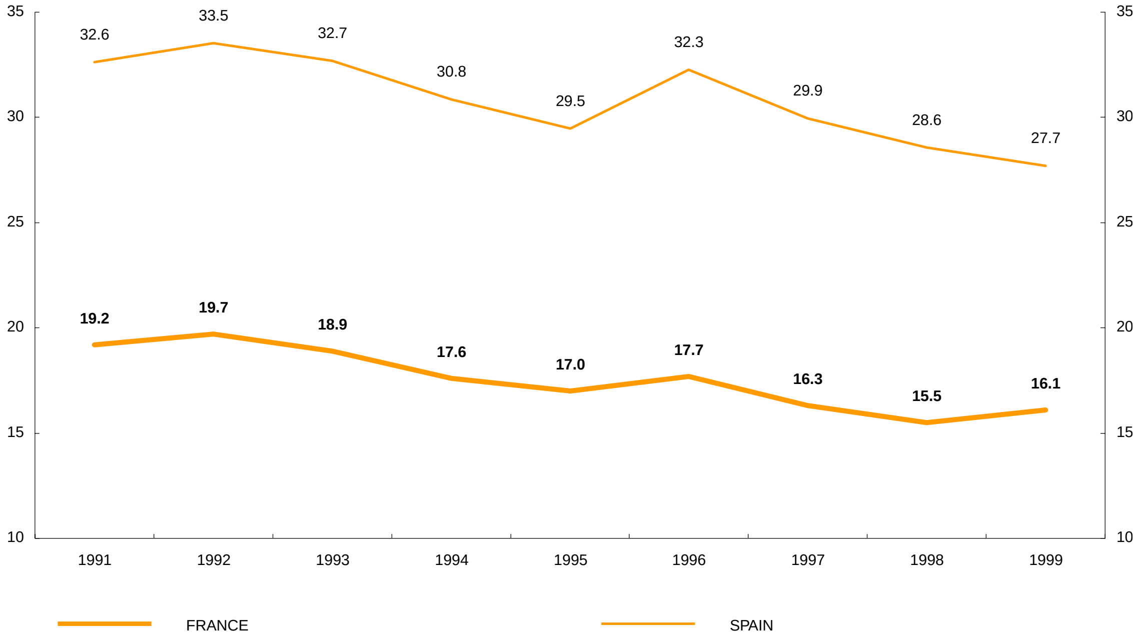


Sources: Banco de España and Banque de France.

GRAPH III.1.1.8

TANGIBLE FIXED ASSETS
TOTAL ASSETS

Weighted mean %



Sources: Banco de España and Banque de France.

- The structure of assets changed between 1991 and 1999. Notably, *financial fixed assets* gained in importance as a result of the increasing dematerialisation of investments, the accelerated pace of globalisation and the greater use of external growth strategies by industrial firms.

- In parallel, the weight of *tangible fixed assets* declined gradually, while that of *intangibles* increased. This reflected businesses' increased focus on innovation and strategic organisation in response to market competition.

Our analysis of current assets in France and Spain found the following:

- On aggregate, current assets remained stable over the study period. The weighted mean for the population as a whole came to around 55% of total assets in Spain and about 60% in France.

- The structure of current assets *(stocks and trade debtors)* (2) was fairly heavily dependent on the size of the company and its sector of activity. Some French and Spanish industrial firms used current assets as a means of adjusting their working capital requirements, especially in response to changes in the business cycle.

- *Cash* management was closely linked to the financial strategies adopted by companies to preserve their financial autonomy. Again, size appeared to be a determining factor, with large companies enjoying greater flexibility in their cash management than smaller outfits.

(2) It should be noted that creditors relate to the liabilities side (payables) while debtors to the assets side (receivables) of the balance sheet.

1.1.1. Fixed assets

Throughout the nineties, French and Spanish industrial firms maintained a stable proportion of fixed assets, which can be divided into tangible, intangible and financial fixed assets. The weighted mean for the aggregate population was around 45% of total assets in Spain and about 40% in France. Large industrial firms exerted a strong influence in this regard. Fixed assets accounted for 45% of the total assets of large industrial firms in France and 48% in Spain. By contrast, the proportion was much lower in the case of small companies employing less than 50 people, at around 25% in France and 33% in Spain (see graphs III.1.1.2 to III.1.1.4 in the statistical annex). A sectoral analysis reveals that between 1991 and 1999, the proportion of fixed assets was higher in the intermediate goods sector than in other sectors, at over 50% in Spain and around 41% in France, compared with around 39% in France and 42% in Spain in the consumer goods sector, and 35% in France and 40% in Spain in the capital goods sector (graphs III.1.1.5 to III.1.1.7 of the statistical annex)

However, this overall stability in the fixed assets of French and Spanish industrial companies masked contrasting trends in the underlying components. In fact, between 1991 and 1999, there was a gradual reduction in the proportion of tangible fixed assets, coupled with an increase in financial fixed assets and intangible fixed assets.

A large difference was observed in the ratio of *tangible fixed assets* to total assets between the two countries, even though the gap tended to narrow towards the end of the period, reducing to 11.6 percentage points in 1999 from 13.4 percentage points in 1991 (see graph III.1.1.8). In the following box, several factors may explain why Spanish companies have a higher proportion of tangible fixed assets.

An analysis by size (see graph III.1.9 in the statistical annex) reveals that large companies (employing more than 250 people) in France and Spain *scaled back the proportion of tangible fixed assets* in their total assets more than smaller companies. Over the 1990s, large firms concentrated on acquiring financial assets, focussing especially on equity interests between 1995 and 1999. This illustrates the way in which inter-company relations intensified, notably through the creation of corporate groups. The weighted mean of tangible fixed assets to total assets among large industrial firms came to 15.6% in 1999 in France compared with 19.4% in 1991, i.e. a fall of 3.8 points. In Spain, the ratio fell by 4.3 points from 33.5% in 1991 to 29.2% in 1999. Smaller businesses less concerned by external growth stuck closer to the business cycle as they adjusted plant and equipment to meet demand. In France, the ratio of tangible fixed assets to total assets in this category was 17.9% in 1999 compared with 16.4% in 1991, i.e. a gain of 1.5 points. In Spain, the ratio for small companies fell mainly between 1991-1994. By 1999, it was practically back to its 1991 level (26.7% in 1999 compared with 26.9% in 1991).

On a sectoral level (see graph III.1.10 in the statistical annex), the intermediate goods sector consistently reported the highest proportion of tangible fixed assets in both France and Spain, despite the downtrend seen over the period. This was due to the nature of the goods produced in this area: the intermediate sector processes raw materials and so is active at an early stage in the manufacturing process. In 1999, tangible fixed assets accounted for 31.8% of total assets in the Spanish intermediate goods sector, compared with 20.6% in France.

Related to the assets acquired under finance leasing, this technique enables companies to avoid having to purchase plant and equipment, instead allowing them to access the equipment they need in return for rental payments. Companies in France made greater use of this type of financing than those in Spain, offering one explanation why the proportion of tangible fixed assets (which does not count assets acquired under finance leases) in total assets is lower in France. Annex 3 "Financial leasing in France and Spain" offers more information about this issue.

As the information on finance leasing is available in Banco de España database and thanks to complementary information of the central balance sheet of Banque de France, the weight of finance leasing can be measured using the "net fixed assets acquired under finance leases / total assets" ratio. On aggregate (see graph III.1.1.11), *fixed assets acquired under finance leases* accounted for around 2% (3) of total assets in France in the 1990s. However, there were contrasting trends within this aggregate. While one-quarter of industrial firms made no use of finance leases over the period, another quarter acquired fixed assets under finance leases amounting more than 5% of total assets between 1991 and 1999. Spanish companies resorted to this practice less than French ones: fixed assets acquired under finance leases accounted for under 1% of their total assets throughout the period. While this statement holds true for the overall population, the actual situation varied according to company size (see graph III.1.1.12 in the statistical annex). In both France and Spain, small companies employing fewer than 50 people and medium-sized companies made more use than larger companies of finance leases to finance their operating investment. In 1999, fixed assets acquired under finance leases accounted for 4.8% of the total assets of small companies in France compared with 1.2% in Spain. For medium-sized firms, the ratio was 3.4% in France and 1.5% in Spain, while in the case of large companies, the ratio stood at 1.2% in France and 0.5% in Spain.

If we analyse these figures by economic segment (see graph III.1.1.13 in the statistical annex), we find that the situation is broadly similar in the consumer and intermediate goods sectors in both countries, with fixed assets acquired under finance leases accounting for around 2% of total assets over the study period in France and around 1% in Spain. In the capital goods sector, fixed assets acquired under finance leases accounted for a slightly smaller proportion of total assets: 1.8% in France and 0.4% in Spain in 1999.

Analysing *intangible fixed assets* (4) is still awkward insofar as their definition is unclear. The OECD gives the following definition for intangible investment (source: *Petites Affiches – 16 July 2001 – No. 140:* "The term 'Intangible fixed assets' covers all long-term outlays by firms aimed at increasing future performance other than by the purchase of fixed assets. As well as technology investment (R&D), it also encompasses investment in training, labour relations, management structures, the organisation of production, the development of commercial and technological ties with other firms, suppliers and consumers, the exploration of markets and the acquisition and operation of software" (original quote in French). Over the 1990s, intangible fixed assets came to form one of the lynchpins of corporate competitiveness and the outlays that they necessitated were seen as strategic investments for the company's future development. This trend has become more deep-rooted in France and Spain, where investments are becoming increasingly dematerialised.

Bearing this in mind, our analysis of balance sheet structures in France and Spain shows an increase in the average *"Intangible fixed assets / total assets"* ratio (see graph III.1.1.14), even though intangible fixed assets still account for only a small fraction of the balance sheets of the companies in these two countries. Companies may either book formation and share issuance expenses on their balance sheet and amortise them over a maximum of five years, or book them immediately on the profit and loss account. The fourth EU Directive states that R&D expenses in respect of a specific project that can be clearly identified and that has a serious

(3) Fixed assets acquired under finance leases accounted for 10.5% of total fixed assets in France and 2.5% in Spain in 1999.

(4) Definitions for the items comprising the intangible fixed assets analysed in this paper are given in chapter II.

EXPLANATORY FACTORS OF THE DIFFERENT WEIGHT IN TANGIBLE ASSETS

It appears that the share of net tangible fixed assets (gross amount minus total amortisation/depreciation) in the balance sheet structure is greater in Spain than in France.There are several possible explanations for this difference:

1. The most important factor is the weight of financial assets recorded in the balance sheet of French companies.

French firms hold more financial fixed assets than Spanish companies, partly due to the faster pace of globalisation and the organisation in corporate grouping in France. This could be a symptom of higher maturity of French companies which are gradually followed by Spanish ones. This may also be due to the method used for booking equity holdings. Both, in France and Spain, the "equity holdings" item, which is included in financial fixed assets, combines the concepts of "subsidiaries", whose definitions are similar in France and in Spain, that is to say holdings exceeding 50% of the capital in another company (-legal definition -in France), or whose management is appointed by the parent company (Spain), and "participating interests" (holdings between 10% and 50% in France, and with a "significant influence in the management" in Spain). If these equity holdings are below 10%, they are booked as a portfolio investment in France. In the case of direct investment in foreign companies, these financial fixed assets recorded in the balance sheet of French companies swell the fixed assets booked in the balance sheet of foreign companies. As the internationalisation process is more developed in France, this movement from tangible assets to financial assets is more explicit in this country; the catching up process followed by Spain, also is taken part in this domain: from 1998 Spanish corporations privatised has pursued the same pattern than the French ones.

2. Moreover, due to the economic catch-up process under way in Spain mentioned, resulting in a substantial increase in investment, the fixed assets recorded on the assets side of the balance sheet in Spain may be more recent than those in France. It means that the fixed assets booked in French companies balance sheets are older; since they are booked at their historical costs, their value is lower than at current prices.The phenomenon can also be due to different expansion of production capacity in the two countries.As an illustration in the study between 1985 and 1990, Spanish firms stepped up their investment in order to boost production capacity and meet growing demand. In France, the investment drive between 1980-1990 was smaller insofar as significant production capacity was already in place. The economy slowed in the early 1990s and went into recession in 1993, which hit profits hard. This had a negative impact on the investment decisions of business managers in France and Spain, leading to a fall in gross fixed capital formation (GFCF) in French and Spanish industrial firms. The decline in GFCF showed up in the accounts, reflecting the uncertainty that overshadowed investors' expectations until the mid-1990s. Thus, the weighted mean of tangible fixed assets to total assets fell from 32.6% in 1991 to 29.5% in 1995 in Spain, and from 19.2% in 1991 to 17% in 1995 in France. Subsequently, the accelerated pace of external growth operations by industrial firms put a damper on the acquisition of new tangible fixed assets through to the end of the period under review. In France however, the brighter economic picture in 1999 gave renewed impetus to investment, causing the proportion of tangible fixed assets in total assets to rise. Overall, in both countries, the share of net tangible fixed assets in total assets trended downwards in industry throughout the 1990s. In France in particular, among half of all industrial firms, the ratio of tangible fixed assets accounted for less than 16.5% of total assets in 1991, less than 15.1% in 1995 and less than 14.6% in 1999.

3. The depreciation method used for calculation expenses (i.e. Straight-line depreciation or declining balance depreciation) may affect the calculation of net fixed assets

In fact the declining balance depreciation method (1) was more favourable in France than in Spain at the end of the period for goods to be depreciated over a period of seven years, thus being the average period of depreciation of industrial investments

(1) The use of four possible amortisation methods is accepted in Spain:

a) Sixth fiscal index accepted by Treasury Ministry

b) Constant percentage method, or straight line rate (may not be used in Building, furniture and others); this is the one referred in this box

c) Addition in digit numbers

d) Amortisation plans presented to the Treasury administration and duly accepted.

EXPLANATORY FACTORS OF THE DIFFERENT WEIGHT IN TANGIBLE ASSETS

Declining balance depreciation regime

	Scope	*Rate*
France (current)	Industrial moveable capital goods, industrial buildings whose UL (*) < 15 years and investments in new hotel property	UL 3-4 yrs: 1.5 × straight-line rate UL 5-6 yrs: 2 × straight-line rate UL > 6 yrs: 2.5 × straight-line rate
Spain	Tangible assets	UL < 5 yrs: 1.5 × straight-line rate UL 5-8 yrs: 2 × straight-line rate UL > 8 yrs: 2.5 × straight-line rate

(*) Useful life = depreciation period

4. *Equipment operating time (operational capital) has increased over the past few years to contend with the growth of activity.*

According to a Banque de France survey, equipment operating time stood 53.2 hours in 1999. Such a level had not been seen since 1963 (52.9 hours), the figure having reached a low value in 1981 and around 48 hours in 1993 to increase then till the end of the period.The sharp rise in equipment operating time testifies both to manufacturers' efforts to use fixed capital as efficiently as possible, as well as to their attempts to adjust, in the short term, their factors of production to pressures on supply.This historically high level is likely to be the consequence of the steady increase in equipment operating time since the mid-1990s, following the sharp fall during the business cycle trough of 1993. In the long run, this substantial rise may indicate that equipment operating time will return to levels close to those observed before the first oil price shock.From the end of the 1980s, an increase was seen in equipment operating time in all economic sectors and in all company size brackets. This was due to the increased recourse to shift work, and, in particular, continuous work. Since the end of the nineties, this increase has been attributable to the fact that previously unused equipment was brought into service to meet the rise in demand.The data available for Spain (use of installed capacity, accordingly to Ministry of Science and Technology Survey), reflects a huge increase from 1993 to the end of the decade, showing the same behaviour in Spanish corporations related to the French previous mentioned. It is difficult to know to what extent the differences that could exist between two countries in this indicator would affect the level of tangible fixed assets found.

5. *Different levels of leasing between the two countries*

Some plant and equipment is not purchased by companies but simply leased, and therefore is not recorded as fixed assets on the assets side of the balance sheet in France, However, thanks to the information available in the balance sheet in Spain, and through the French Centrale de Bilans questionnaire) it was possible to calculate the amount of leased assets compared with total assets in this study, and give an idea of the importance of this phenomenon in each country. As it can be found in the main text, the use of this financing system is more extensive in France, where the tangible assets acquired with leasing contracts represent in average over the decade, 1 p.p. more than in Spain, in relation to the total assets. Likewise, most business premises are leased rather than purchased outright. Leasing offers companies greater flexibility, especially for recently established firms. Indeed, finance leasing enables the lessee to purchase the property outright, and offers the possibility of sub-letting, during the lease period, the good he has ordered. Listed companies prefer to lease as they receive low returns on real estate investment. In order to remove real estate from their core business, major companies entrust property management to real estate companies. Real estate companies are set up with little capital and borrow the amounts necessary to purchase premises. They then let these premises to companies

6. *Finally, another cause for the different level founded in tangible fixed assets to total assets, arise from the year in which the restatements laws in both countries were approved* (1983 and 1996 in Spain; 1978 in France). These restatements laws enable the corporations to level their balance sheets, eliminating, at least partially, the impact of the inflation rates in the balances (because of the historical cost principles of valuation). Anyway, this has a limited impact on the comparison between both countries.

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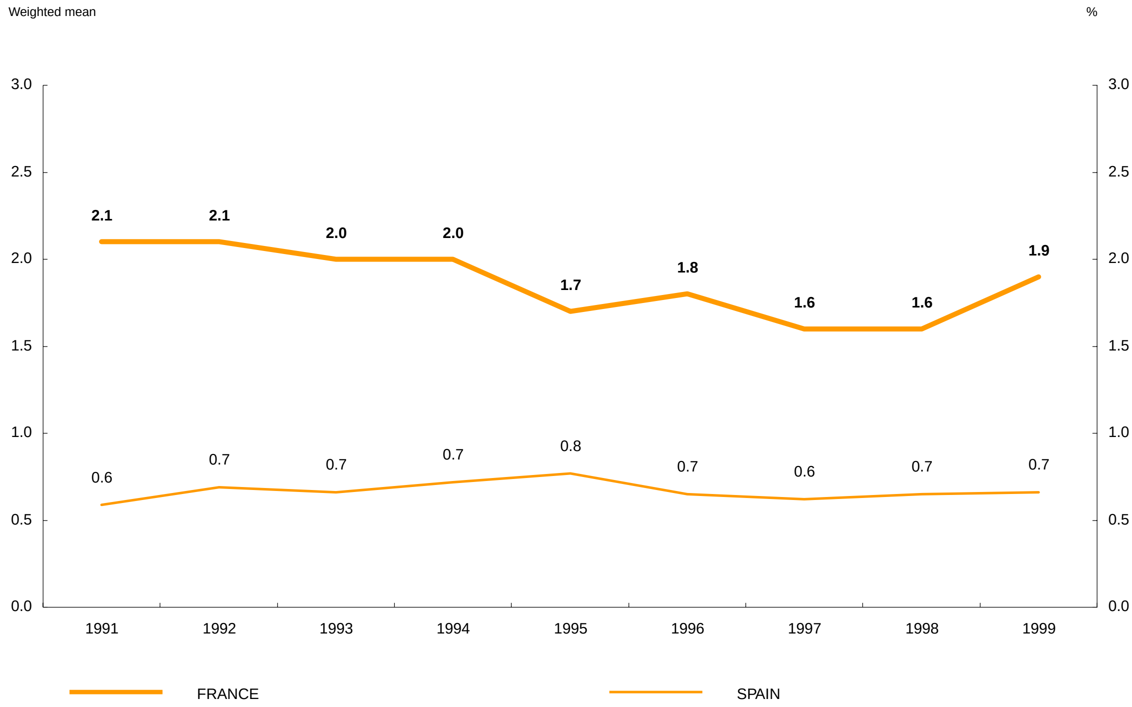
GRAPH III.1.1.11

LEASING
TOTAL ASSETS



Sources: Banco de España and Banque de France.

chance of yielding commercial profit, may be capitalised and written off over a maximum of five years. Therefore, the real level of investment cannot be totally shown in the balances. Anyway, between 1991 and 1999, the aggregate ratio of intangibles to total assets went from 1.4% to 2.1% in France and from 2% to 3% in Spain.

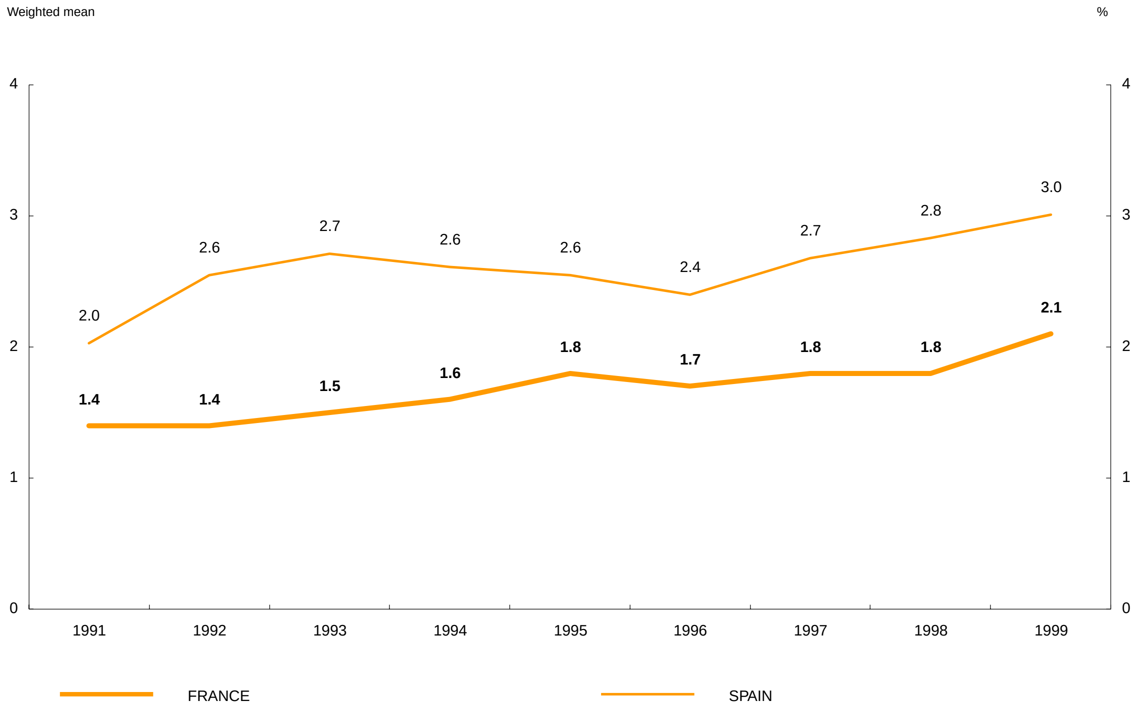
In France, this uptrend concerned companies of all sizes (see graph III.1.1.15 in the statistical annex). Moreover, the scale of the increase was identical across the board. This is because the French accounting code gives broad latitude in terms of recognising intangible fixed assets, thereby allowing smaller companies to book the same proportion of intangibles as larger outfits. In Spain, the ratio of intangibles to total assets appeared to rise more sharply among smaller companies (from 1.7 % in 1991 to 4.6% in 1999) than among larger firms (2.1% in 1991, 2.9% in 1999).

On a sectoral level (see graph III.1.1.16 in the statistical annex), in France, the average *"Intangible fixed assets / total assets"* ratio was higher in the consumer goods sector than in the capital goods and intermediate goods sectors. The importance of research and development cost, patents and licences and increased biotech spending were two of the main reasons for this. In 1999, intangible fixed assets amounted to 3.4% of total assets in the consumer goods sector, compared with just 1.8% in intermediate goods and 1.2% in capital goods. In Spain, the proportion of intangible fixed assets in total assets was the same as in France in the consumer goods sector. By contrast, in capital goods, the level was higher in Spain throughout the period.

Responding to the development of capital markets in the nineties, French and Spanish companies used more of their cash to purchase financial assets instead of investing in new tangible fixed assets, especially French firms, as it can be checked next, in subchapter III.2. This trend be-

GRAPH III.1.1.14

**INTANGIBLE FIXED ASSETS
TOTAL ASSETS**



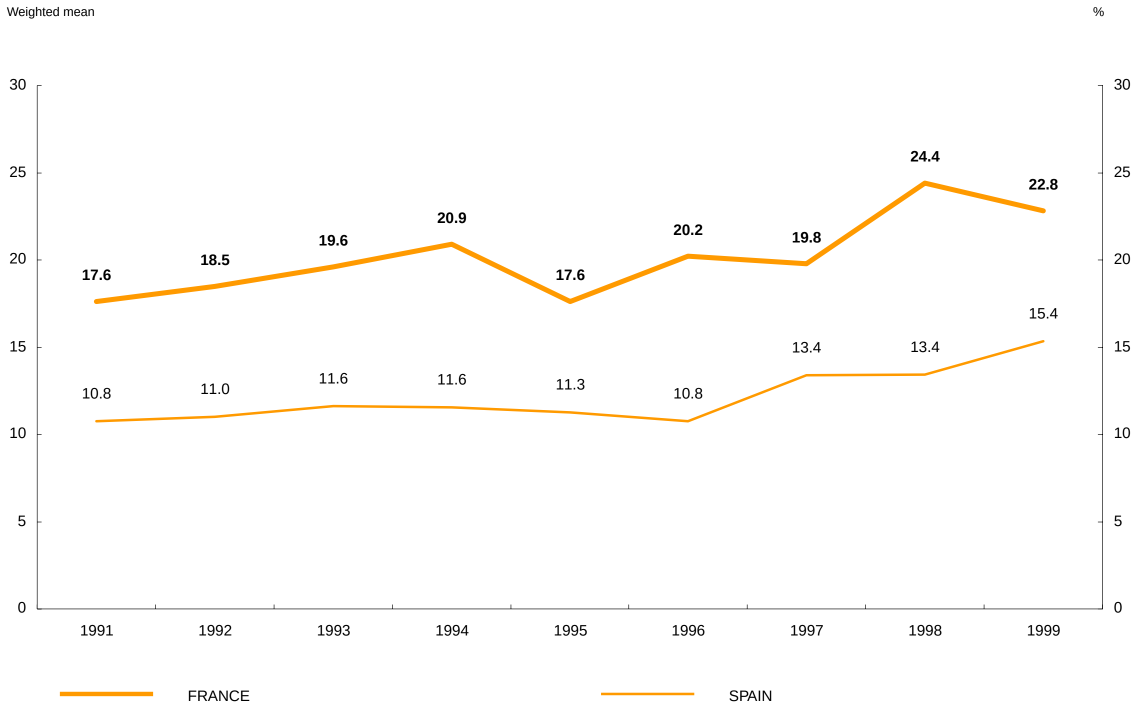
Sources: Banco de España and Banque de France.

came particularly evident from 1996 onwards. This strategy partly explains the symmetrical trends in the weight of tangible fixed assets and financial fixed assets in the total assets of French and Spanish industrial firms. The increase in the proportion of financial assets was greater in France than in Spain over the period under review, probably as a consequence of the different stage in globalisation of both countries (Spain follows the pattern of France, with a gap of several years). Between 1991 and 1999, the average *"financial fixed assets / total assets"* ratio rose from 17.6% to 22.8% (see graph III.1.1.17), reflecting the quickening pace of globalisation and the growing role of outsourcing. In Spain, the ratio went from 10.8% in 1991 to 15.4% in 1999.

However, large companies employing a workforce of over 250, which enjoy easier access to the capital markets, made the biggest contribution to this trend (see graph III.1.1.18 in the statistical annex). The strong rise in the value of shares and equity interests pushed the "financial fixed assets / total assets" ratio up almost 8 points in France to 28.2% in 1999. In Spain, the ratio put on almost 5 points, climbing to 16.9% in 1999. If we look at the *share of financial fixed assets* in total assets in different company categories in France, we see how the uptrend in financial assets was concentrated in large companies: the median of the ratio varied in France and Spain between 2.5% and 3% between 1991 and 1999 (between 3% and 5.5% for companies employing more than 500 people), whereas it never exceeded 1% in small and medium-sized businesses over the same period. Companies employing 50 to 250 employees in both countries saw this ratio increase, albeit to a lesser degree (2.2 p.p. in France, 2.6 p.p. in Spain), with financial fixed assets still accounting for a fairly small share of total assets at the end of the period (7.9% in France and 7.2% in Spain). Small-sized businesses made little attempt to acquire this type of asset: financial fixed assets accounted for 6.3% of their total assets in 1991 and 5.1% in 1999 in France, compared with 2.6% in 1991 and 3.4% in 1999 in Spain.

GRAPH III.1.1.17

FINANCIAL FIXED ASSETS
TOTAL ASSETS



Sources: Banco de España and Banque de France.

From a sectoral perspective (see graph III.1.1.19 in the statistical annex), while the uptrend was prevalent in all areas of activity and in both countries, the scale of the increase differed across sectors. Thus, in France, the *proportion of financial fixed assets* in total assets increased sharply in the capital goods sector, partly due to the fact that companies seemed to take advantage of growth opportunities. Another reason was the faster pace of globalisation in order to build up their holdings of financial assets. Note that between 1995 and 1997, however, the proportion of financial fixed assets contracted sharply, as and at the same time an increase of the share of trade debtors was observed. This resulted in an erratic pattern for the study period as a whole. In Spain, the biggest increase was seen in the intermediate goods sector, mainly towards the end of the period.

1.1.2. Current assets (5)

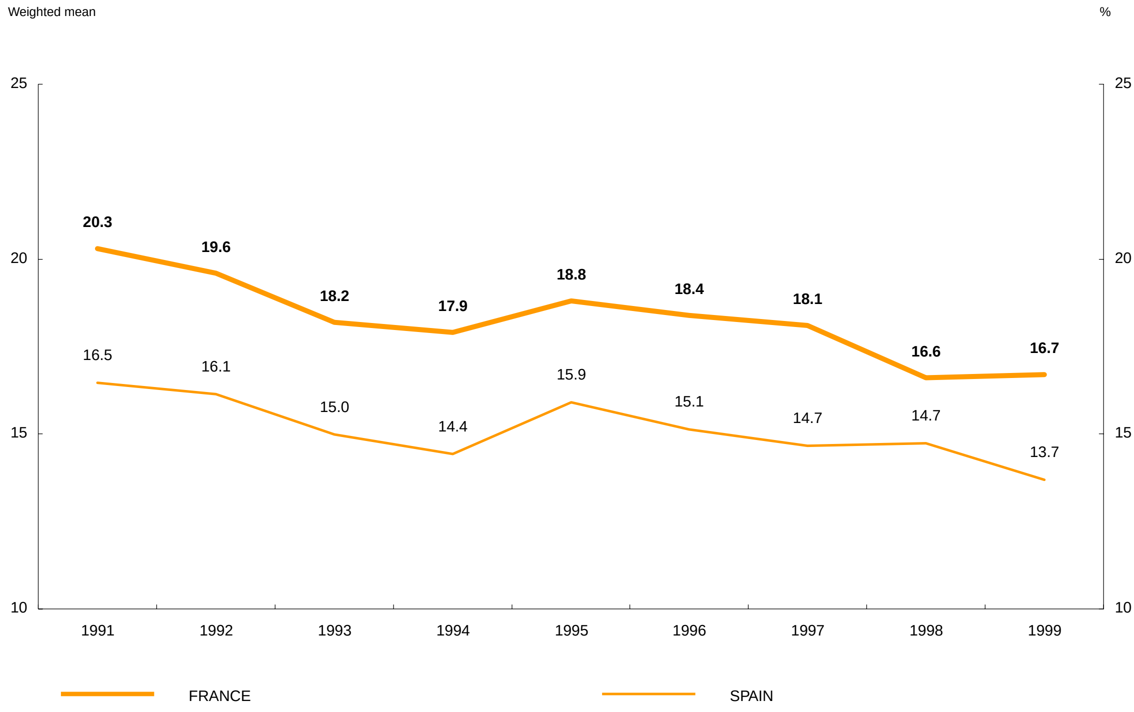
Our analysis of current assets in France and Spain shows that they remained stable overall during the period under review and that their structure was fairly heavily conditioned by company size and sector. Furthermore, the financial strategies adopted by companies are shown to have a marked impact on businesses' cash management, with large companies enjoying greater flexibility in this area than smaller ones.

Analysing stocks, the 1990s saw companies in both countries implement rationalisation measures and restructure their production processes, for example by introducing just-in-time

(5) Currents assets regroup stocks, trade debtors and liquidities.

GRAPH III.1.1.22

STOCKS
TOTAL ASSETS



Sources: Banco de España and Banque de France.

management techniques. As a result, *stocks* are used by companies as a mean of responding to cyclical developments. For example, during the economic slowdown and recession that took place in France and Spain between 1991 and 1993, the proportion of inventories in total assets went down in both countries, across all company sizes and sectors.

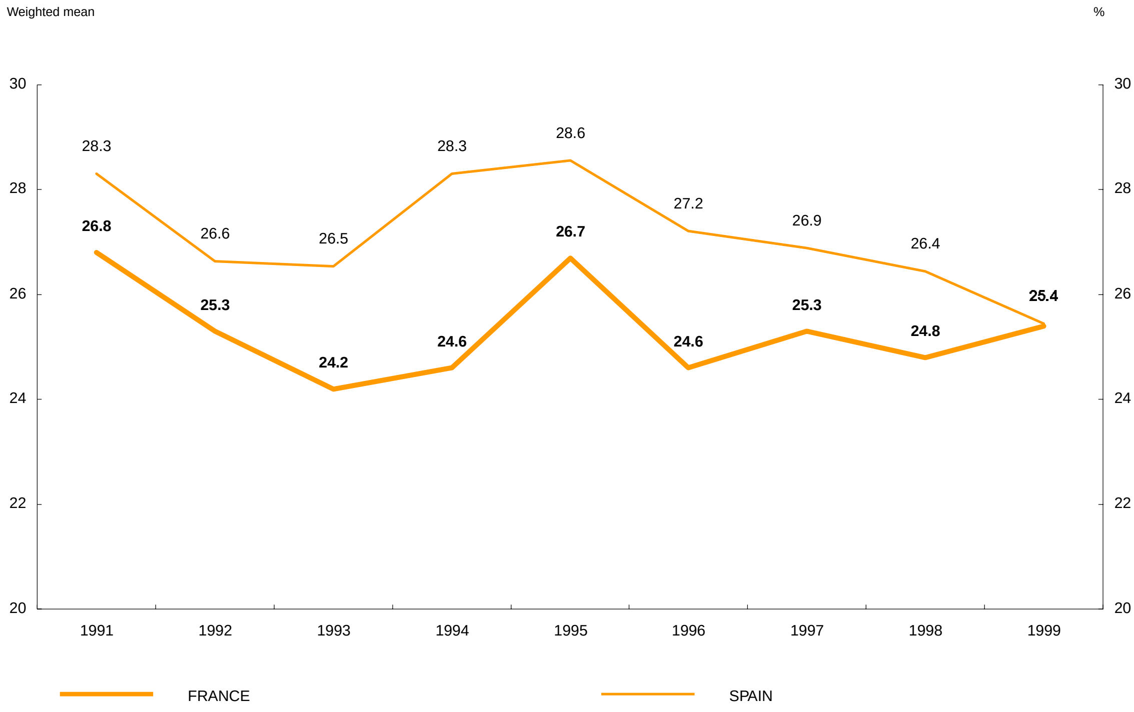
Furthermore, industrial firms are prevented by capacity constraints from building up their inventories during periods of strong growth. From 1991 in France, the downturn in production, falling industrial producer prices, and the ongoing shift to "zero stock" policies prompted companies to scale back their inventories in order to clean up their balance sheets and alleviate financial constraints. In Spain, the need for improved inventory management in a context of heightened competition led to better control in this area. In this respect, for Spanish businesses, the nineties represented a period of consolidation in their integration into the free market process. In both countries, there was a temporary phase of stock building in the middle of the period, at a time when inventory levels were deemed too low and demand expectations were becoming clearer.

Overall (see graph III.1.1.22), the *average proportion of stocks* in total assets fell from 20.3% in 1991 to 16.7% in 1999 in France and from 16.5% to 13.7% in Spain over the same period.

An analysis by size reveals that the ratio of stocks to total assets fell markedly among large companies, especially in France (see graph III.1.1.23 in the statistical annex). In both countries, the largest businesses slashed their inventories of goods, to the detriment of their main suppliers. In addition, French and Spanish companies with a dominant market position successfully shifted all or part of their inventory management costs onto their customers and/or suppliers.

GRAPH III.1.1.25

TRADE DEBTORS
TOTAL ASSETS



Sources: Banco de España and Banque de France.

In all, *the share of stocks* in the total assets of small companies shrank by 2.5 percentage points in France and 2 percentage points in Spain, to 23.1% and 18.9% respectively in 1999. For large companies, the ratio fell by 4.6 p.p. in France and 3.4 p.p. in Spain, to 14.6% and 12.4% respectively in 1999. The results for medium-sized companies were between these two extremes.

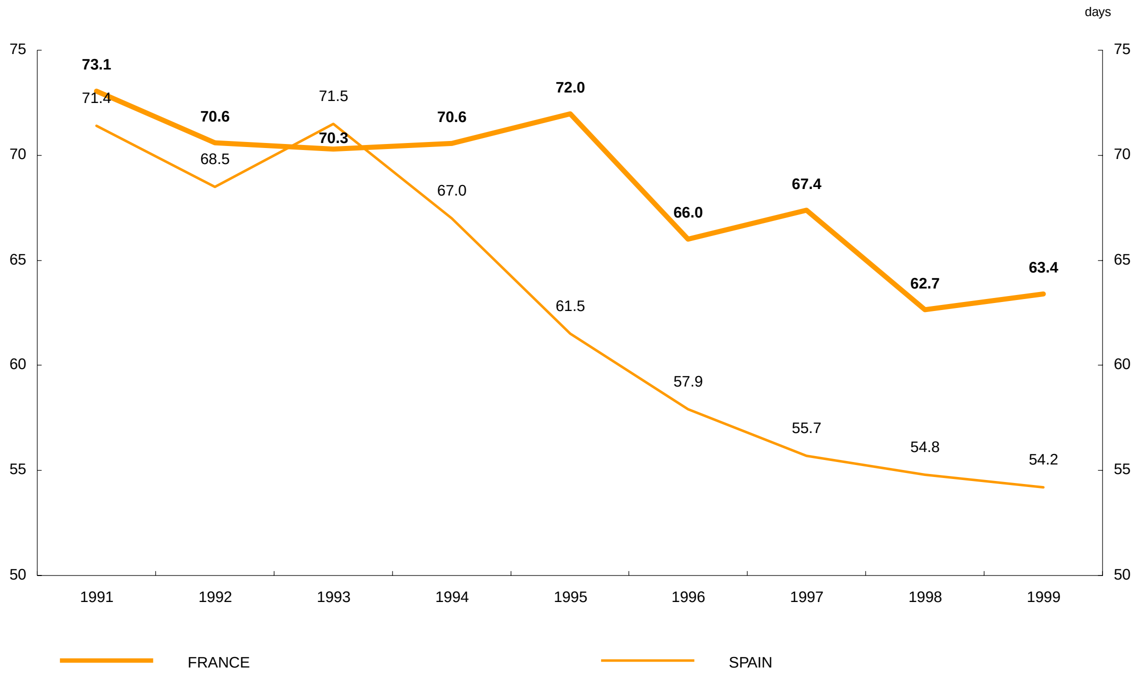
A sectoral analysis reveals that in both countries, the proportion of inventories in total assets was lower in the intermediate goods sector than in other sectors (see graph III.1.1.24 in the statistical annex). In France, the capital-intensive capital goods sector reported higher *stocks* than the other two segments until 1997, although the gap narrowed towards the end of the period. In Spain, inventory levels were higher in the consumer goods sector than in the other sectors throughout the period under review.

Trade debtors comprise the other main component of current assets. As in the case of stocks, the share of *trade debtors* (including advances paid on contracts but excluding loans to group companies and related entities) in total assets declined in both countries over the 1991-1999 period. The weighted mean for the aggregate population fell by 1.4 percentage points in France to 25.4% in 1999 (see graph III.1.1.25). Unlike in the case of stocks, however, the share of trade debtors in the total assets of Spanish companies, while also on a downtrend, remained above the proportion seen among French companies throughout the period, except towards the end, when the ratios converged at 25.4%.

Here again, the ratio of trade debtors to total assets was conditioned by the size of the firm in question enjoyed a dominant market position (see graph III.1.1.26 in the statistical annex): the ratio fell more sharply for large firms (down 2 p.p. in France and 3.7 p.p. in Spain)

GRAPH III.1.1.28

AVERAGE TRADE DEBTORS COLLECTION PERIOD



Sources: Banco de España and Banque de France.

than for companies employing fewer than 50 people (the ratio was down 0.2 of a point in France and 2.6 points in Spain). Moreover, in both countries, the ratio of *trade debtors to total assets* was much higher in small and medium-sized companies than in large companies. It therefore appears that small companies were more often forced to sell on credit, rather than demand that their customers pay cash. This finding is backed up by indicators of average trade debtor collection period (see graph III.1.1.28), which were far higher for small Spanish companies (82.5 days in 1999) than large firms (47.9 days in 1999). In France, average payment period of trade debtors in 1999 were 77 days for small companies and around 59 days for large industrial firms. Small Spanish firms are worst placed than French ones in relation to this indicator, while large Spanish companies are better placed than their French counterparts (graph III.1.1.29).

A sectoral analysis reveals that from 1994 onwards, French consumer goods companies were more successful in managing trade debtors than companies in the capital goods and intermediate goods sectors. This was made possible, inter alia, by the nature of activities undertaken in this sector. In Spain, the lowest trade debtors were to be found in the intermediate goods sector (see graph III.1.1.27 in the statistical annex).

The approach to *cash* management taken by companies is closely linked to the financial strategy that they adopt. Thus, a company may use its liquidities as a means to react swiftly to unforeseen events in the course of the business cycle, and thereby preserve its financial autonomy. On aggregate, the liquidity ratio (securities and cash) increased slightly more in France than in Spain. On average (see graph III.1.1.30), liquidities accounted for 7.2% of total assets in 1999 compared with 5.9% at the beginning of the period in France, and 5.7% in 1999 compared with 5.2% at the beginning of the period in Spain.

LOANS TO GROUP AND RELATED ENTITIES

These loans include long term and short term financing. In France, the cross-shareholdings and growing concentration seen in the industrial sector led to an increase in the proportion of loans to group companies and related entities in total assets. This ratio increased from 10.6% at the beginning of the period to 13% in 1999, peaking at 14.7% in 1998. In Spain, this ratio is only available for large companies, and they also increased more than 6 points the weight of loans to group and related companies over total assets between 1991 (2.4%) and 1999 (9.0%).

Large industrial firms, whose lending to subsidiaries was particularly robust were mainly concerned by this trend: in 1999, the proportion of loans to group companies and related entities came to 14.9% of total assets in this size category, compared with 11.9% in 1991. In the case of smaller firms, the ratio was lower than half the level observed for large companies, and stood at 5.8% in 1999 (4.5% in 1991). This type of financial strategy therefore appears to be closely linked to company size (see graph III.1.1.21 in the statistical annex).

On a sectoral level, in France, the proportion of loans to group companies and related entities in total assets remained fairly similar in the consumer and intermediate goods sectors, at 12.4% and 11.6% respectively in 1999 after 10.3% in 1991. Companies in the capital goods sector, however, in particular the major automotive groups, stepped up their lending to subsidiaries.

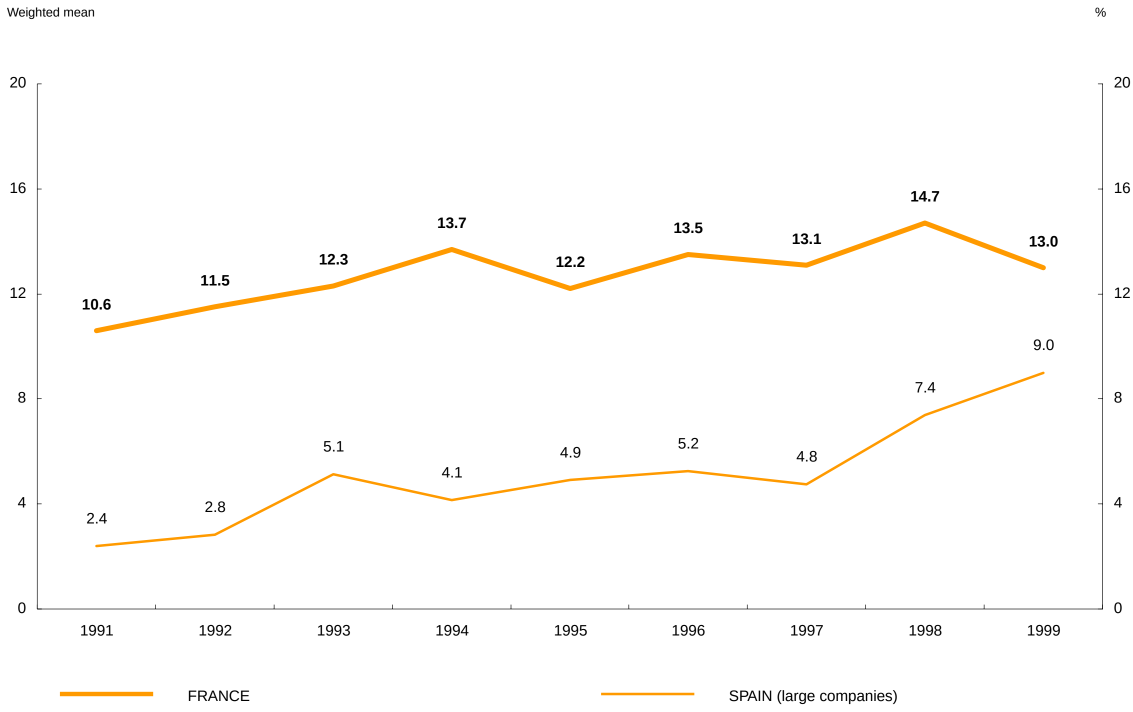
In terms of size, small companies in France and Spain had higher levels of cash than large firms in the 1990s (see graph III.1.1.31 in the statistical annex). This reflected the fact that they did not have access to permanent credit and so were obliged to keep a relatively large stock of cash to maintain the necessary financial flexibility. Smaller companies are forced to adopt this type of strategy because they find it hard to obtain liquidity from banks. At the end of the period, *liquidities* accounted for 11.7% of the total assets of small industrial firms in France and 12.1% in Spain, compared with 6.3% of the total assets of large French companies and 4.2% of large Spanish companies.

A sectoral analysis shows that *cash* accounted for relatively similar proportions of the total assets of French and Spanish companies in the consumer goods and capital goods sectors. Cash levels were far lower in the intermediate goods sector throughout the period, probably because financial pressures and cyclical constraints were less intense (see graph III.1.1.32 in the statistical annex).

To sum up, our analysis of the balance sheet structures of French and Spanish industrial firms shows that their assets were relatively similarly structured in terms of maturity and that the components of current assets developed along comparable lines. That said, tangible fixed assets accounted for fairly different shares of total assets in the two countries. This would appear to be linked in part to the different approaches to organisation taken by corporate groups in France and Spain. In this respect, we observed that asset structures were closely linked to *company size* and business area *(the sector factor)*. Larger firms have more room for manoeuvre than smaller companies in the management of their financial assets (they enjoy broader access to capital markets that avoid to maintain a high level of cash), in terms of external growth (they are able to outsource part of their activity to subsidiaries) and in cash management (they benefit from more flexible banking conditions). The sector factor is more noticeable in inventory management and in the use that companies make of tangible fixed assets.

GRAPH III.1.1.20

LOANS TO GROUP AND ASSOCIATED COMPANIES
TOTAL ASSETS



Sources: Banco de España and Banque de France.

1.2. Liabilities

The sources of funds of French and Spanish industrial firms can be divided into own funds, financial debt, trade creditors, other creditors and provisions for risks and charges (see graphs III.1.2.1 to III.1.2.7 in the statistical annex).

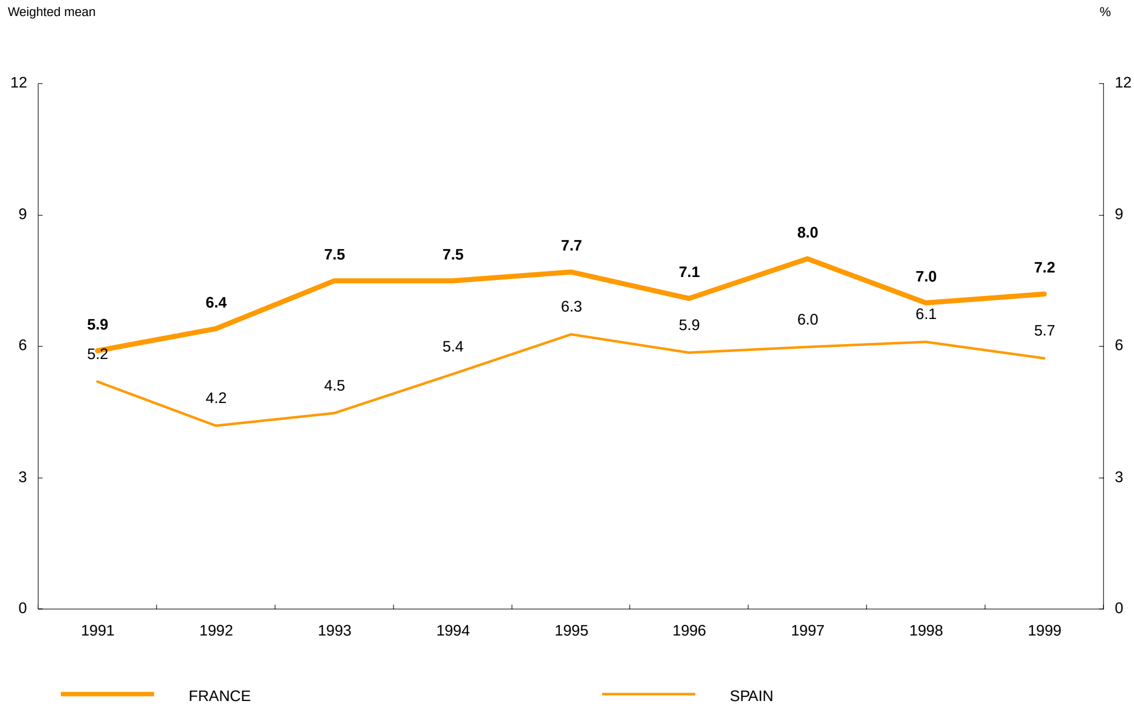
By analysing the weighted means of these different components, we find the following basic trends:

- French businesses greatly improved their financial structures during the 1990s, especially between 1991 and 1994, by increasing the level of their *own funds*. In parallel, the share of financial debt in French companies' total liabilities decreased in similar proportions between 1991 and 1999. The behaviour of Spanish firms in terms of own funds was closely linked to the economic cycle although this behaviour was only followed by large corporations. Small firms kept a trend totally different to the total population and to the French small firms; thus defining a special pattern for Spain. Accordingly, there was a significant decline in the proportion of own funds during the 1991-1993 recession, followed by an uptrend from 1994 onwards, leading to a peak in 1999.

- *The weight of financial debt* was reduced in the two countries in the same proportion as the increase observed in the level of own funds. The structure of financial debt shows in France and Spain a fall of the proportion of bank debt between 1991 and 1998 whatever the size and the sector and a larger proportion of financing through loans from group companies and related entities.

GRAPH III.1.1.30

LIQUIDITY
TOTAL ASSETS



Sources: Banco de España and Banque de France.

- *The proportion of provisions for risks and charges* shows that French and Spanish companies made marginal use of this source of funds throughout the period, compared with own funds and loans. In the case of French companies, one reason for this is that extremely precise tax and accounting rules specify how much companies have to set aside as provisions. This leaves firms with little discretionary power in terms of provisioning. In Spain, the shift towards outsourcing pension provisions was partly responsible for the decline in the ratio.
- *An analysis by size* reveals a number of differences between France and Spain. These are mainly due to the different practices in the two countries in terms of recourse to external financing.
- *At a sectoral level,* in both countries, the intermediate goods and consumer goods sectors appear to adopt fairly similar approaches in terms of own funds, provisioning and debt, while the capital goods sector stands out as being somewhat different.

The following analysis seeks to identify the shares of different sources of funds in the total liabilities of French and Spanish companies and to reveal how these shares changed over the 1991-1999 period.

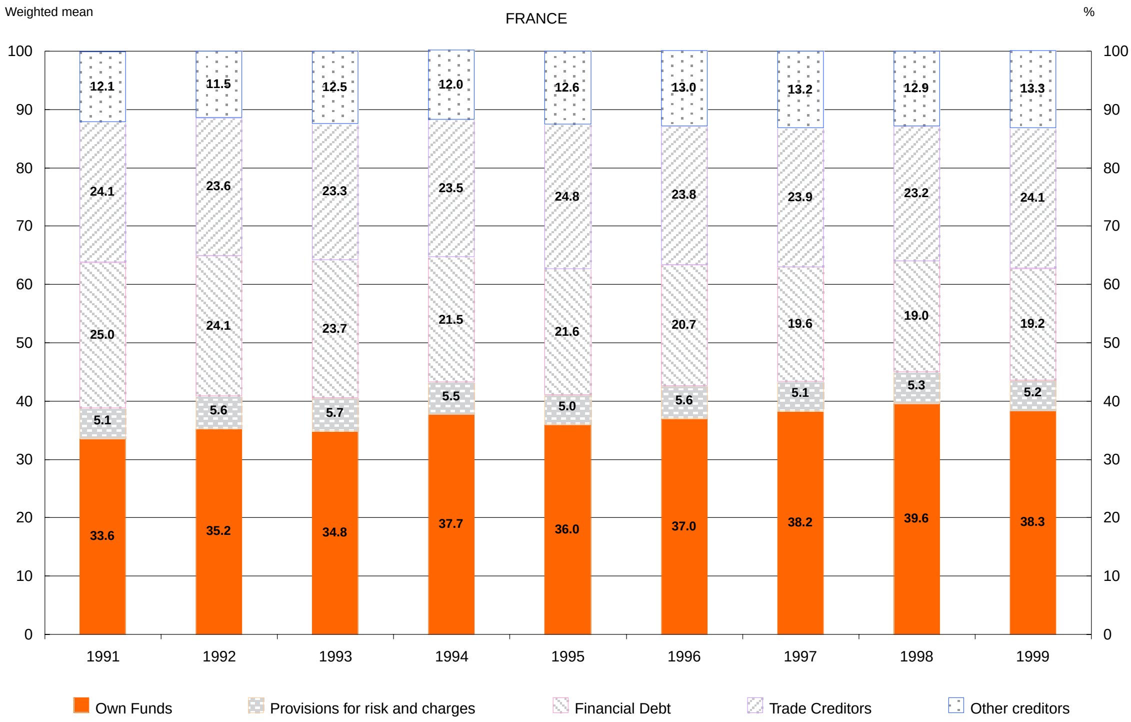
1.2.1. Own funds

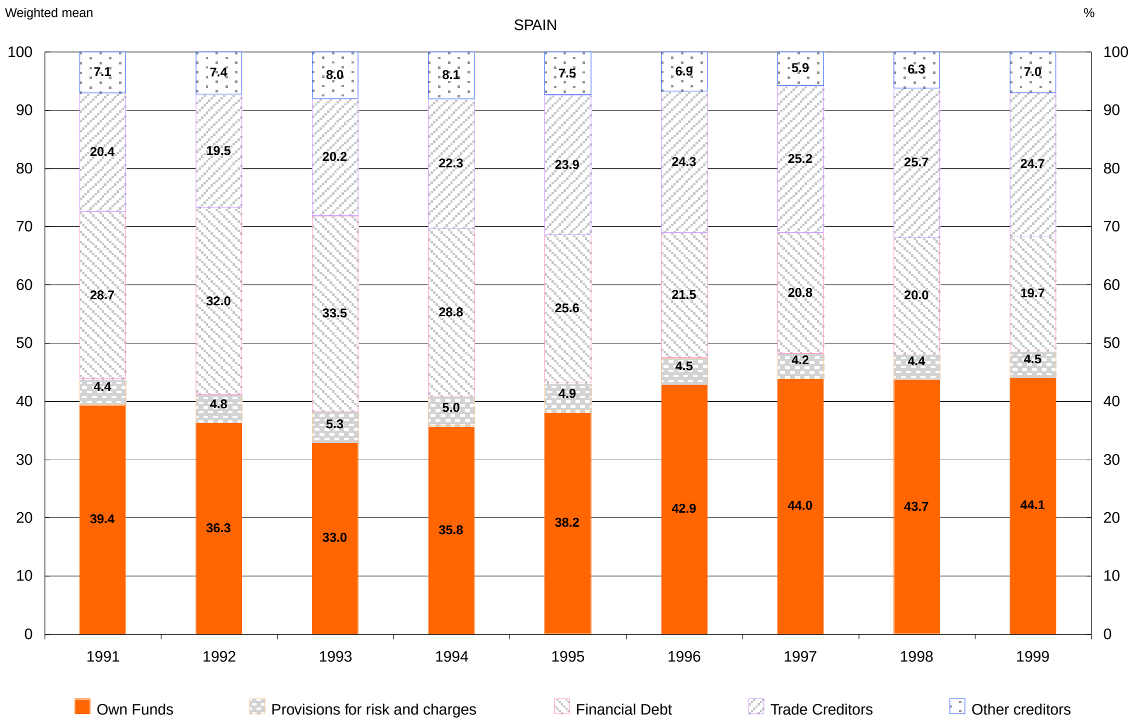
Own funds (6) *are a key source of funds for industrial firms in France and Spain.* The weighted mean of the ratio of own funds to total liabilities (see graph III.1.2.8) rose sharply over the study

(6) Own funds main items: equity capital + reserves + profit or loss of the financial year + grants and subsidies. See for precise definition for the two countries chapter II "transition table of the balance sheet items and French tax form".

GRAPH III.1.2.1

STRUCTURE OF LIABILITIES
TOTAL INDUSTRY (SAMPLE)





Sources: Banco de España and Banque de France.

period in France, increasing from 33.6% in 1991 to 38.3% in 1999. At the same time the median of this ratio amounted from 29.1% in 1991 to 34.1% in 1999, confirming the upward trend. In Spain, changes in the proportion of own funds in total liabilities were closely linked to the domestic business cycle, with the ratio fluctuating between 33% in 1993 and 44% in 1999. Between 1991 and 1994, there was a marked fall in the ratio because of an accumulation of negative earnings by Spanish firms: this was reflected in the individual components of own funds. The "other reserves" item recorded large-scale losses during the recession years and its share of total liabilities hit a low of 12.9% in 1993 (as compared with 28.5% in 1999). From 1994 onwards, the ratio of own funds to total liabilities began trending upwards again until it peaked in 1999.

In France, the overall increase in own funds can be traced back to two factors:

— The build-up of *reserves* by companies. Their twofold aim in doing this was to achieve the strategic objective of improving their financial structures (essentially in the second half of the decade) and to take advantage of tax incentives for retained earnings. This measure, which lasted until 1993, offered lower rates for retained earnings than distributed earnings. In 1999, on average*, reserves* accounted for around 30% of the own funds of companies and 11.2% of the total liabilities of industrial firms;

— The increase in *equity capital* throughout the 1990s in step with the growth of capital markets (see annex IV on French and Spanish Financial Systems). By 1999, *equity capital* accounted for an average of 12.2% of the total liabilities of companies, compared with 9.3% in 1991, and almost one-third of their own funds.

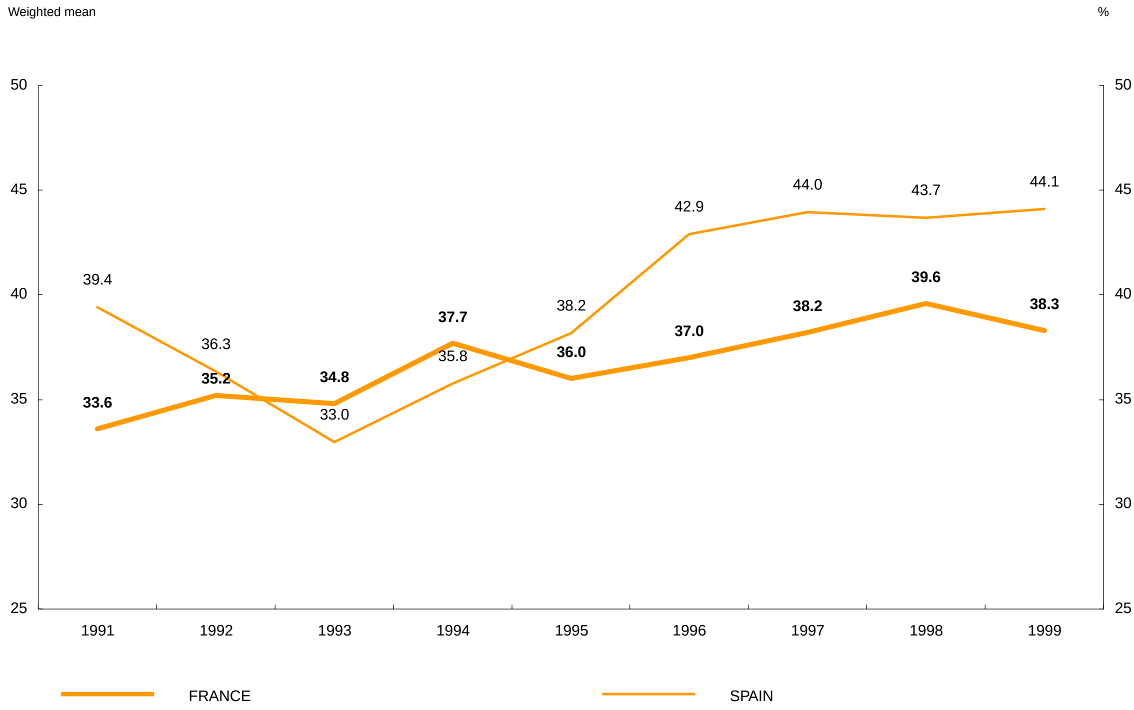
In Spain, the increase in own funds in the last six years of our study can be ascribed to the increase in reserves, which resulted mainly from the build-up of retained earnings. The proportion of reserves in total liabilities soared from 13% in 1993 to 31% in 1999. Over the same period, the ratio of equity capital to total liabilities declined by around 6 p.p.

An examination of the "own funds / total liabilities" ratio reveals that in France own funds increased in all size categories, regardless of the statistical indicator used (weighted mean or median). If we consider the median, we see that the proportion of own funds in total liabilities increased with the number of employees over the 1991-1999 period. However, the gap separating small companies employing fewer than 50 people and very large firms with over 500 employees narrowed considerably from the mid-1990s, from 6.2 p.p. in 1991 to 1.5 p.p. in 1999. Thus, a marked trend towards uniform levels of own funds has emerged, reflecting the fact that all French industrial firms are adopting the same approach, irrespective of their size. In 1999, the weighted mean of own funds to total liabilities came to 38.3% in small companies, 37.6% in medium-sized businesses and 38.4% in large companies (see graph III.1.2.9 in the statistical annex).

In Spain, behaviour patterns changed more significantly according to company size. In the second half of the decade, the ratio of own funds to total liabilities was lower in smaller firms than among the aggregate population. In addition, the ratio for small companies was relatively unaffected by the business cycle: in the case of companies employing fewer than 50 people, it reached a low of 34.9% in 1995, before registering a small 3 p.p. increase by the end of the period. Similarly, the ratio for medium-sized companies was not correlated with cyclical fluctuations. However, it was considerably higher than the ratio for small companies. It bottomed out at 42.5% in 1994, but was up four points on this by the end of the period. By contrast, in the case of large companies, the ratio of own funds to total liabilities was strongly influenced by the business cycle and it was in this category that the largest fluctuations were seen, with the ratio going from 32.8% in 1993 to 44.7% in 1999. This trend was more preva-

GRAPH III.1.2.8

OWN FUNDS
TOTAL LIABILITIES



Sources: Banco de España and Banque de France.

lent among large companies employing more than 500 people (see graph III.1.2.9 in the statistical annex).

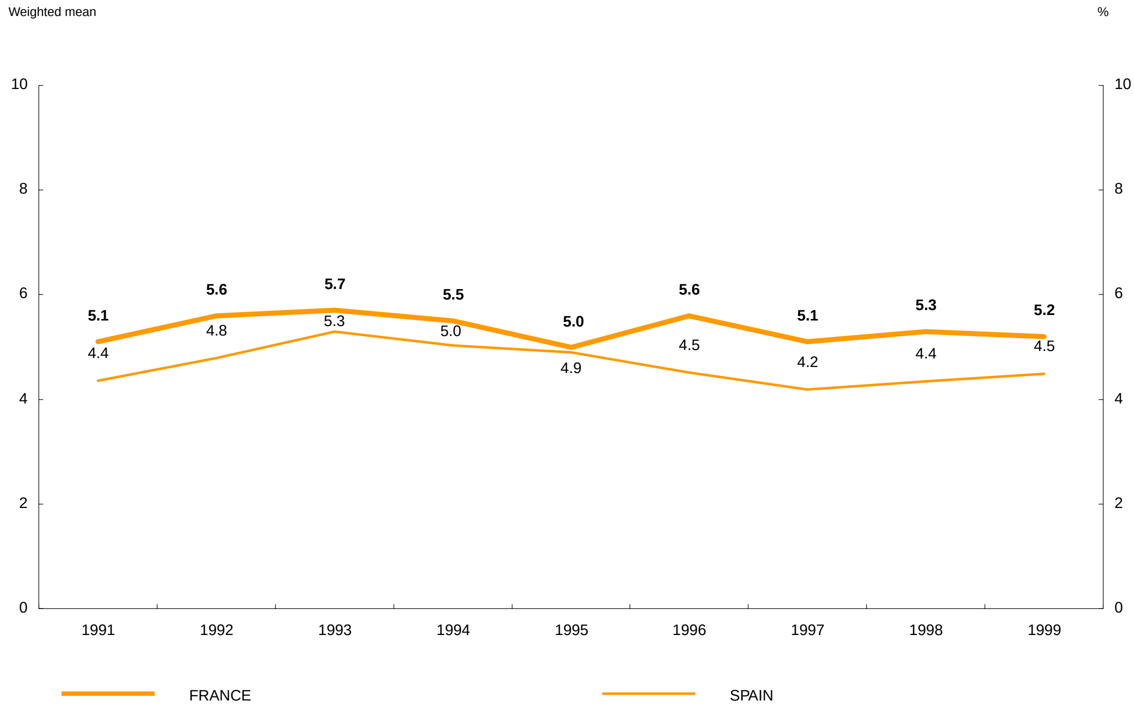
An analysis by sector of activity (see graph III.1.2.10 in the statistical annex) shows that in France, own funds stood at fairly similar levels in the intermediate and consumer goods sectors between 1991 and 1999, while levels were far lower in the capital goods sector throughout the period under review. This gap was due to two factors: first, the greater emphasis placed on equity capital in the intermediate goods sector, which would seem to indicate that companies in this segment had greater access to the capital markets; second, the higher level of reserves in the intermediate and consumer goods sectors compared with the capital goods sector. Overall, at the end of the period under review, the ratio of own funds to total liabilities averaged out at 44% in the intermediate goods sector, 40.8% in the consumer goods sector, and 29.6% in the capital goods sector. In Spain, the ratio was stable and highest in the consumer goods sector. This contrasted with the other two sectors, which recorded large increases: in intermediate goods, the ratio climbed from 33% in 1993 to 49% in 1999, while it rose from 22% in 1993 to 35% in 1999 in the capital goods sector.

1.2.2. Provisions for risks and charges

Both the weighted mean (see graph III.1.2.11) and the median of the ratio of provisions to total liabilities show that *provisions for risks and charges* play a minor role as a source of financing for French and Spanish businesses. In France, this notably reflects the fact that strict accounting rules are in place for valuing provisions. Since pension provisions are not tax-deductible, complementary pension schemes run by employers remain marginal. Indirect mecha-

GRAPH III.1.2.11

PROVISIONS FOR RISK AND CHARGES
TOTAL LIABILITIES



Sources: Banco de España and Banque de France.

nisms, such as pension funds managed by an entity outside the company, are most common. French businesses prefer employee profit-sharing plans as a way of providing an incentive to enhance performances.

In Spain, too, this source of funds has limited importance: provisions for risks and charges varied between 4% and 5% of total liabilities over the period under review. One of the main reasons for this low level was that pension provisions declined as a result of the requirement for companies to outsource this type of commitment. This process began in 1995 and will be completed in 2002 (see annex VI on the legal treatment of pension funds in Spain).

An analysis by size shows that provisions for risks and charges account for a small share of the total liabilities of small companies in both countries: in France, half of all small companies (employing 0 to 49 people) do not set aside provisions for risks and charges, and the weighted mean stood at 1.8% in 1999. In Spain, the weighted mean of the ratio is around 0.4%, owing to the very small pension provisions set aside by small Spanish firms, first because they do not tend to set up such schemes for their employees, and second because it is now mandatory for them to outsource the management of such funds. In addition, in both countries, the proportion of provisions for risks and charges increased in line with the number of employees: in 1999, the weighted mean ratio came to 6.5% of total liabilities among very large French companies employing more than 500 people, 6.1% for large French firms employing a staff of over 250, and 5.8% for large Spanish companies (see graph III.1.2.12 in the statistical annex).

In both countries, the level of provisions was much higher in the capital goods sector than in the other two sectors (see graph III.1.2.13 in the statistical annex). This was particularly noticeable in France.

1.2.3. Financial debt (7)

Since practices for booking bank financing according to maturity differ in France and Spain (8), it was decided that for the purposes of comparison, it would be best to analyse sources of funds according to their nature.

1.2.3.1. Evolution of financial debt between 1991 and 1999

An examination of the debt structure of French industrial firms reveals that the *proportion of financial debt* declined markedly between 1991 and 1999, irrespective of the statistical indicator used (i.e. weighted mean or median). Moreover, until 1998, cyclical fluctuations (economic slowdown between 1990 and 1992, recession from 1992 to 1993, then growth from the mid-1990s onwards) had little impact on this proportion. Thus, between 1991 and 1998 (see graph III.1.2.14), industrial firms reduced the share of financial debt in their total liabilities by 6 p.p. on a weighted mean (5.3 p.p. according to the median).

Notably, this took place via a process of disintermediation, illustrated by an ongoing reduction in the share of bank debt in total liabilities from 12.1% in 1991 to 7.6% in 1998 on a weighted mean. Disintermediation also took place in Spain as of 1992. The impact was greater than in France: the "bank debt to total liabilities" ratio tumbled by 11 points, from 21.2% in 1992 to 10.2% in 1998 (see graph III.1.2.17). In parallel with the movement of disintermediation experienced by corporations the reasons for the similar approach taken by Spanish and French banks to business lending can also be attributed to domestic bankruptcy laws, which share common features (see annex V on bankruptcy law in France and Spain). These laws caused credit institutions to adopt a relatively cautious tack during this period, contrasting with the seemingly less wary attitude of banks in other European countries, such as Germany. This difference can be explained largely by the creditor-friendly provisions contained in German bankruptcy law. German banks are well-protected against loan losses caused by bankruptcy. Also, a credit guarantee system in place. This explains why German firms' debt levels remained relatively constant over the study period (9).

Since 1998, however, there has been a shift back towards banking intermediation in French companies. In particular, this resulted in an increase in the proportion of bank debt in total liabilities at the end of the period analysed. Between 1998 and 1999, in fact, the ratio rose from 7.6% to 8.6% on a weighted mean, after remaining stable between 1997 and 1998. This shift also appeared to take place in Spain, albeit on a smaller scale, with the ratio rising from 10.2% in 1998 to 10.7% in 1999.

In terms of size, French companies, whatever their size, take a more uniform approach to debt than Spanish ones. In France, this approach reflects the greater financial autonomy of large French industrial firms compared to smaller French companies. In Spain, the relative share of financial debt on the balance sheets of small companies remained high and stable (29.6% in 1992 and 1999), meanwhile in large companies the weight reduced significantly passing from 33% in 1992 to 18.2% in 1999. (See graph III.1.2.15 in the statistical annex)

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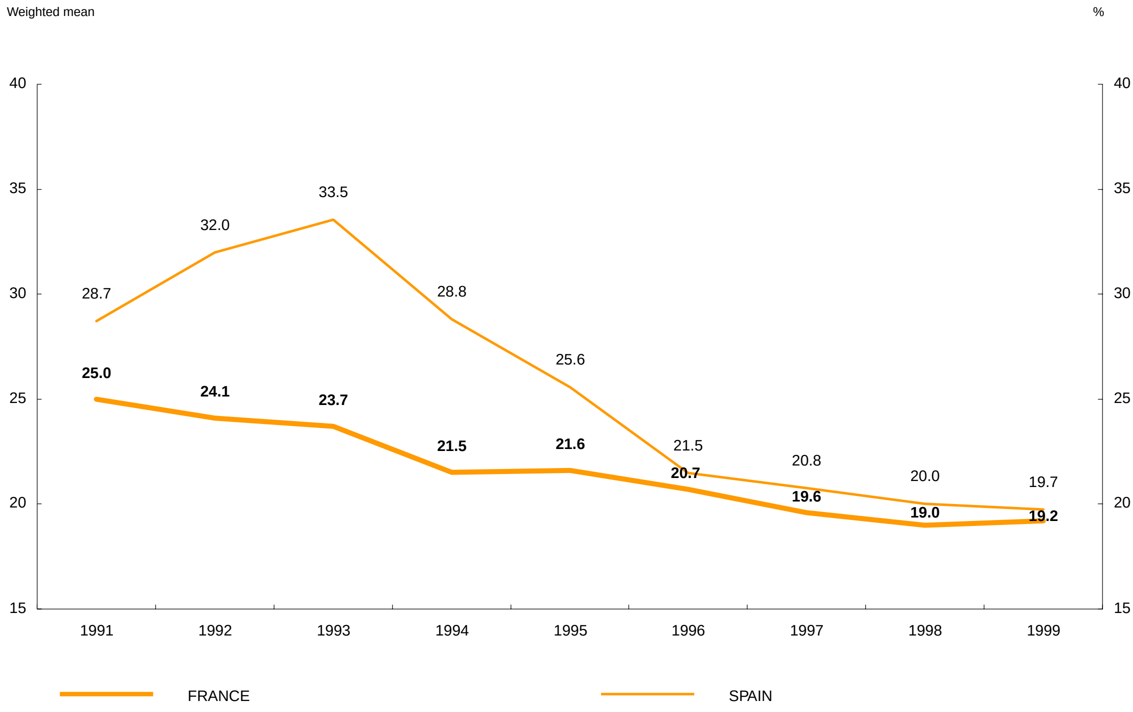
(7) Financial debt = long term bank borrowing + short term bank borrowing + securities other than shares + loans from group and associated companies + other financial debts.

(8) The French Balance Sheet Data Office books debts according to their original maturity. In Spain, in accordance with the Fourth European Directive, debts are booked according to their residual maturity.

(9) See Study on "Corporate finance in Germany and France" (September 1999)

GRAPH III.1.2.14

FINANCIAL DEBT
TOTAL LIABILITIES



Sources: Banco de España and Banque de France.

An examination of the sources of financing used reveals:

- There was a large difference between small and large companies in France in terms of the *share of bank loans* in total liabilities, even though this gap tended to narrow towards the end of the period: the weighted mean went from 17.7% in 1991 to 12.2% in 1999 for small companies (0-49 employees), while it fell from 9.8% to 6.7% for companies with over 500 employees over the same period; in other words, the gap narrowed from almost 8 points at the beginning of the period to 5.5 points in 1999. T The gap separating small companies (0-49 employees) and companies with a staff of over 250 went from 7.3 points in 1991 to 5 points in 1999. In Spain, the share of bank loans in total liabilities increased from 19.9 % in 1991 to 24.6% in 1999 in small companies and fell from 19.2% in 1991 to 9.6% in 1999 among larger companies, indicating that size had great effect on behaviour. (See graphs III.1.2.18 in the statistical annex).

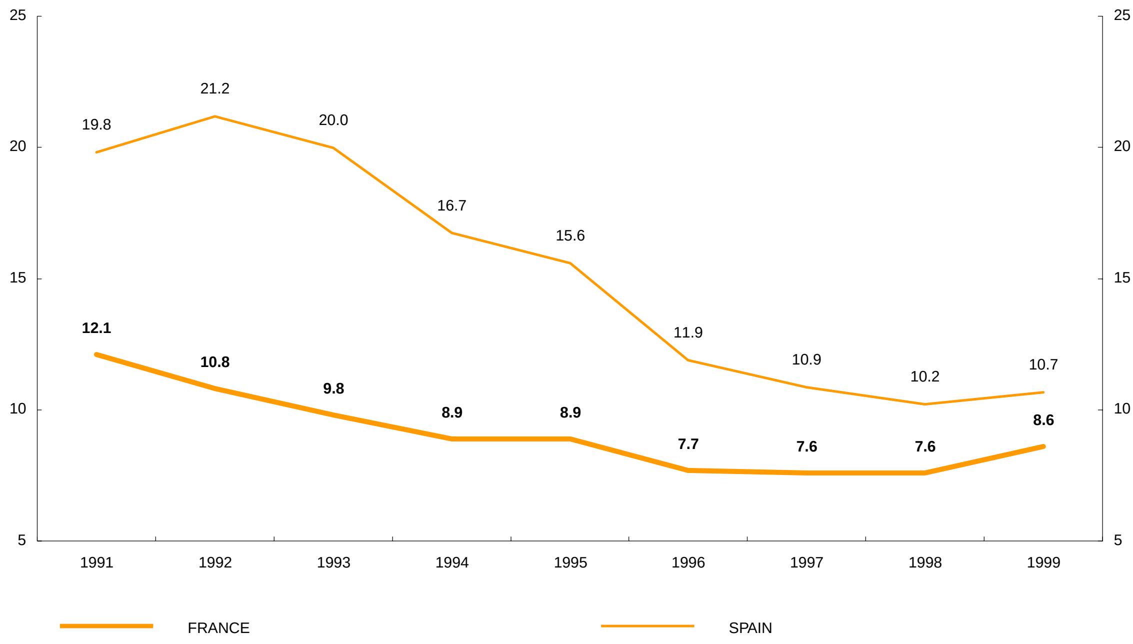
- A bigger substitution effect was seen in the sources of funds of large French companies, which have less difficulty in tapping the financial markets for funds. *Bonds and participating interests* accounted for around 2% of total liabilities among large companies, compared with virtually nil in smaller businesses. The substitution effect was negligible in Spain. Irrespective of their size, Spanish companies made little use of this source of funds during the period under review.

In the analysis by sector, the share of financial debt in the total liabilities of French and Spanish companies declined over the 1991-1999 period across all sectors (see graph III.1.2.16 in the statistical annex). The downtrend was similar in the consumer goods sectors of both countries. In the other two sectors, it was more marked in Spain than in France. In fact an up-

GRAPH III.1.2.17

BANK LOANS
TOTAL LIABILITIES

Weighted mean %



Sources: Banco de España and Banque de France.

ward trend was observed in Spain during the recession period (1992-1993) followed by a significant fall. Furthermore, at the end of the period, the ratio of financial debt to total liabilities remained perceptibly lower in the capital goods sector than in the other two sectors. It came to 15.8% in 1999 in Spain and 16.5% in France, following a steeper fall in Spain (10.3 p.p.) than in France (3.5 p.p.) over the period. In France, this situation can be explained by the fact that this sector makes less use of bank debt and is more oriented towards loans from group companies and related entities (see the analysis of debt structures).

1.2.3.2. Structure of financial debt

The analysis of the external sources of funds (see next graph III.1.3.1) used in France and Spain reveals the following key trends:

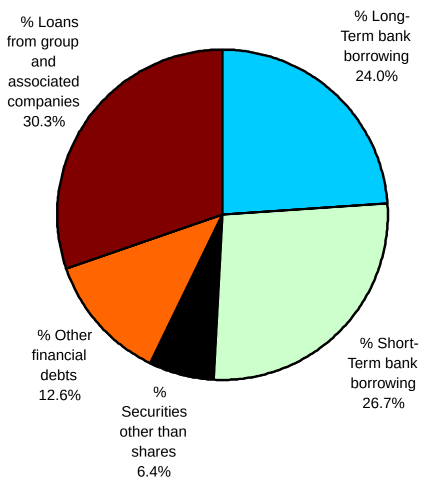
— Loans from group companies and related entities comprised a large proportion of the external funds used by French and Spanish companies. In 1999, their share came to 40.0% in France, up 9.7 p.p. on 1991 and roughly equal to that of bank debt. Companies raised more financial resources by directly tapping national and international money and capital markets. In Spain, the proportion of intragroup financing in financial debt increased from 18.6% in 1991 to 30.2% in 1999. In particular, this enabled Spanish companies to cut back on short-term financing from credit institutions.

— Bank debt became increasingly oriented towards long-term loans, whose share in financial debt came to 23.2% in 1999 in France after 24.0% en 1991. The share of short-term debt shrank from 26.7% in 1991 to 21.3% in 1999, i.e. a sharp fall of

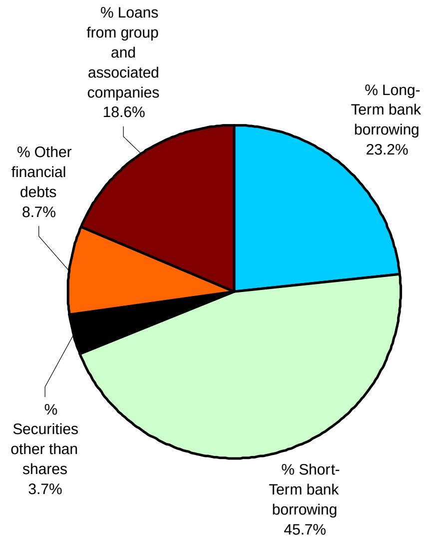
GRAPH III.1.3.1

FINANCIAL DEBT
TOTAL INDUSTRY (SAMPLE)

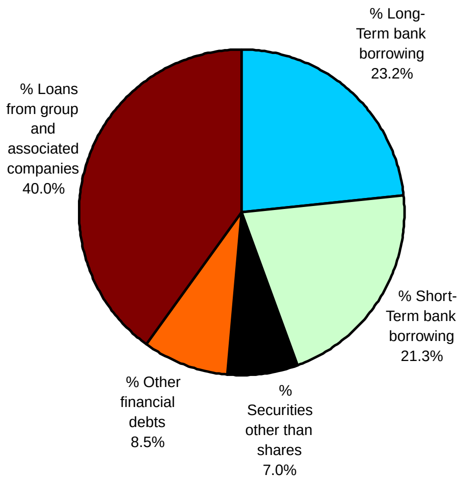
FRANCE
(1991)



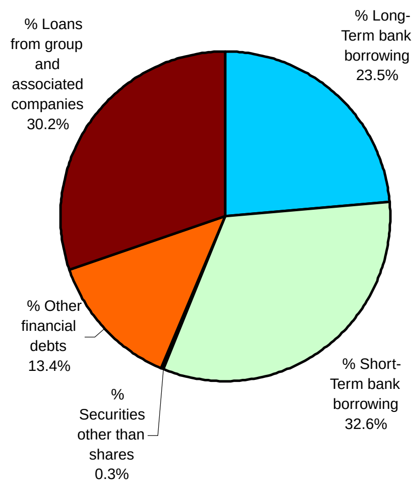
SPAIN
(1991)



FRANCE
(1999)



SPAIN
(1999)



Sources: Banco de España and Banque de France.

5.4 p.p. This was due to two factors: first, the determination of companies to reduce their vulnerability as they built up their financial autonomy; second, greater selectivity in credit allocation, which affected short-term lending in the 1990s. Indeed, it seems that the relatively high rates applied to short-term loans at the end of 1992 and in early 1993 in response to the recession and bleak economic outlook prompted firms to adopt bank debt structures geared more towards long-term loans. The overall share of bank debt in financial debt, taking all maturities into consideration, declined regularly until 1996, when it reached 39.1%, compared with 50.7% in 1991. It then began to rise from 1997, climbing to 44.5% in 1999, as firms took on more debt in a bid to keep in step with the renewed growth of the economy. The same situation was seen in Spain: the proportion of bank debt in financial debt fell from 68.9% in 1991 to 56.1% in 1999. The proportion of short-term loans in financial debt fell by 13 p.p. between the beginning and end of the period. However, the widespread practice among Spanish companies, especially smaller ones, of discounting bills of exchange, is one of the reasons for the high level of short-term loans compared to the level observed in France. Under this technique, the monies paid by the bank in return for the sale of claims by the company are booked under loans falling due in under one year. This practice is particularly prevalent among smaller companies because of the long payment times they have to contend with. The proportion of long-term bank debt was stable at around 23% throughout the period under review. In this regard, the role played by the Spanish savings banks, which granted 40% of all loans from credit institutions should be noted (see annex IV entitled "French and Spanish Financial Systems")

— The weight of other components of financial debt is less significant and their shares did not change much between 1991 and 1999.

Analysis by size: debt structures varied with company size. However, the differences were more pronounced in France than in Spain (see graph III.1.3.2 in the statistical annex).

Short-term bank loans represented the main source of external funds for medium-sized French companies employing between 50 and 250 people. They accounted for 34.9% of external funds for companies of this size in 1999, compared with 31.4% for small businesses with fewer than 50 employees and 16.4% for large companies. Conversely, in Spain, since 1995, small businesses have made more use of short-term loans than medium-sized ones. In 1999, short-term loans accounted for 51.1% of the financial debt of small companies with a workforce of under 50, compared with 48.9% for firms employing between 50 and 250 people, and 27.3% for large companies.

Furthermore, we found that in France the *ratio of long-term bank loans* to total financial debt was inversely proportional to company size. In small companies employing fewer than 50 people, this ratio stood at 31.4% in 1999, whereas among larger companies with a staff of over 250, it came to 20.8%. Corporate groups set up specialised structures to handle relations with banks and investors, which cut the transactions costs involved in obtaining external funds. In addition, large groups have market clout that enables them to secure more favourable financing conditions from the banks. The lower costs of intragroup financing compared with external funds may go some way to explaining why companies make little use of bank loans when financing their subsidiaries.

The same is true in Spain. Long-term bank loans accounted for 31.5% of the financial debt of small companies in 1999, compared with 24% for medium-sized companies and 22.8% for large companies.

GROUP FINANCING: AN INCREASING SHARE IN THE TOTAL LIABILITIES

In all industrialised countries there has been an acceleration in the processes of corporate consolidation and corporate group creation. The fact that a company belongs to a group influences the level of financing of its activity and the structure of this financing. It may also be a factor in the reducing of asymmetric information between companies and lenders.

Groups can centralise their cash management in specialised structures in order to optimise the management of their loans and investments. The cash function is in charge of centralising liquidity flows from subsidiaries, bilateral or multilateral netting of reciprocal credit and debit positions in an international group, allocating flows between companies in the group through current account advances or intra-group lending and borrowing, and making decisions concerning group borrowing and investment on the markets. This management method is based on internal financing of subsidiaries showing a deficit using cash from subsidiaries registering a surplus. The lending company invoices at a normal rate, i.e. close to the money market rate.

As internal cash surpluses are used to cover the requirements of subsidiaries showing deficits, the overall debt level is lower than that which would have been recorded if the loss-making companies had taken out individual loans. Moreover, centralising the cash-flow management of the different entities in the group enables the central cash management function to negotiate the overall bank conditions, which reduces the transaction costs involved in obtaining external funds.

Funds borrowed from companies within the same group must be considered as one of the sources of financing for business, especially in France, where the size effect looks to be fairly pronounced. And indeed, while large French and Spanish industrial firms considerably reduced their proportion of bank debt over the period under review, they replaced it to a large extent with intragroup financing, even though, for the aggregate French population, the ratio of intragroup financing to total liabilities (see graph III.1.2.20) increased only slightly, from 11.7% in 1991 to 12.1% in 1999. In Spain, the proportion increased by much more, rising from 10.8% in 1991 to 13.3% in 1999. From 1994, the evolutions are similar in both countries but the financial part of debts with group and associated companies is higher in France (around 9% of total balance sheet) than in Spain (around 7% of total balance sheet).

In the sectors under review, the ratio did not change much in France, except in the capital goods sector, where the proportion of loans from group companies and related entities increased by 2.1 p.p. between 1991 and 1999. Overall, in all sectors, the ratio varied between 10% and 14% between 1991 and 1999. In Spain, the ratio increased in all the sectors over the 1991-1999 period. (See graph III.1.2.22 in the statistical annex)

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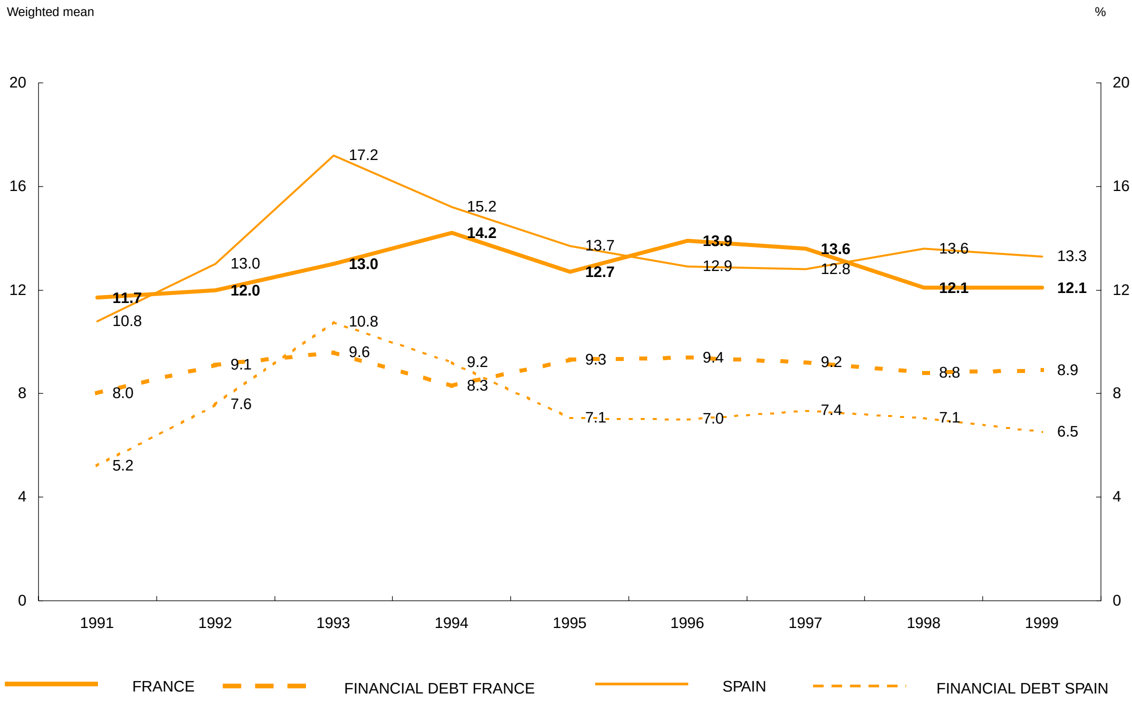
Loans from group companies and related entities are widely used by large French companies, most of which belong to a group. This type of financing accounted for 44.3% of the financial debt of large French companies in 1999 and 35.9% of the debt of large Spanish companies. For medium-sized firms, the ratio was 27.5% in France (17.1% in 1991) and 15.3% in Spain in 1999. By contrast, while intragroup financing accounted for 31.4% of the debt of small French companies (21.5% in 1991), it represented less than 1% of that of small Spanish companies.

Large French firms also made more use of bond financing than smaller companies because they enjoy easier access to the capital markets and also because issuance costs are too high for small businesses. Spanish firms, irrespective of size, made virtually no use of bond financing.

An examination by sector reveals differences in debt structures in France and Spain (see graph III.1.3.3 in the statistical annex).

GRAPH III.1.2.20

TOTAL AND FINANCIAL DEBTS WITH GROUP AND ASSOCIATED COMPANIES
TOTAL LIABILITIES



Sources: Banco de España and Banque de France.

The *capital goods sector* stands out from the other two because of the predominance of *loans from group companies and related entities,* which accounted for 47.9% of the financial debt of companies in the sector in France and 40.3% in Spain in 1999. In addition, French companies in this sector made considerable use of *bond financing* (15.4% in 1999). This source of funds is especially widely used in the automotive sector. Accordingly, bank debt (long-term + short-term loans) accounted for just 29.6% of total financial debt in this sector in France in 1999, compared with 35.0% in Spain.

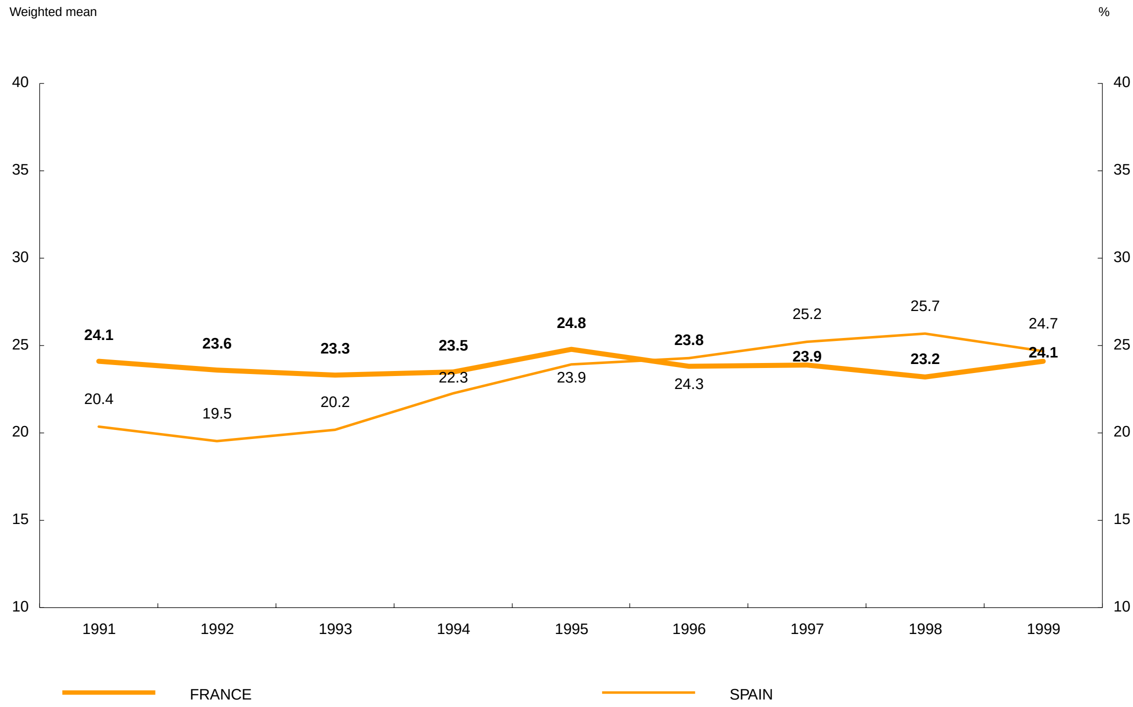
The consumer and intermediate goods sectors have comparable debt structures in France: intragroup financing predominates, followed by long-term and then short-term bank loans, although the breakdown varies slightly between the sectors. The proportion of negotiable debt securities was relatively high in the consumer goods sector, at 2.3% in 1999, mainly because the large firms in this sector were major issuers of commercial paper. In Spain, the debt structure of these two sectors make more use of short-term bank loans, which accounted for 41.4% of financial debt in the consumer goods sector in 1999 and 33.5% in the intermediate goods sector. Also, loans from group companies and related entities accounted for a high proportion of financial debt in the consumer goods sector (32.8% in 1999), while long-term bank loans made up a relatively large share of financial debt in the intermediate goods sector (32.1% in 1999).

It would also appear that large French companies made less use of finance leases. In 1999, finance leases accounted for 5.5% of the financial debt (10) of large industrials, compared with 7.3% for medium-sized companies and 16.2% in the smallest businesses. Small businesses face the biggest constraints in terms of financing their fixed assets, hence their greater use of finance leasing.

(10) The total amount "financial debt + finance leases".

GRAPH III.1.2.23

TRADE CREDITORS
TOTAL LIABILITIES



Sources: Banco de España and Banque de France.

Another way of evaluating the importance of "group financing" is to analyse its weight in the total balance sheet.

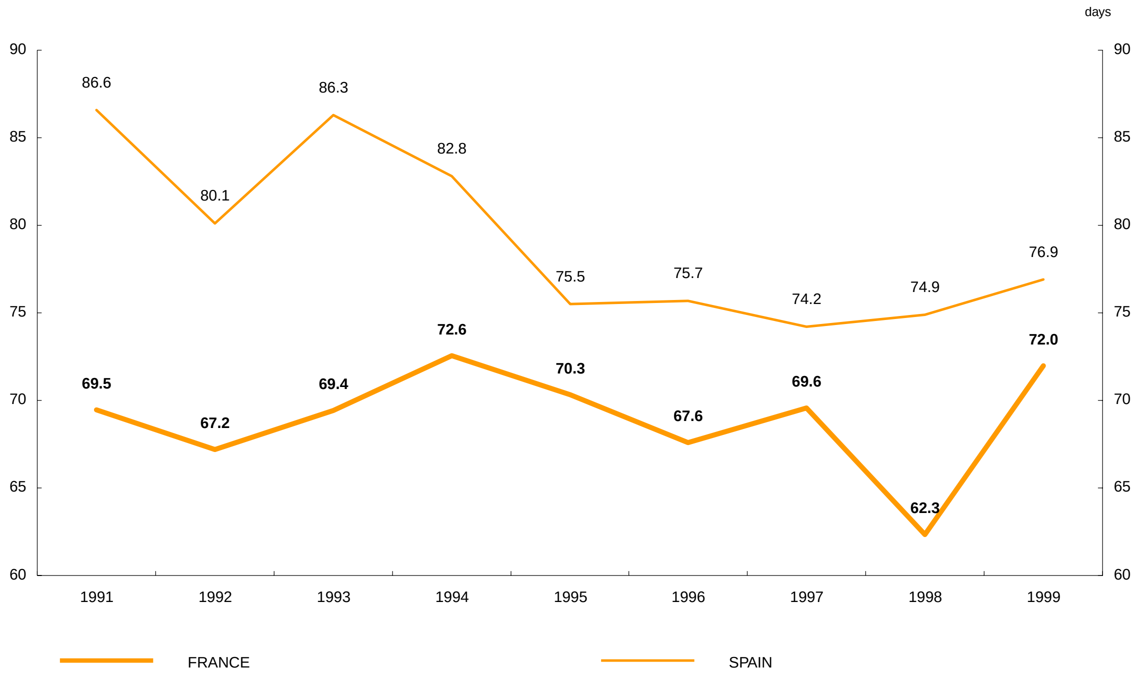
1.2.4. Trade creditors

Trade creditors constitute another important source of funds for French and Spanish companies. Indeed, if we analyse the weighted mean, we see that trade creditors were a key source of short-term financing for industrial firms of both countries. The proportion of trade creditors to total liabilities in French companies exceeded 24% in 1999 (see graph III.1.2.23), i.e. three times greater than the share of bank debt (8.6% in 1999), even though the weighted mean points to a long-term trend towards reducing slightly creditors. The difference between the two ratios "trade creditors/total liabilities" and "bank debt/total liabilities" was particularly marked between 1991 and 1993, doubtless in response to the economic slowdown and recession that took place during that period. During such periods in the business cycle, businesses are pressured by their suppliers to cut payment times, while at the same time they are trying to obtain quicker payment of debts owing to them. In 1993, France introduced a policy aimed at reducing trade creditors. This policy was kept in place until the end of the period, even though the upturns in activity in 1994-1995 and in 1999 twice interrupted the long-term trend described above.

Thus, in 1999, average payment period of trade creditors were equal to 72 sales days in France. Spanish companies also made considerable use of this type of financing, whose share in total liabilities fluctuated between 20% and 25% throughout the period. An analysis of the average payment period of trade creditors confirms this: they were equivalent to 77 sales days in 1999 (see graph III.1.2.26), i.e. higher than in France, although the gap between the two countries narrowed considerably between the beginning and end of the period.

GRAPH III.1.2.26

AVERAGE TRADE CREDITORS PAYMENT PERIOD



Sources: Banco de España and Banque de France.

An examination by size reveals that the proportion of trade creditors in total liabilities was higher among small companies (0-49 employees) than among larger firms. In France, the average ratio of trade creditors to total liabilities was 23.4% for large firms in 1999 compared with 26.6% for small ones. In Spain, the ratio was 24.7% for small firms, compared with 24.4% for large companies. But in the rest of the years, the difference between these two populations is greater in Spain than in France. (See graph III.1.2.24 in the statistical annex)

It emerges that in Spain, small companies are overall lenders of intercompany credit, with average payment period of trade debtors equal to around 82 days in 1999 compared with 78 days for creditors. Large Spanish firms, on the other hand, are heavy borrowers of intercompany credit, with trade debtors standing at around 48 days in 1999, compared with 76 days for trade creditors. In France, large companies are also borrowers of intercompany credit, with trade creditors reaching around 71 days in 1999 compared with 59 days for debtors, while small companies are lenders, with trade creditors coming out at around 74 days in 1999 compared with 77 days for debtors. (Graph III.1.2.27 of the statistical annex)

Use of trade credit seems to be more frequent in the capital goods sector, and especially in the automotive sector, compared with the consumer and intermediate goods sectors. This is true in both countries and throughout the period (see graph III.1.2.25 in the statistical annex).

1.2.5. Tax liabilities and other debt

The share of tax liabilities and other debt in total liabilities did not vary much in either country during the period under review. This component thus had little impact on the debt structures of French and Spanish firms.

In France, the average ratio came to around 12%. In the annual accounts, this item comprises miscellaneous taxes, participating interests, payments and other deductions to be paid by the company as well as monies due to various welfare organisations. Since 1996, the share of tax liabilities and other debt in total liabilities has increased slightly, mainly as a result of measures such as the 2 p.p. increase in the standard VAT rate and the introduction of a special levy of 10%, later increased to 15%, added to the amount of corporate income tax (see annex VIII about the different taxes which burden Spanish and French corporations). In Spain, the weighted mean fluctuated at around 7% during the period under review.

2. FRENCH AND SPANISH INDUSTRIAL CORPORATIONS: ANALYSIS OF THE RESULTS 1991-1999

NOTE: The rates of change of sales, Gross Value Added (GVA) and Gross Operating Profit (GOP) of the industry as a whole to be analysed in this chapter have been adjusted for inflation, i.e. they are rates of constant prices enabling direct comparison between the two countries. However, it has been possible to ascertain that the general conclusions would not change if the rates had not been inflation-adjusted. The other rates (including the first three rates by size and sector) have not been adjusted. Readers should bear this in mind in interpreting the data.

2.1. Introduction

The main objective of this chapter is to analyse and compare the behaviour of French and Spanish industrial corporations from 1991 to 1999 in respect of activity, employment and personnel costs, results, margins and rates of return, and finally investment. The analysis is to be performed for total industrial corporations from both countries, and also inside the total, by size (small, medium and large corporations) and sub-sector (consumer goods, intermediate goods and capital goods).

The information available confirms the connection between the production activity of French and Spanish industrial corporations and the economic cycle of each country, as can be seen analysing the rates of change of sales and GVA at factor cost. However, the Spanish economy and the production activity of its industrial corporations have generally shown more volatile data than the French economy and corporations, in that in Spain, during years of crisis, slumps have been deeper, but, on the other hand, during years of prosperity, growth has been stronger. The convergence process for the Spanish economy and corporations has thus not been even, because catching-up occurs only in bullish periods. In the analysis by size, in the French data it is possible to perceive a connection between corporate activity and economic growth, but the effect is appreciably lower in smaller corporations. On the other hand, in Spain the changes in the cycle can be seen to affect large corporations especially and, specifically, corporations with more than 500 employees. Across the sectors in both countries, a significant cyclical connection can be observed in the capital goods industry and, to a lesser extent, in the intermediate goods industry. The corporations operating in the consumer goods industry behave in a much more stable manner not connected to the cycle.

In relation to employment, French and Spanish corporations have developed in step with activity, but at a different level of intensity. During the recession years (1992 to 1994), there were net falls in employment in both countries, but somewhat more strongly so in Spain. Since 1995, periods of modest growth have combined with some years of moderate falls in France. But from 1995 in Spain, Spanish corporations embarked on a period of net job creation, initially with very mild growth, and subsequently with greater intensity. The explanation for this differing behaviour between France and Spain is that in Spain the initial situation was particularly bad, with an unemployment rate of 24%. For this reason the Spanish authorities decided to pursue special policies for the stimulation of employment and the adaptation of the job market, and from 1997 to 2000, 500,000 net jobs were created. By size, France and Spain coincided in that it was large corporations that had to make more employment adjustments in the years prior to economic recovery; that said, small corporations absorbed part of the employment that the larger ones destroyed. By sector, the intermediate goods industry destroyed most employment during the recession years, while employment in the consumer goods industry remained moderately stable. In France, the phenomenon involving the creation of groups of corporations has been important for employment developments.

The fall in interest rates has meant that corporations in both countries have reduced the influence of financial expenses in their income statements, which has been conducive to an improvement in funds generated. This positive effect of lower financial costs has been reflected in the rates of return on equity of both countries. While French corporations have been stable (except in 1993) and have posted high levels of rates of return on assets in the whole historical series analysed, Spanish corporations have shown two clearly differentiated periods: the first, running to 1993, with very low rates of return; and the second as from 1994, at the same time as the fall in interest rates and the pick-up in activity, with much more similar rates of return on assets to French corporations. By size, small French and medium Spanish corporations have had the best rate of return data in the sequence analysed. By sector, the consumer goods industry of both countries has been most stable and had the highest rates of return.

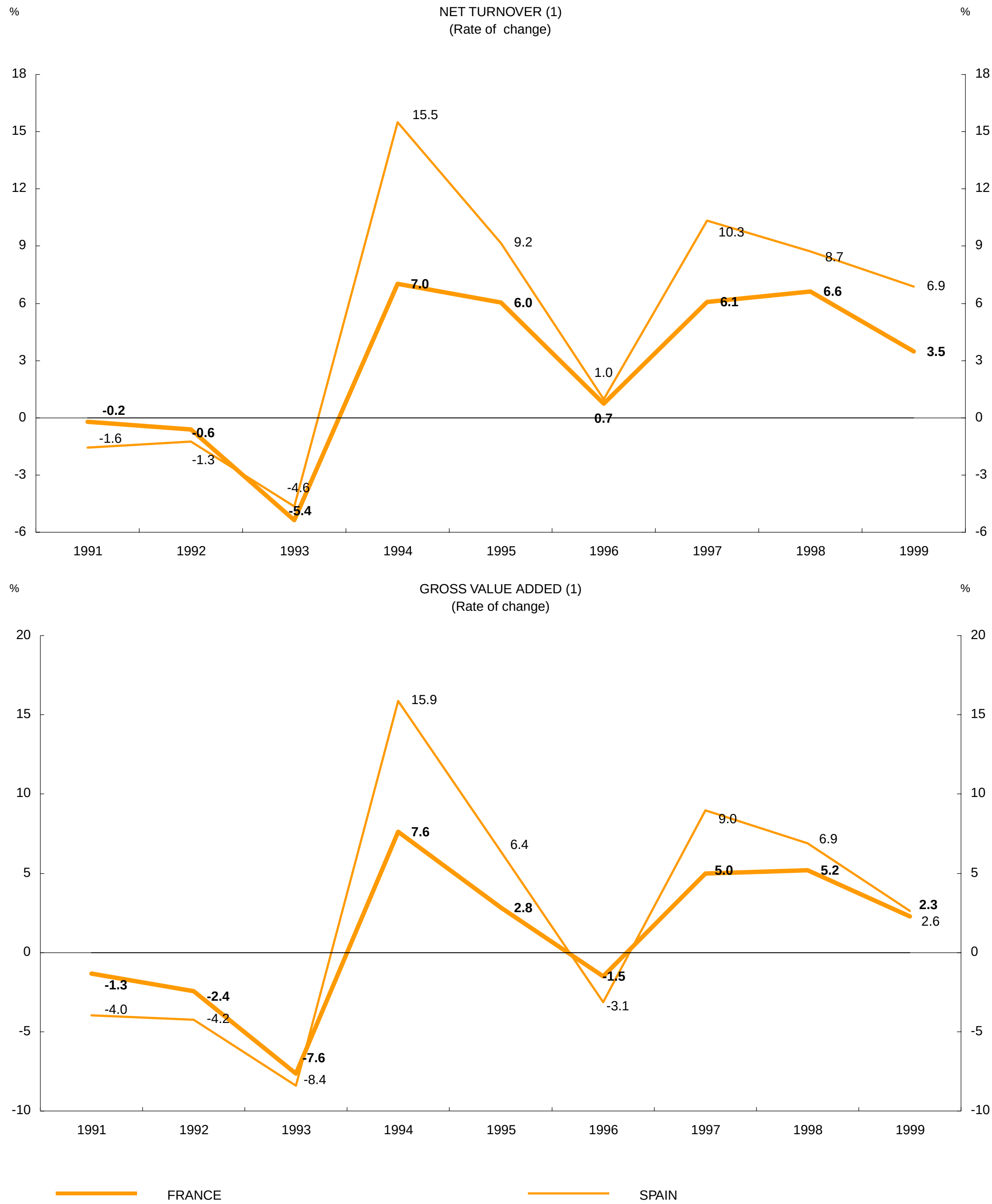
Finally, the evolution of investment showed different behaviours in the two countries. The level of investment in tangible assets of Spanish companies was much more intense than the French one in growth phases. This difference of behaviour between French and Spanish firms was particularly noticeable over the period 1998-1999 in terms of financial investment when French companies preferred to invest on the financial markets by acquiring shares of other companies.

2.2. Activity

The rate of change of GVA at factor cost is the best economic concept for ascertaining corporations' activity. Graph III.2.1 shows that in the whole group of French and Spanish industrial corporations, there has been a substantial connection over the past ten years between their activity and the cycle of their respective economies. Chapter I described the cycle followed by the French and Spanish economies and, as can be seen, there is a coincidence between these cycles and the course of activity of French and Spanish industrial corporations, respectively. Another coincidence between the behaviour of the economies and industry is that, as discussed in chapter I, the Spanish economic recession (1992-1993) was deeper than that in France, while Spanish periods of prosperity have also been more intense and it is in these periods that the Spanish economy has seen the catching-up process in train. In French and Spanish industrial corporations the behaviour has been the same. During the recession years in both countries (1991, 1992 and, especially, 1993) industrial corporations registered negative rates of change for both sales and gross value added. There was a recovery during 1994 and 1995, at the

GRAPH III.2.1

TOTAL INDUSTRY (SAMPLE)



Sources: Banco de España and Banque de France.

(1) Rate of change deflated by industry GDP deflator

same time as the expansionary phase and as the improvement in the international context. However, as was the case in the economy as a whole, the pick-up manifested itself to differing degrees of intensity in the two countries: while in France the real growth of industrial corporations' sales and GVA in 1994 was 7% and 7.6%, respectively, in Spain the related two values were 15.5% and 15.9%. In 1996, coinciding with a turning point in Spanish and French GDP growth and a cooling of world trade, the industrial corporations in both countries reduced their activity again. But as from 1997 they resumed positive rates, albeit on a gradually slowing path. The slowdown observed from 1997 to 1999 must be matched in both countries with the sales slowdown, with growth dipping in France from 6.1% to 3.5%, and in Spain from 10.3% to 6.9%, and specifically with the negative trend of exports. French corporations in particular felt the impact of the crisis in the emerging countries, because the industrial sectors were those most exposed to foreign markets and, at the same time, those most affected by declining external demand. That said, it was these same corporations which most benefited from periods in which external activity was expanding.

The graphs in the statistical annex (III.2.2.a) for France, and (III.2.2.b) for Spain show information by corporation size. In France a connection can be seen between evolution of GVA of the companies and economic cycle, irrespective of the size of the company. On the other hand, in Spain the changes in cycle affect especially large corporations, and specifically corporations with more than 500 employees, although SME also had some influence, showing their worst data in 1992 and 1993. The slowdown in the last three years analysed (1997,1998 and 1999) hardly affected SME, and was stronger in large corporations, especially in Spain, where the growth rate of GVA fell by 10 percentage points from 1997 to 1999, and stood this last year at -0.1%. In SME, meantime, the data have been stable, with the nominal growth rate of GVA close to 9% throughout the period. In France, large corporations posted nominal growth of GVA of 2.6% in 1999, compared with 5.8% in 1997, while SME were more stable over these three years, with modest reduction of less than 2 percentage points. This phenomenon could be explained by the different sectoral composition of each size aggregate, but is due mainly to the fact that corporations with less export activity are involved, whereby sales were not affected by the adverse course of foreign activity.

Graphs III.2.3 in the statistical annex shows information by sector of activity. In France the consumer goods industry has been less affected than the capital and intermediate goods industries by the unfavourable effects of the phases of slowing activity, mainly because of the food and agricultural industries, which are structurally able to support the external influence. On the other hand, the intermediate and capital goods industries seem to perform better during periods of prosperity, thanks to the strong growth of industrial demand. In Spain it is also possible to observe a significant cyclical connection, depending on the sector of activity. This connection is especially intense in the capital goods industry, and modestly so in the intermediate goods industry. In both industries, fluctuations are very marked. Similarly to than French companies, Spanish corporations that make consumer goods are much more stable, but it is also possible to discern the connection with the economic cycle.

Tables III.2.1 shows the number of corporations distributed according to the rate of change of GVA, irrespective of their size and their weight in relation to the whole. These distributions are influenced by the different structures of the sample in France and in Spain (see chapter II). This has to be born in mind when observing these data. So it is more relevant to analyse the evolution rather than the level. In both countries 1993 was the only year of the series in which the number of corporations with negative rates exceeded corporations with positive rates. In France, corporations with more than 500 employees and the intermediate and capital goods industries were the most affected by the 1993 recession; in these three aggregates and during that year, more than 60% of the corporations presented negatives rates of

TABLE III.2.1

DISTRIBUTION OF TOTAL INDUSTRY CORPORATIONS ACCORDING TO RATE OF CHANGE OF GVA AT FACTOR COST

France **Table III.2.1.a**

	1991	1992	1993	1994	1995	1996	1997	1998	1999
20% or higher	14.8	13.4	10.6	17.2	18.4	13.3	16.1	17.6	16.0
From 0 to 20%	42.2	38.7	31.7	40.7	42.0	37.6	42.9	45.2	42.1
From -20 to 0%	33.4	36.1	42.5	33.0	31.7	38.6	33.4	30.3	33.6
-20% or less	9.6	11.8	15.2	9.1	7.9	10.5	7.6	6.9	8.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Spain **Table III.2.1.b**

	1991	1992	1993	1994	1995	1996	1997	1998	1999
20% or higher	27.3	23.0	20.9	34.9	34.7	31.4	33.7	34.5	30.3
From 0 to 20%	38.9	36.4	27.7	31.2	32.0	31.7	34.7	35.2	36.1
From -20 to 0%	22.3	28.6	29.7	21.9	21.2	23.1	20.6	19.9	23.7
-20% or less	11.5	12.0	21.6	12.0	12.0	13.8	11.0	10.4	10.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Banque de France / Banco de España

change of GVA. In Spain, since that point, more than 60% of corporations have always had positive rates, and in this group, more than 30% have grown with intensity (with increases in GVA of more than 20%). Since 1993, the proportion of companies with positive rates of change of GVA has been increasing in line in both countries. At the end of the period under review, this percentage was similar or even slightly higher than in 1991. Capital goods corporations and very large corporations were the most affected in 1993 by the crisis, so that 58% of the corporations of both Spanish aggregates had negative rates in the concept under analysis.

2.3. Employment and personnel costs

Employment in both countries has developed in step with activity, as can be seen in graph III.2.4. Until 1994 there had been net falls in employment in France and Spain. 1993 was the worst year, with rates of –5.1% and –6.8%, respectively. Since 1995, both countries have moved on slightly different courses. French corporations have alternated periods of light growth (1995,1997,1998 and 1999) with a moderate fall (in the year 1996). As from 1995, Spanish corporations embarked on a period of net employment creation, initially with very mild growth, but later with greater intensity, posting the highest growth of the series in 1998 (3.4%).

Tables III.2.2 provides for an analysis that distinguishes between corporations creating employment and those shedding jobs. In both countries it was the case that until the years in which the employment adjustment was harshest, the proportion of corporations maintaining or creating employment exceeded corporations destroying jobs (with the exception of 1993 in France). Since 1995 in France, corporations creating employment have clearly exceeded corporations destroying employment, with a high in 1998 of 66.8%. In Spain these data are even higher because, as discussed in chapter I, the initial situation was very poor in respect of the unemployment rate in Spain in 1994, after the recession, of about 24%. That is why the Spanish authorities decided to initiate special plans to promote employment and open up the job market (see annex II for the labour measures adopted to promote employment), creating on average

500,000 jobs in net terms each year from 1997 to 2000. Spanish industrial corporations reached a high in 1998 with 79.6% of the corporations creating employment.

By size, graphs III.2.5 of the statistical annex show that, as is the case with activity, in Spain it was large corporations which had to make most staff adjustments in the years prior to the recovery, with falls close to 8% in 1993. This was compared with SME, in which falls were softer at between 3% and 4%. In France, medium-sized corporations made the most forceful personnel adjustments in 1993, with a fall of –7.5%. Notwithstanding, since 1995 French SME have shown net employment creation, but with very moderate rates which have in no year exceeded 2%. In Spain, just as SME have served to sustain employment during recession periods, during years of plenty these corporations have been the principal source of net employment creation, with rates reaching 6% in some cases, compared with 1% at large corporations.

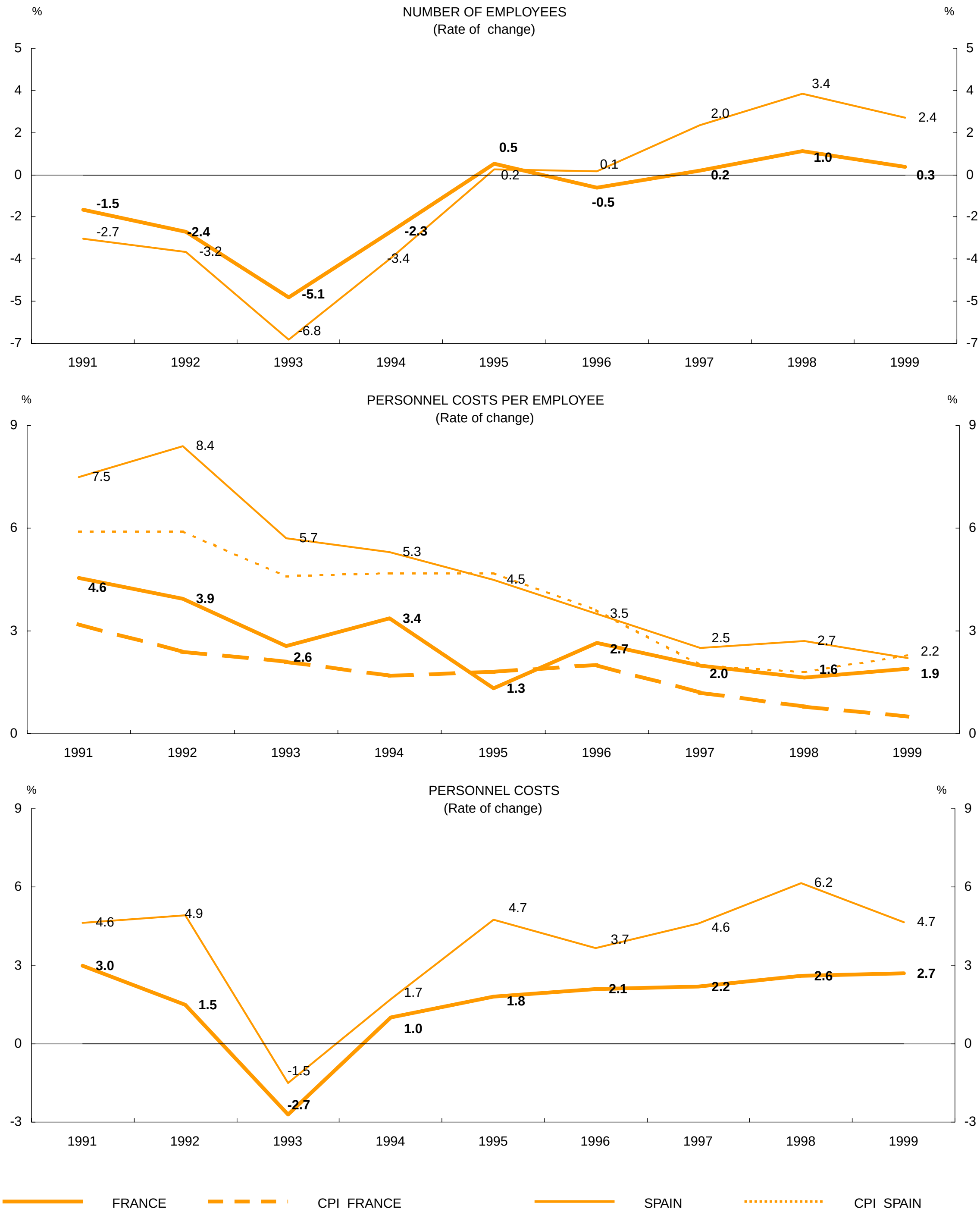
In the tables III.2.3 to III.2.5 of the statistical annex, it can be appreciated clearly how French and Spanish large corporations adopted a policy of personnel adjustments in 1993, when 70% and 82%, respectively, destroyed jobs, and close to 74% and 90% in corporations with more than 500 employees. Conversely, small corporations creating employment have always exceeded in number those corporations destroying jobs; in France this was the case as from 1995, with figures close to 70%, and in Spain from 1996 to 1998, when nearly 80% of corporations created net employment. As has been explained and can be observed in the tables, during periods of crisis small corporations act as a "buffer", absorbing part of the employment that the larger corporations destroy. In addition to this, downsizing and the incorporation of advanced techniques for production management and stock organisation lead to a reduction in the size of some large industries, through the outsourcing of a portion of their secondary activities to small-size corporations. In France the way a company is organised (independent corporations, that belong to a group or a net of corporations) has a direct influence on employment.

By sector, as can be seen in the statistical annex (graphs III.2.6), during the years in which there was a reduction in employment, it coincides in both countries that the capital and intermediate goods industries were the sectors that destroyed most employment, in line with the poorer performance of productive activity. In Spain, while it was when the recovery began that the most favourable employment creation rates were seen, in France rates remained marginally positive, and in 1999 intermediate goods corporations showed a minor fall in employment of about –0.4%. Employment in the consumer goods industry has held relatively stable. In Spain the capital goods industry presented worse results than the other industries in 1993 and 1994, but it has posted positive data in the last five years. This recent positive trend in employment has been supported by the recent growth of output and also by the modernisation of and added flexibility given to the Spanish labour market. Annex II also offers information about the key features of the labour markets in France and Spain and the regulatory changes in recent years affecting employment.

As can be seen in graph III.2.4, the rate of change of *personnel costs per employee* in nominal terms in French industrial corporations outgrew the Consumer Price Index (CPI) throughout the whole period except in 1995. This latter year and 1998 were the two years that showed the most restrained wage growth, while they were also the years with the largest employment growth. This explains the lower wage growth because, generally, the compensation of new employees is lower. The course of average compensation has contributed to the achievement of France's intended aim relating to the competitive disinflation policy, which has entailed wage moderation combined with relatively sustained increases in productivity in industry. In Spain, average compensation in nominal terms outgrew the CPI by about 1.6 p.p., 2.5 p.p. and 1.1 p.p., in 1991, 1992 and 1993, respectively. Thereafter, a downward trend initiated, with compensation growing at below inflation in some of the years (1995, 1996 and 1999). This differenti-

GRAPH III.2.4

TOTAL INDUSTRY (SAMPLE)



Sources: Banco de España and Banque de France.

TABLE III.2.2

TOTAL INDUSTRY. WORKERS AND PERSONNEL COSTS PER WORKER RELATIVE TO INFLATION
PERCENTAGE OF CORPORATIONS IN SPECIFIC SITUATIONS

France — **Table III.2.2.a**

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Average number of employees	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Falling	42.1	47.8	50.5	40.9	32.3	37.3	35.3	33.2	35.1
Constant or rising	57.9	54.2	49.5	59.1	67.7	62.7	64.7	66.8	64.9
Average compensation (relative to inflation)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Lower growth	45.2	47.6	58.6	46.9	39.2	47.9	43.2	34.1	38.0
Higher or same growth	54.8	52.4	41.4	53.1	60.8	52.1	56.8	65.9	62.0

Spain — **Table III.2.2.b**

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Average number of employees	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Falling	42.6	44.8	46.9	33.9	25.5	22.7	21.2	20.4	23.1
Constant or rising	57.4	55.2	53.1	66.1	74.5	77.3	78.8	79.6	76.9
Average compensation (relative to inflation)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Lower growth	37.8	37.2	49.5	52.9	49.0	50.7	46.7	44.5	48.7
Higher or same growth	62.2	62.8	50.5	47.1	51.0	49.3	53.3	55.5	51.3

Sources: Banque de France / Banco de España

ation between the two periods is closely matched by the trend of employment: the economic crisis and the above-inflation increase in average compensation in 1992 and 1993 were absorbed by corporations in terms of employment, through severe staff cuts. From 1995, wage containment and the increase in productive activity allowed for a recovery in gross operating profit, as will be analysed, and for the onset of the process of investment and employment creation; additionally the economic recovery entailed the incorporation of new employment (paying lower wages), providing for the continuation of wage containment. Annex VII "Contribution to social security by French and Spanish companies" offer institutional information about one of the components of personnel costs paid by the companies.

Table III.2.2 gives information about the proportion of corporations in which average personnel costs grew above or below inflation. Considering the evolution during the whole period, it can be seen that in France, 1998 and 1999 were the years in which most corporations (66% and 62%) increased their average compensation at an above-inflation rate, this coinciding with the fact that the inflation rate was at its most moderate in these years (0.8% and 0.5%, respectively). In Spain, this occurred in 1991 and 1992, when wages outgrew inflation in nearly 63% of corporations. From that point a new period ensued in which a percentage close to 50% was maintained for both groups of Spanish corporations, because of the more recent performance of small corporations.

By size (graphs III.2.5 of the statistical annex), all the French corporations displayed increases in their average compensation similar to 1991 and 1992, at nearly 4%, irrespective of their size. But since 1993, SME have behaved in a more stable manner compared with large corporations. In Spain, large corporations and SME exhibited very high rates of change in average compensation in 1991 and 1992, especially in the latter year, in which close to double-figures were recorded. As from 1993, it was small-sized corporations which strongly reduced the rise in salaries and wages per employee. In medium and large corporations, the numbers that increased wages above inflation was always higher than those that did not. In the case of large corporations, this proportion was 70/30 in 1997 (see tables III.2.3 to III.2.5 of the statistical annex).

By sector, (graphs III.2.6 of the statistical annex), the consumer goods and intermediate goods industries in France showed a very similar and moderate trend in terms of the change in average compensation of their employees, but in all the years analysed, this outgrew the CPI. The capital goods industry exhibited erratic ups and downs, moving the rate of change of personnel costs per employee from 4.8% to –5.9% in 1994 and 1999, respectively. In Spain the initial position of the consumer goods industry was one of increases in average compensation higher than in other industries. But as from 1994, containment took hold and held them stable, with more moderate growth than the intermediate and capital goods industries.

As a consequence of the course of employment and average compensation, *personnel costs* for industry as a whole in France showed two different phases. The first ran from 1991 to 1993, with a –2.7% decline in personnel costs in 1993, explained by the destruction of employment in that year. Thereafter, a restrained rise began, reaching high of 2.7% in 1999. From 1994 to 1999, it was average compensation that was most reflected in this increase. Analysing the weight of personnel costs relative to total net turnover (graph III.2.13), substantial stability is observed in the series from 1991 to 1997, with figures close to 19%. But in the last two years personnel costs have accounted for nearly two points less relative to total sales, contributing to a bigger business margin. In Spain, the rate of change in personnel costs has been more erratic, with a low of –1.5% in 1993, similar to France. This figure must be connected with the destruction of employment. From that moment on, personnel costs posted positive rates, with a high of 6.2% in 1998. But in this second period, contrary to France, the trend was more associated with employment creation, because average remuneration behaved more moderately. As regards the weight of personnel costs relative to net turnover, Spanish corporations have seen a move from 20.8% in the initial years of the series to 13.9% in 1999.

2.4. Results, margins and rates of return

The graphic representation of the rate of change of GOP in France and Spain (graph III.2.7) reveals a more erratic evolution of this parameter at the beginning of the period in Spain than in France with a fall of 21.8% and 18.2% in 1993 respectively and an increase in 1994 of 72.0% in Spain and 21.3% in France. From 1996, there has been a similar pattern of this parameter in the two countries. As a consequence of the trend in activity and personnel costs, the GOP of the corporations of both countries was small and decreased regularly in 1991, 1992 and 1993. From 1994 to 1998, rates remained positive (with the exception of 1996); in 1999, the GOP moved onto a stagnating trend, strongly so in Spain

Financial costs in both countries posted positive growth rates during the early years of the study, but since 1993 in France and 1994 in Spain, and as a consequence of the fall in interest rates (graph I.11 of chapter I) and Spanish convergence with the other European countries, negative rates of change have arisen. Probably, this is one of the effects of convergence with Europe and the creation of a single market, which has meant bigger profits for non-financial corporations not only in terms of nominal stability but also in the reduction of costs. The reduction in financial costs can also be appreciated in their less relative significance in the profit and loss account in terms of structure (see graph III.2.13); in Spanish industrial corporations, compared with 4.6% for the financial costs/sales proportion in 1993, the same structure was 1.0% in 1999. In French industrial corporations, the related proportion in terms of the profit and loss account has also been reduced, dipping from 2.5% in 1993 to 0.9% in 1999. The detected reduction in financial costs contributed to the strong increase in funds generated (graph III.2.7) by Spanish industrial corporations, as can be seen in the fact that rates of change were positive as from 1994 (with the exception of 1996). Nevertheless, in 1999 signs of backtracking were evident, in line with the course of output. This improvement has also been observed in relative terms (graph III.2.13); while in 1993 resources generated accounted for 1% of sales, in 1999 they reached 7.6%. In France the funds generated by industrial corporations followed a similar trend to their Spanish counterparts, with negative rates between 1991 and 1993 and positive rates as from 1994 (with the exception of 1996), and also with signs of backsliding in 1999. Unlike with the Spanish corporations, there were scarcely no effects in relative terms, moving from 5.2% of sales in 1993 to 6.7% in 1999.

The change in income tax is highly correlated with the profits obtained by corporations, but also affects tax regulations and the amendments to such regulations recently (annex VIII shows the different taxes affecting Spanish and French corporations). The ratio "income tax/ net turnover " (see graph III.2.13) allows a comparison between the two countries and the contribution to the Treasury. Throughout the series analysed, except in 1995, French corporations set aside a bigger percentage of their total sales to income tax than Spanish companies. In both countries, it can be seen that, during the economic recession period (1992 to 1994) and because of the high correlation with the results of the corporations, income tax remained below 1% of sales. In the last three years, this proportion rose until reaching 1.7% in France and 1.5% in Spain in 1999.

As for ordinary rates of return (11) (both on net assets (R.1) and on equity (R.3)), graph III.2.10 shows that French corporations behaved in a stable manner in the series analysed, while Spanish corporations presented two differentiated periods, behaving very differently in the first (1991 to 1993) from French corporations. French companies showed a moderate fall in the levels of their rates of return, making 1993 the worst year of the series with an R.1 of 7.9% and an R.3 of 7.5%. For their part, Spanish corporations also presented in the same year the worst data of the whole of the series analysed, with 2.1% for R.1 and –7.3% for R.3. In the second period (1994 to 1999), and in relation to productive activity developments, French corporations have continued offering high rates of return and a certain stability, reaching their high in 1999 with an R.1 of about 12.0% and an R.3 of 18%. In Spanish corporations, an up trend was set in train as from 1994, obtaining rates of return of 11.2% for R.1 and 14.9% for R.3 in 1999 (this figure represents the best ordinary return on equity in the whole of the series analysed). On the other hand, the cost of borrowing -or R.2- has followed a downward path caused by the fall in interest rates in both countries; in French corporations the related figure fell from 9.7% to 4.5%, and in Spanish corporations from 11.5% to 4.0%. Along the same lines of this reduction, Spanish industrial corporations started from 1995 to show positive leverage (12), with the maximum to date being reached in 1999, at 7.2%. In France, the best figure was also reached in 1999 (7.5%).

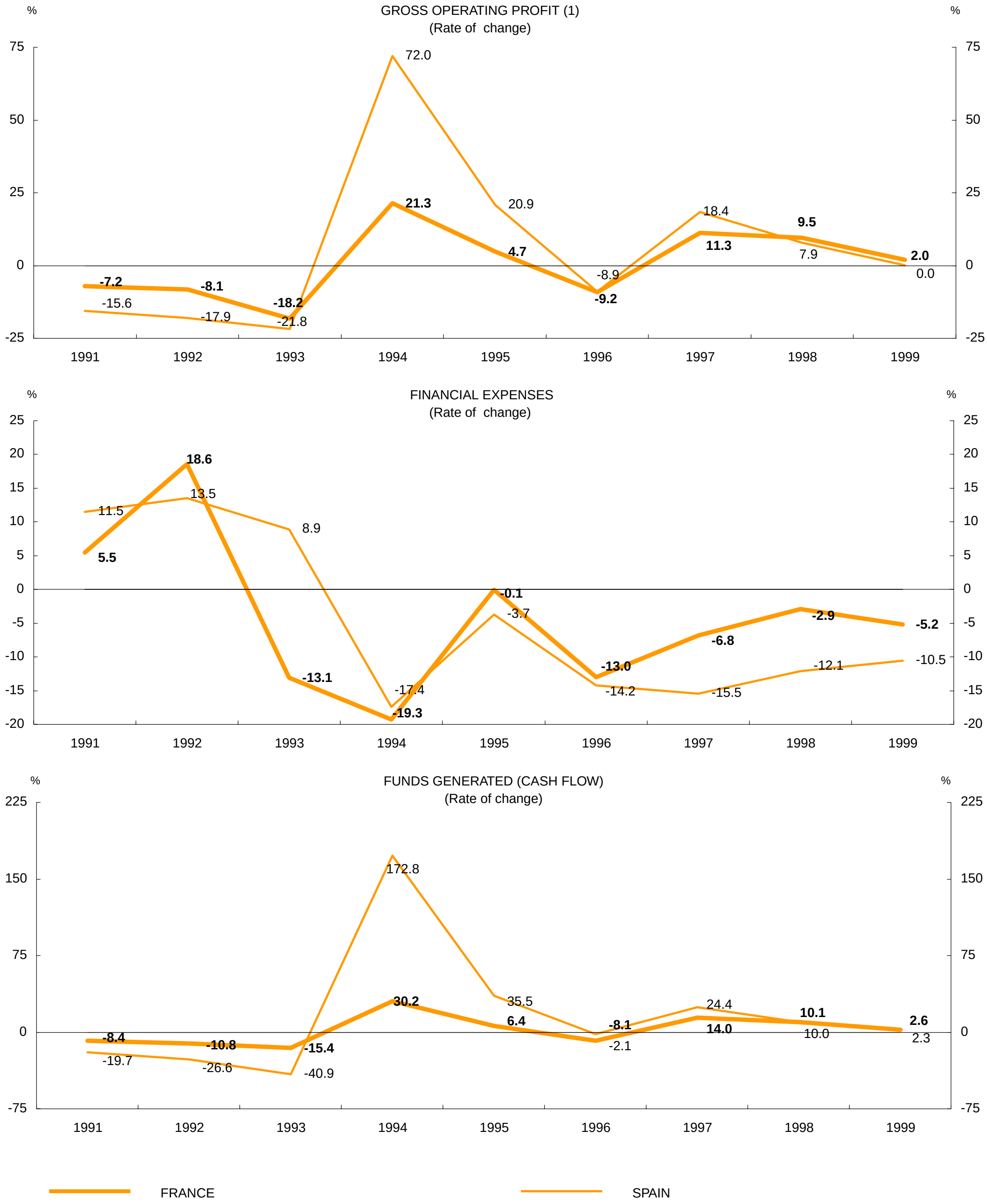
By size, the trends coincide in general with the behaviour of the total, although differences in the levels are appreciable. In French and Spanish corporations, the rate of change of GOP in the three sizes turned around in 1994 from negative to positive values (see graphs III.2.8 of the statistical annex). In 1996, negative rates of change again appeared in the three sizes in

(11) For the numerator of these ratios the Ordinary Net Profit is used, which is defined as Gross Operating Profit plus financial revenue, minus financial costs, minus depreciation and operating provisions.

(12) In this study leverage is defined as: return on assets (R1) less cost of borrowing (R2).

GRAPH III.2.7

TOTAL INDUSTRY (SAMPLE)



Sources: Banco de España and Banque de France.
(1) Rate of change deflated by industry GDP deflator

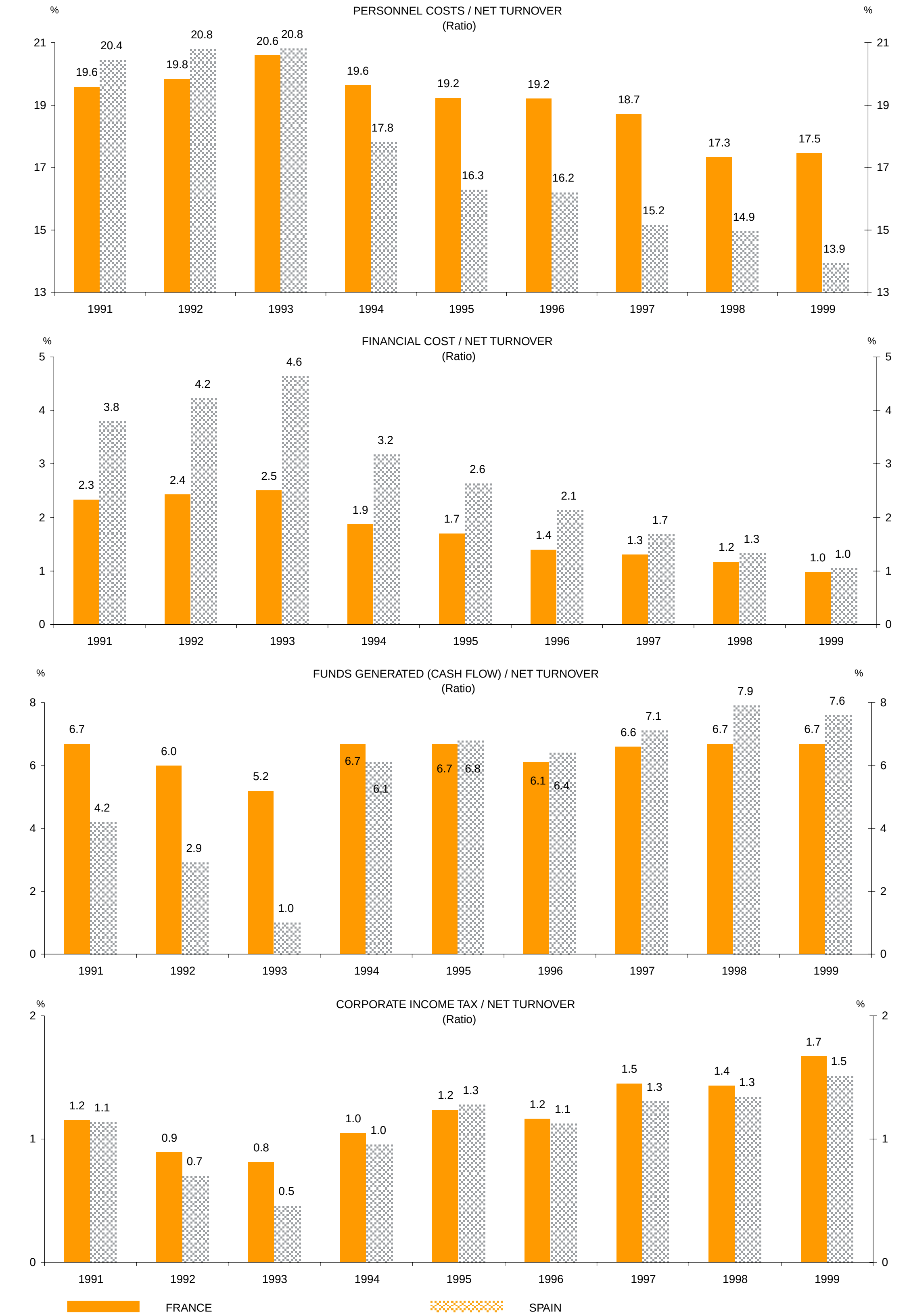
GRAPH III.2.10

TOTAL INDUSTRY (SAMPLE)

Sources: Banco de España and Banque de France.

GRAPH III.2.13

TOTAL INDUSTRY (SAMPLE)



Sources: Banco de España and Banque de France.

France, while in Spain large corporations were the only group that reverted to negative values. From that year onwards positive but increasingly moderate rates have been maintained in France, while in Spain corporations with more than 250 employees returned to negative rates in 1999 with a –4.2% fall. In both countries a close connection between large corporations' results and the economic cycle can be appreciated; in periods of prosperity these companies exhibited the best figures, but during recession years large corporations were also the most affected. In relation to financial costs, and again in the three sizes, significant reductions were observed at Spanish corporations as from 1994, but large corporations showed stronger falls in rates between 1997 and 1999 because of their lesser need for external financing, as has been seen in the previous analysis of the financing structure. In French corporations the reductions are stronger for all sizes. As for funds generated, while Spanish SME continued to post positive rates of growth as from 1994, large corporations were more unstable, reaching a negative rate of change of close to –2% in 1999.

In the analysis of rates of return by size (see graphs III.2.11 in the statistical annex), French small corporations were the most profitable (R.1 and R.3) between 1991 and 1995, despite the cost of borrowing -or R.2- also being the highest. Since 1997, large corporations have shown an economic rate of return similar to small companies, and only in 1999 did large corporations exhibit a higher economic and financial rate of return (12.4% and 18.6%, respectively). In Spain, medium-sized corporations (between 50 and 250 employees) were those with the best ordinary return on net assets and equity in the series analysed. The cost of borrowing was lower for large corporations because of their greater bargaining power. As a consequence of this, financial leverage was positive from 1994 in medium and large corporations and from 1995 in small corporations, standing in 1999 at 9.6 points in the case of medium-sized companies, followed by 7.1 and 1.8 in large and small corporations, respectively.

By sector of activity (graphs III.2.9 of the statistical annex) the same trends in GOP are observed for the total of corporations, but with some qualifying differences. In both countries behaviour was the same in terms of the sectors and of the link to the cycle. The consumer goods industry developed in a stable way, so, non-matched with the cycle, while the rates of change of GOP in the intermediate and capital goods industry were very erratic and influenced by economic developments in both countries. As regards financial costs, in Spain the tendency has been very similar across the three industries, with more drastic reductions in the capital goods industry, while in France behaviour was more erratic and uneven, depending on the industry. The behaviour of funds generated was, like the GOP, volatile in the sectors of the two countries. The exception was the consumer goods industry, which showed a more stable series. This sector is precisely that with the best ordinary return data (on net assets and equity), both in France and Spain (see graphs III.2.12 of the statistical annex), but the other two sectors, have obtained good figures in the last three years, also combined with moderate costs of borrowing and positive financial leverage data.

2.5. Investment

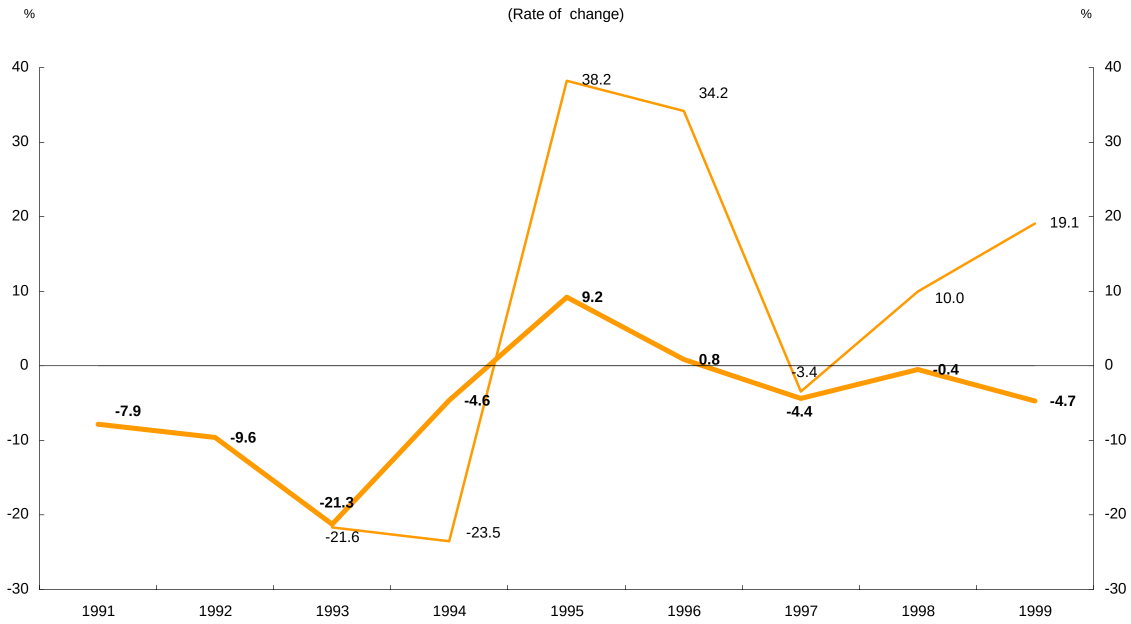
To analyse the investment, the rate of change of investment in tangible assets in the industrial corporations of both countries and the rate of change of investment in financial assets for the industrial corporations in France (13) (see graph III.2.14) have been calculated. In France, three different periods can be differentiated. In an initial period from 1991 to 1994, there were falls in the rate of change of investment, of particular significance in 1993, the year

(13) In Spain, it is not possible to calculate this rate of change with the Central Balance Sheet database.

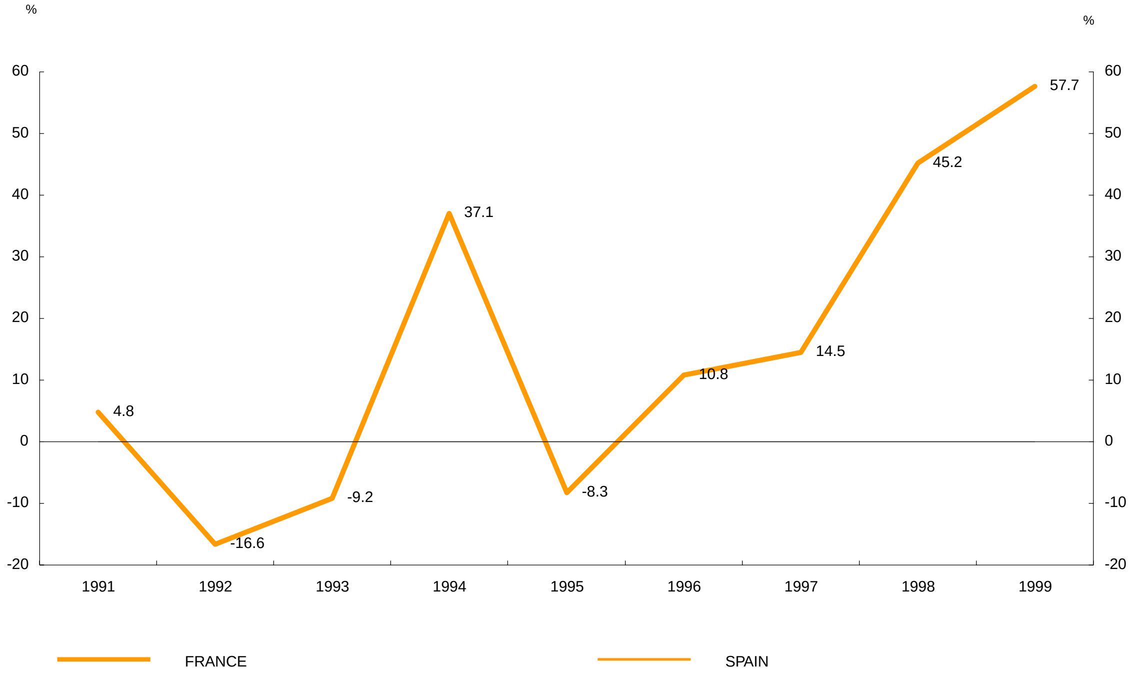
GRAPH III.2.14

TOTAL INDUSTRY (SAMPLE)

INVESTMENT IN TANGIBLE ASSETS
(Rate of change)



INVESTMENT IN FINANCIAL ASSETS
(Rate of change)



Sources: Banco de España and Banque de France.

in which capital expenditures decreased by 21.3%. The weakness of demand during these years and the over-utilisation of productive capacity through the lengthening of the duration of use of its productive potential (14), contributed to explaining these data. A second period can be observed, from 1995 to 1996, with positive rates of change of investment, especially in the initial years in which investment grew by 9.2%. In this case, the increase in sales was what drove entrepreneurs to more dynamic investment, although in 1996 the climate of uncertainty that prevailed in 1996 regarding industrial products forced some industrial companies to act prudently, this consisting of a check on the renovation of tangible assets. Finally, a third period between 1997 and 1999 should be distinguished in which rates of change of investment turned negative again, due to companies having preferred to invest on the financial markets, acquiring shares of other companies, as attested to by the rates of financial investment, which posted "record" figures with an increase of 45.2% and 57.7% in 1998 and 1999, respectively.

In the case of Spanish industrial corporations, the rate of change of investment is available in the Central de Balances sample from 1993. In 1994, the worst figure in all the series analysed –a –23.5% decline- was recorded for industrial corporations as a whole. The recession period immediately before this forced companies to be conservative with their investment decisions. In 1995 and 1996, the previous tendency was reversed, with investment growth rates reaching 38.2% and 34.2%, respectively. Against a background of recovering activity and a gradual reduction in interest rates, companies were encouraged to renew their productive equipment. In 1997, another fall in investment came about, again motivated by the fall in activity in 1996, but 1998 and 1999 saw a resumption of the upward trend, with growth rates of 10% and 19%, respectively. Without any doubt the investment decisions in this period were safeguarded by the positive financial leverage figures attained in 1998 and 1999 (6.0 and 7.2, respectively, the highest for the whole of the series analysed.

Since a study on the investment behaviour of companies would remain incomplete by referring only to the descriptive analysis we propose in chapter IV to try in addition to isolate the specific effect of a factor (e.g.: the cash flow effect) "other things being equal" by a dynamic based econometric method.

(14) Article of the monthly Bulletin of the Banque de France, no. 94 (October 2001) entitled: "La durée d'utilisation des équipements: principaux résultats 1989-2000"