
Results of non-financial corporations in 2000 Q4 and summary year-end data (1)

1. INTRODUCTION

In March each year the data compiled for the Central Balance Sheet Office Quarterly Survey (CBQ) for the four quarters of the year, concluded three months earlier (on this occasion the year 2000), allow conclusions to be put forward about the performance of corporations during the year in question. The main features of this performance are confirmed in November, once the data for the Central Balance Sheet Office Annual Survey (CBA) for the year concerned become available. The CBA data are more complete and relate to a considerably greater number of corporations. On the information to 2000 Q4 now available, the CBT confirms what was put forward at the time of the analysis of the results to 2000 Q3. Namely, that following more moderate economic growth in 1999 than in the previous year, and given, indeed, a degree of stagnation in manufacturing, in the first half of the year 2000 an expansionary path was forcefully resumed which began to show signs of a loss of momentum in Q3, this being confirmed in Q4. This turnaround in the second half of the year 2000 has not affected corporate profitability ratios, which remain high.

Despite the profile of diminishing momentum over the year, it should not be forgotten that 2000 was a year of high growth in activity (the GVA of CBQ corporations as a whole grew by 8.6 % in nominal terms over the year). This was underpinned by both the sound behaviour of domestic demand and the pick-up in external demand, and was most clearly patent in the favourable performance of manufacturing corporations. For a clearer view of this performance in the aggregate data, the bias introduced into the accounts of oil refining corporations (which are strongly represented in the CBQ survey) by the rise in international oil prices during 2000 should first be stripped out. As discussed in earlier articles, the high growth rate of the GVA of refining operations overstates the growth of the total aggregate and distorts the performance over the course of the year. The nominal growth during 2000 of the sampled corporations' GVA, excluding refining companies, was 5.3 % (compared with 8.6 % for the total aggregate), and, quarter by quarter, compared with the same period a

(1) This article is based on data provided to 15th March 2001 by the corporations that report to the CBQ (an average of 800 corporations over the four quarters of 2000). In all, the GVA of this aggregate of corporations accounts for approximately 15 % of the GVA of the sector Non-financial corporations.

CHART 1

Non-financial corporations reporting to the Central Balance Sheet Office (a)



		NUMBER OF CORPORATIONS					
CBA		8,127	8,032	8,049	8,112	7,075	
CBQ		722	724	721	834	880	800

		% OF GDP OF SECTOR NON-FINANCIAL CORPORATIONS					
CBA		34.4	34.2	33.7	34.3	29.0	
CBQ		19.5	19.1	18.7	18.1	17.0	14.8

— CBA data

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Source: Banco de España.

(a) Information available to 15 March 2001 (CBA and CBQ).

(b) The 1995, 1996, 1997, 1998, 1999 and 2000 data are based on information from the corporations included in the annual survey (CBA) and the average of the four quarters of each year in relation to the previous year (CBQ).

TABLE 1

Profit and loss account. Year-on-year performance
**(Growth rates of the same corporations on the same period a year earlier/
 % of GVA at factor cost in the case of the net profit)**

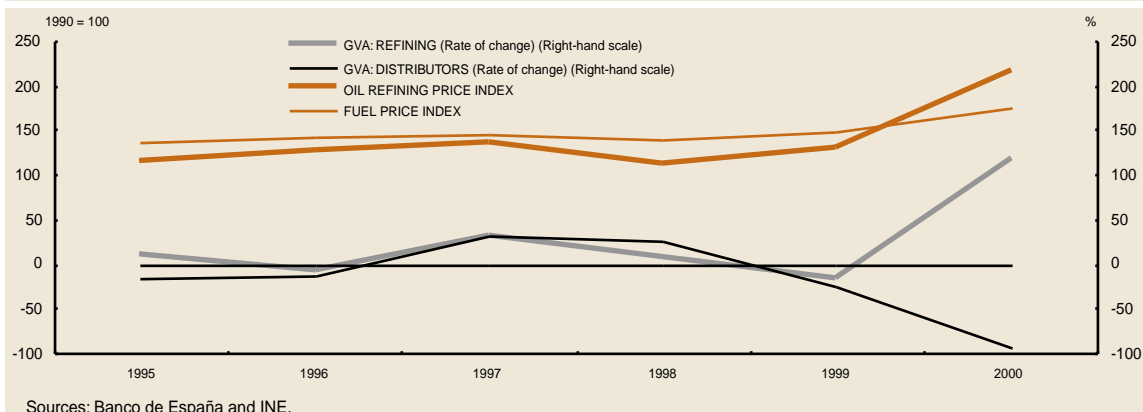
Databases	CBA			CBQ			
	1997	1998	1999	97 Q1-Q4 / 96 Q1-Q4 (a)	98 Q1-Q4 / 97 Q1-Q4 (a)	99 Q1-Q4 / 98 Q1-Q4 (a)	00 Q1-Q4 / 99 Q1-Q4 (a)
Number of corporations / Total national coverage	8049/33.7%	8112/34.3%	7075/29.0%	721 / 18.7%	834 / 18.1%	880 / 17.0%	800 / 14.8%
1. VALUE OF OUTPUT (including subsidies)	10.2	6.3	8.1	8.0	1.5	9.5	23.0
Of which:							
1. Net amount of turnover and other operating income	10.0	7.3	10.4	7.7	3.4	10.5	23.4
2. INPUTS (including taxes)	11.8	6.1	10.1	6.2	-0.2	14.8	26.9
Of which:							
1. Net purchases	12.2	3.1	13.1	9.6	-2.6	18.1	40.1
2. Other operating costs	10.8	11.1	10.6	9.3	7.0	10.6	10.6
S.1. GROSS VALUE ADDED AT FACTOR COST	7.1	6.8	4.3	5.1	4.1	1.9	8.6
3. Personnel costs	4.0	5.7	5.3	2.1	3.2	2.3	5.2
S.2. GROSS OPERATING RESULT	11.0	8.1	3.2	7.8	4.9	1.6	11.2
4. Financial revenue	10.8	9.8	9.8	20.1	14.4	31.7	13.3
5. Financial costs	-13.6	-7.0	-3.0	-15.8	-9.3	-8.2	27.1
6. Corporate income tax	22.9	16.2	12.3	21.2	12.4	18.3	9.8
S.3. FUNDS GENERATED FROM OPERATIONS	17.2	10.7	3.3	14.9	8.3	5.6	7.3
7. Depreciation and provisions	25.6	19.6	-1.4	16.4	-5.3	6.6	6.4
S.4. TOTAL NET PROFIT (% of GVA at factor cost)	14.8	16.6	17.0	15.8	18.9	21.0	22.7
PROFITABILITY RATIOS							
R.1 Ordinary return on net assets (before taxes)	7.7	8.9	8.2	8.0	8.9	8.5	9.6
R.2 Interest on borrowed funds/ interest-bearing borrowing	6.9	5.7	5.0	7.4	6.3	5.2	5.9
R.3 Ordinary return on equity (before taxes)	8.1	10.5	10.1	8.3	10.0	10.3	11.9
R.4 Financial leverage (R.1 - R.2)	0.8	3.1	3.1	0.6	2.5	3.2	3.8
R.5 Debt ratio	39.0	39.9	43.6	37.2	37.4	42.4	42.6

Source: Banco de España.

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

CHART 2

Effect of crude oil prices on value added



year earlier, the respective figures were 6.1 %, 5.6 %, 4.7 % and 4.5 %. These figures highlight the above-mentioned slowdown in productive activity as the year unfolded.

Against this background, employment continued to grow strongly in the year 2000 (2.2 %); like activity, however, it lost steam in the closing months of the year. The employment figures were likewise affected by certain staffing adjustments (discussed in earlier articles), essentially at large corporations in industries undergoing liberalisation and deregulation, which have a substantial weight in the CBQ survey (Electricity, gas and water supply, and Transport, storage and communications). Although temporary employment increased with greater force in the year 2000, the behaviour of permanent employment was significant, exhibiting a slightly positive growth rate of 0.6 % for the year as a whole. This figure is notable insofar as it denotes a turnaround, since it is the first year in the entire series in which the labour forces of the corporations analysed in the CBQ have increased, both in terms of total employees and permanent employees. As regards average compensation, the rise in inflation in the year 2000 influenced wage demands. As a result, average personnel costs underwent a greater increase than in previous years. Both effects (greater employment and the increase in personnel costs per employee) account for the significant rise in personnel costs. Notwithstanding, as productive activity grew more than personnel costs, gross operating profit trended at an appreciably higher rate in 2000 than in 1999. Financial costs grew substantially, a marked contrast to the continuous declines posted in recent years. This growth in financial

costs is the outcome first, of the increases in borrowing costs, i.e. in interest rates; and, further, of the growth of cost-bearing debt, owing to the greater resort by non-financial corporations to external sources of financing. In any event, the low starting level, i.e. the limited amount of financial costs following seven years of continuous decline (financial costs account for little more than 3 % of the total for output), means that the impact on corporations' profits is still limited. Funds generated from operations grew at a rate of 7.3 %, and net profit as a percentage of GVA rose to 22.7 % in the year 2000, down on the figure reported in the preceding article presenting the results for 2000 Q3, obtained as an average of the first three quarters. The fall was due to the fact that certain large corporations in the sample made substantial extraordinary provisions for early retirement and for depreciation of their investment portfolio during 2000 Q4. The effect of these extraordinary provisions on total profits has not been offset by extraordinary revenue, as is the case with revenue such as that arising on capital gains on financial assets transactions (essentially equity transactions). None of these transactions are included in the category of depreciation and provisions in Table 1, which only includes ordinary revenue. Finally, analysis of the profitability ratios (which are indicative of corporations' economic and financial health) shows that ordinary returns, i.e. those obtained from companies' regular activity or operations (returns on both net assets and equity), grew in relation to the high levels attained in 1999. Moreover, the cost of financing can be seen to have increased as the rise derived from higher interest rates fed through to corporations. But, as the growth of the return on assets outpaced that of

TABLE 2.a

**Value added, employees, personnel costs and compensation per employee.
Breakdown by size, ownership status and main activity of corporations
(Growth rates of the same corporations on the same period a year earlier)**

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBA		CBQ		CBA		CBQ		CBA		CBQ		CBA		CBQ	
	1998	1999	99 Q1-Q4 (a)	00 Q1-Q4 (a)	1998	1999	99 Q1-Q4 (a)	00 Q1-Q4 (a)	1998	1999	99 Q1-Q4 (a)	00 Q1-Q4 (a)	1998	1999	99 Q1-Q4 (a)	00 Q1-Q4 (a)
Total	6.8	4.3	1.9	8.6	3.7	3.9	-0.1	2.2	5.7	5.3	2.3	5.2	1.9	1.4	2.4	2.9
Total, excluding electricity	7.9	4.3	1.1	10.7	4.1	4.3	0.6	2.6	6.2	5.9	3.0	5.9	2.0	1.6	2.4	3.2
SIZE:																
Small	9.0	10.6	—	—	4.5	6.9	—	—	7.7	8.3	—	—	3.1	1.3	—	—
Medium	9.7	10.8	5.7	8.9	5.4	8.1	3.9	4.5	8.1	9.3	5.7	7.8	2.5	1.1	1.7	3.1
Large	6.3	3.2	1.7	8.6	3.3	2.9	-0.5	1.8	5.2	4.6	2.0	4.6	1.8	1.6	2.6	2.9
STATUS:																
Public-sector	6.0	1.0	0.7	7.0	-1.3	0.5	0.7	1.0	2.2	4.5	4.9	6.0	3.5	4.0	4.1	5.0
Private-sector	7.0	4.9	2.2	9.0	4.8	4.7	-0.4	2.3	6.5	5.5	1.4	4.7	1.6	0.8	1.8	2.3
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing	6.3	1.0	0.4	24.8	2.2	1.6	-0.5	1.6	5.5	3.6	2.4	6.0	3.2	2.0	2.9	4.5
Electricity, gas and water supply	-0.4	4.3	4.8	2.0	-5.5	-5.9	-7.3	-4.3	-1.6	-3.6	-3.4	-2.8	4.1	2.4	4.2	1.6
Wholesale and retail trade	13.7	11.4	6.9	2.3	7.7	6.7	6.4	7.8	9.2	9.1	7.7	9.0	1.5	2.3	1.2	1.1
Transport, storage and communications	5.6	0.7	-1.7	0.9	-0.2	-1.5	-4.5	-4.2	3.3	3.0	0.1	0.6	3.6	4.6	4.8	4.9

Source: Banco de España.

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

the cost of financing, leverage grew once more in relation to the preceding year.

It may be concluded from the foregoing that the corporations in the sample held on a growing and expanding path in the year 2000 in respect of their productive activity, although they slowed slightly in the second half of the year. The rise in crude oil prices and in average compensation affected to some degree the climate of confidence prevailing at the outset of the year 2000, slowing the growth rate of productive activity and investment and employment-

generation processes. The measures recently adopted and the current course of international oil prices, combined with the sound results obtained by non-financial corporations, are the basis for sustaining the growth posted by the Spanish economy in recent years.

2. ACTIVITY

The CBQ data for the four quarters of 2000 (see Table 1 and Chart 1) evidence the strong expansion in the productive activity of non-fi-

TABLE 2.b

Employment and personnel costs
Detail according to changes in staff levels

	Total CBQ corporations 2000 Q1-Q4	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
No. of corporations	800	511	289
Personnel costs			
Initial situation 1999 Q1-Q4 (EUR million)	17,750.2	9,100.8	8,649.4
Rate 00 Q1-Q4 / 99 Q1-Q4	5.2	13.7	-4.0
Average compensation			
Initial situation 99 Q1-Q3 (EUR)	35,222	31,600	39,495
Rate 00 Q1-Q4 / 99 Q1-Q4	2.9	3.5	4.6
Number of employees			
Initial situation 99 Q1-Q4 (000s)	507	288	219
Rate 00 Q1-Q4 / 99 Q1-Q4	2.2	9.9	-8.2
Permanent			
Initial situation 99 Q1-Q4 (000s)	429	226	203
Rate 00 Q1-Q4 / 99 Q1-Q4	0.6	7.1	-7.0
Non-permanent			
Initial situation 99 Q1-Q4 (000s)	78	62	16
Rate 00 Q1-Q4 / 99 Q1-Q4	11.1	19.9	-24.4

Source: Banco de España.

financial corporations over this period. The GVA of the total aggregate of corporations increased by 8.6 % in 2000 compared with the figure of 1.9 % reported by the CBQ in 1999 (when small and medium-sized corporations, scarcely represented in the CBQ, were added to the annual database, the growth rate for 1999 climbed to 4.3 %). The force with which GVA rose in the year 2000 needs to be qualified owing to the influence exerted on this item by the nominal growth of the value added of oil refining corporations, as a result of the pass-through to sale prices of the strong rise in oil prices during the year 2000 (see Chart 2). If the refining industry were stripped out of this aggregate, GVA growth for 2000 would fall to 5.3 %, which nonetheless would still be virtually twice the rate recorded by the same aggregate in respect of GVA for 1999. The favourable situation discernible from the foregoing rates, which relate to the average increase during the year 2000, nevertheless masks a tendency towards more moderate productive activity growth rates. The degree of slackness shown by domestic demand in the closing months of the year (no

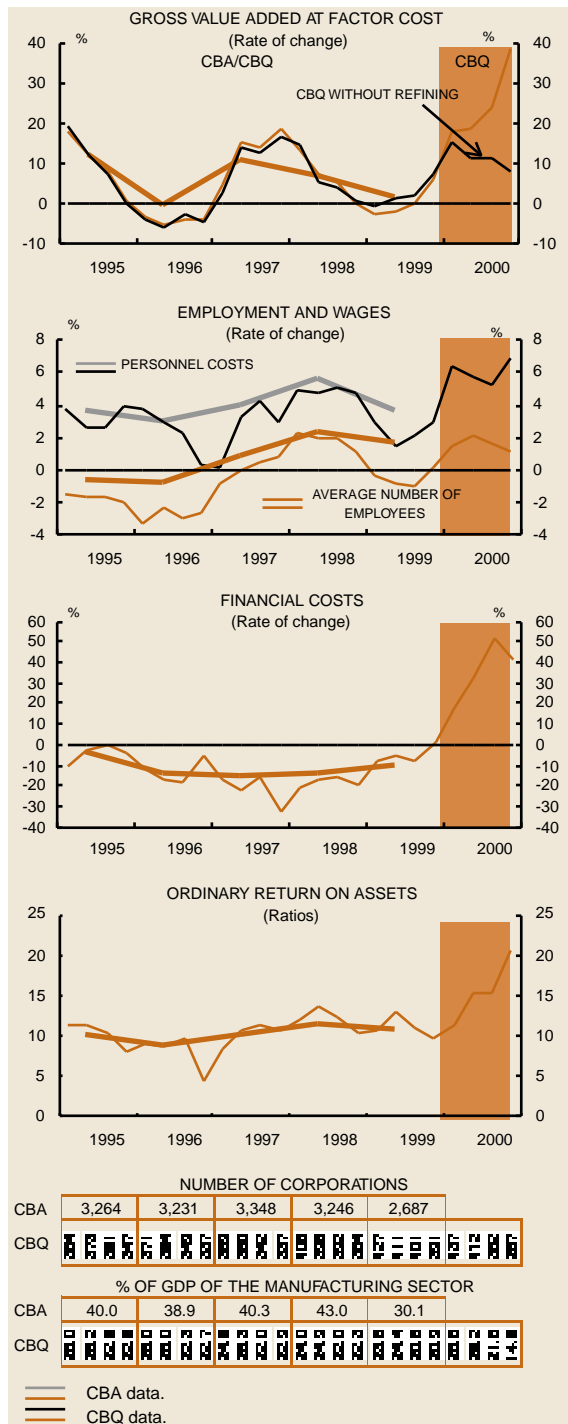
doubt influenced by the effect of higher inflation on overall confidence, and also perhaps by the fall in stock market prices and the subsequent impact on securities-holding agents' wealth) would account for this slowdown. This is because the contribution of the external activity of non-financial corporations and, especially, manufacturing industry (see Table 2.a and Box 1) was clearly positive throughout the year, driven by the pick-up in Spain's closest trading partners and by the course of the euro exchange rate against the dollar. The positive contribution of corporations' external activity in the year 2000 meant, as can be seen in the information furnished in Table 3, that the weight of sales abroad grew by somewhat more than 1.5 percentage points relative to total turnover, once the flatness of 1999 was left behind. In sum, with regard to business activity, growth in 2000 may be said to have been notable, with signs of moderation in the second half of the year, partly related to the effects of oil price rises.

Among the various industries, the performance in manufacturing was very favourable (this is analysed in greater detail in Box 1). It was affected by the bias built into the growth of the GVA of corporations in the refining industry owing to the nominal effect of higher oil prices, but also by the pick-up in exports, which particularly affected this group of corporations, as they are most sensitive to fluctuations in external activity. Directly set against this was the performance in the wholesale and retail trade; after several years of strong increases, GVA growth was 2.3 % in 2000, appreciably lower than the 1999 rate (6.9 % in the quarterly sample). The decline in this rate was largely due to the adverse effect on fuel distribution companies of input price rises which, having not fed through to the same degree to sale prices, entailed reductions in margins and GVA. Finally, the «Electricity, gas and water supply» and «Transport and communications» sectors showed more moderate growth in terms of their productive activity in the year 2000 as a whole. However, this trend should not be seen as a loss of momentum in these sectors (the demand for electricity, for example, grew by 5.4 % in 2000), since it is the outcome of deregulation and the opening up to competition. That entails a reduction in sale prices and, in sum, a narrowing of margins when there is no possibility of passing through greater costs to end consumers.

Analysis of the manufacturing sector

As is customary, the manufacturing sector is analysed in greater detail given its significance in the aggregate under study in this article, and in view of its representativeness and explanatory power in respect of the prevailing economic situation. In 2000, the GVA growth rate in this industry recovered strongly, running at 24.8 % compared with 0.4 % in 1999. The clear pick-up in external activity, which became evident in the second half of 1999, benefited in the year 2000 from the euro exchange rate against the dollar. This, combined with the strength of domestic demand, led manufacturing corporations back onto a markedly expansionary path with excellent business prospects. As was discussed for the entire sample, the rates in the sector are biased upwards owing to the effect of oil price rises on the GVA of oil refining corporations. In any event, if the latter corporations are excluded, the rest of the aggregate continues to evidence the favourable performance noted for 2000 (12.1). In step with the significant improvement in activity, employment grew by 1.6 %. This rate is a return to the figures obtained in 1998, following a net loss of employment in this aggregate in 1999. Average compensation reflected the upward movement of inflationary pressures on wages, and grew by 4.5 % in 2000. Such wage expansion, outpacing the inflation rate for the year, affected virtually all manufacturing sub-sectors. It is a reminder of the need for moderation, if the imbalances which adversely affect long-term sustained growth in employment are to be avoided. The result of both rates (employment and remuneration) was a 6 % increase in personnel costs, a rate appreciably higher than that of 1999 but one which did not prevent an unprecedented increase in the gross operating result (48.5 %). That said, this masks the earlier mentioned price effect of the sub-sector of refining corporations (without this effect, the rate for manufacturing operations would be 20.7 %). Financial costs increased substantially. At the root of this was both the growth of the cost of financing ratio and the resort to fresh borrowing of external funds. As a result of the foregoing effects, funds generated from operations grew by 40.3 %. Ordinary returns rose to levels close to 16 %, in the case of the return on net assets, and 19 % in that of the return on equity. Both were clearly higher than in previous periods and meant that leverage also reached a new peak (9.8 points) as far as the available series is concerned. Better than any other variable, this highlights the favourable situation at the close of the year 2000 for those Spanish manufacturing corporations reporting to the CBQ.

Performance of the manufacturing corporations reporting to the Central Balance Sheet Office (a)



Source: Banco de España.
 (a) Information available to 15 March 2001 (CBA and CBQ). The CBQ data are growth rates on the same quarter of the previous year.

TABLE 3

**Purchase and turnover of corporations reporting data on purchasing sources
and sales destinations
Structure**

	CBA		CBQ	
	1998	1999	99 Q1-Q4 (a)	00 Q1-Q4 (a)
Total corporations	8,112	7,075	880	800
Corporations reporting source/destination	8,112	7,075	825	765
	%	%	%	%
Net purchases	100.0	100.0	100.0	100.0
SOURCE OF PURCHASES:				
Spain	67.0	64.7	74.2	73.6
Total abroad	33.0	35.3	25.9	26.4
<i>EU countries</i>	23.0	23.7	17.7	15.5
<i>Third countries</i>	10.1	11.7	8.2	10.9
Net turnover	100.0	100.0	100.0	100.0
SALES DESTINATIONS:				
Spain	80.7	81.1	87.0	85.5
Total abroad	19.3	18.9	13.0	14.6
<i>EU countries</i>	14.3	14.2	9.5	10.2
<i>Third countries</i>	5.0	4.7	3.6	4.4

Source: Banco de España.

(a) All the data in these columns have been calculated as the weighted average of the relevant quarters.

Chart 3 offers a distribution of corporations in terms of the rate of change of their GVA, irrespective of their size and weight in the total aggregate. The chart provides information on the generalisation of the expansion in productive activity, since 61 % of corporations increased their GVA in 2000 Q4 on the same quarter a year earlier, compared with almost 58 % of corporations who did so in 1999 Q4.

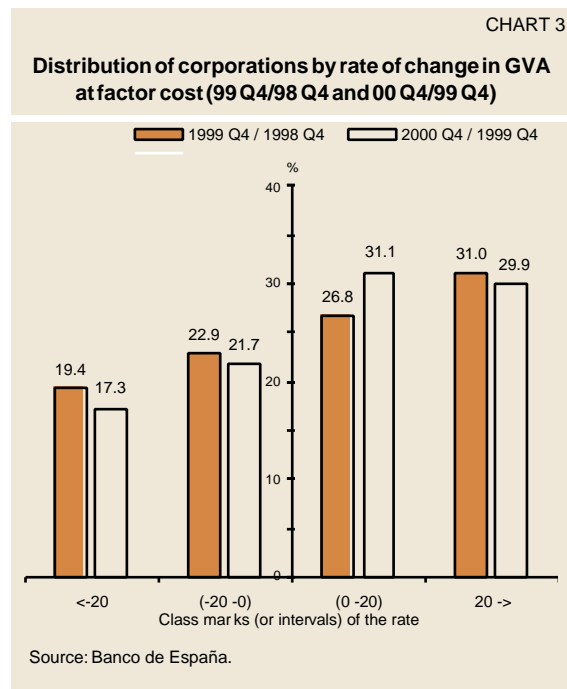
3. EMPLOYMENT AND PERSONNEL COSTS

In line with the expansion of business activity, the year 2000 saw the firming of the sustained growth of employment among the core of large Spanish non-financial firms. This growth extended to most of the firms in the CBQ sample, while the overall employment of all the firms in the sample grew by 2.2 %. As in the case of productive activity, the increases in staffing levels moderated in the latter part of the year, possibly reflecting the greater caution of

firms in the final quarter of 2000, given the acceleration in the general price level and its translation into collective wage demands. Distinguishing between the trends in permanent and temporary employment, it can be seen that temporary employment continued to grow more strongly (increasing by 11.1 % in 2000). However, one of the particular features of 2000, compared with previous years, was that for the first time the CBQ posted a positive change in permanent employment (up 0.6 % in 2000). This rate, albeit low, should be highlighted, because it implies a turning point and because the aggregate of firms involved (the CBQ sample) has been affected in recent years by staffing level adjustments in specific firms that have had a particularly severe impact on permanent employment. These adjustments, discussed in previous articles, are concentrated in certain very large firms in sectors undergoing reorganisation (basically the electricity and communication sectors). As for the rest of the sectors, developments in manufacturing and the wholesale and retail trade were notable. Employment creation

resumed in manufacturing following the reduction in overall staffing levels recorded in 1999, while the fact that it continued and indeed accelerated in the wholesale and retail trade (to 7.8 % in 2000, up from 6.4 % in 1999), confirms that the slower growth of GVA was not so much due to a real loss of momentum in this sector as to the fuel price effect, already mentioned in the section on activity.

Average compensation (personnel costs per worker) rose by 2.9 % during the year 2000, 0.5 percentage points more than in 1999. This acceleration is very possibly attributable to the effect on wage demands of recent developments in the general level of prices. If changes in wages are not linked to changes in labour productivity, i.e. if the increases in average compensation are transmitted from one sector to another, irrespective of the real constraints affecting each sector or, even, each firm, then the competitiveness of productive units will obviously be undermined. The 0.5 percentage point difference mentioned for the sample total is 1.6 percentage points in the case of manufacturing, which recorded growth in average personnel costs of 4.5 % in 2000, as against 2.9 % in 1999 (Table 2.a gives this variable for the other sectors of activity). Wages moderated most in wholesale and retail trade and in electrical and optical equipment (precisely those industries in which employment growth was strongest). The electricity industry also recorded lower growth, despite the decline in its employment. This was not reflected in average costs (through compensation payments), since provisions had already been set aside for the costs associated with the dismissals concerned. In the other sectors shown in the tables, rates of growth of average compensation were above 4 %, in line with inflation in 2000. Table 4 provides qualitative information enabling this aspect to be considered in greater detail. It can be seen that the inflationary upturn in 2000 did not lead to a loss of purchasing power for the employees of the sample firms, given that 52.4 % of the firms making up the CBQ sample increased the compensation paid to their employees at the same rate as the inflation of the period or by more, a higher percentage than in 1999 (51.1 %). As mentioned above, insofar as a balance is maintained between the growth of wage costs and productivity, wage increases are compatible with growth in output, investment and jobs. The CBQ data are not sufficiently detailed for an analysis of labour productivity in the sample



firms. However, Table 4 seems to show that the growth in personnel costs per worker did not affect employment creation, since this growth was widespread and extended to a larger number of firms: in 2000, 63.9 % of the firms increased their staffing levels or kept them unchanged, as against 61 % in 1999.

Finally, Table 2.b enables the trends in the variables discussed above to be contrasted for firms creating and shedding employment. In 2000 as a whole, employment creation became more widespread and, as just mentioned, occurred in most firms. Also, within the aggregate of firms that created employment (at an overall rate of 9.9 %), the growth was highly vigorous both in the case of temporary employment (19.9 %) and in that of permanent employment (7.1 %), leading to a rise in employment for the sample as a whole. As mentioned above, this is the most noteworthy and original development in the time series available. However, the total figure for the whole sample increased by 0.6 % because the firms that shed employment did so at a rate of -7 %, in the case of permanent employment, and -8.2 %, in the case of their total employment. The rate of change of average compensation does not differ greatly for these two aggregates, since although they continue to be somewhat smaller in the group of firms that created employment, owing to the lower cost of newly hired workers, the wage settlements for existing staff meant that the rate stood at 3.5 %. The rate for firms recording declines in employ-

TABLE 4

**Personnel costs, employees and average compensation
% of corporations in specific situations**

	CBA			CBQ			
	1997	1998	1999	98 Q1-Q4 (a)	99 Q1-Q4 (a)	00 Q1-Q4 (a)	00 Q4
Number of corporations	8,049	8,112	7,075	834	880	800	516
Personnel costs	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Falling	24.0	21.4	20.9	27.7	30.0	24.7	29.4
Constant or rising	76.0	78.6	79.1	72.3	70.0	75.3	70.6
Average number of employees	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Falling	28.4	25.7	22.4	40.3	39.1	36.1	37.2
Constant or rising	71.6	74.3	77.6	59.7	61.0	63.9	62.8
Average compensation (relative to inflation) (b)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lower growth	44.0	40.9	51.6	42.7	48.9	47.6	50.7
Higher or same growth	56.0	59.1	48.4	57.3	51.1	52.4	49.3

Source: Banco de España.

(a) Arithmetic mean of the relevant quarters for each column.

(b) Twelve-month percentage change in the CPI.

ment is 4.6 %, which does not include the full costs associated with the dismissals in some firms, as provisions had previously been set aside for such costs and these were not included in the personnel costs of the period in question.

4. PROFITS, MARGINS AND RATES OF RETURN

The fact that GVA grew more briskly than personnel costs led to growth, on average in the four quarters of 2000, of 11.2 % in gross operating profits, a much higher rate than the 1.6 % posted in 1999, although the figure for 2000 is strongly biased upwards for the reasons discussed in the section on activity relating to oil refining. In fact, the aggregate of all firms, excluding the refining sector, posted a rate of 5.5 % in 2000, as against 2.6 % in 1999, which gives an idea of the significant price effect implicit in the growth of gross operating profit and, also, of the increase in the growth of the profits of the corporate sector in

2000, leaving aside the effects of price changes already mentioned. Analysis by sector of activity shows the excellent year for manufacturing firms, whose gross operating profits were up 48.5 %. However, this rate of change is affected by the special circumstances of the refining corporations and is obtained by comparing with 1999, a year in which profits were virtually stagnant in manufacturing.

The financial costs incurred by non-financial corporations in 2000 grew significantly, with the rate for the whole year being 27.1 %. This rate is the result of the change in direction of interest rates and, in consequence, of the cost of financing for the reporting firms and of the increases in the net borrowing of the firms. These needed new finance to carry on their productive activity and to undertake investment (in gross fixed capital formation and, in particular it appears, in the acquisition of company shares and other equity, according to the behaviour of important firms and the changes in certain items of the aggregated balance sheet), taking advantage of the favourable conditions still available

TABLE 5

**Gross operating profit, funds generated, ordinary return on assets and leverage
Breakdown by size, ownership status and main activity of corporations
(Ratios and growth rates of the same corporations on the same period a year earlier)**

	Gross operating result				Funds generated				Return on assets (R. 1)				Leverage			
	CBA		CBQ		CBA		CBQ		CBA		CBQ		CBA		CBQ	
	1998	1999	99 Q1-Q4 (a)	00 Q1-Q4 (a)	1998	1999	99 Q1-Q4 (a)	(a)	1998	1999	99 Q1-Q4 (a)	00 Q1-Q4 (a)	1998	1999	99 Q1-Q4 (a)	00 Q1-Q4 (a)
Total	8.1	3.2	1.6	11.2	10.7	3.3	5,6	7.3	8.9	8.2	8.5	9.6	3.1	3.1	3.2	3.8
Total, excluding electricity	10.2	2.3	-0.8	15.3	12.0	3.2	6.7	7.2	9.3	8.5	8.5	10.4	3.4	3.2	3.0	4.1
SIZE:																
Small	11.2	14.3	—	—	15.0	-7.5	—	—	10.5	10.0	—	—	3.4	4.6	—	—
Medium	12.2	12.9	5.5	10.2	13.7	15.2	11.9	6.2	11.0	10.8	10.4	11.8	5.1	6.3	5.8	6.0
Large	7.4	1.9	1.4	12.0	10.3	2.5	5,4	7.3	8.6	7.9	8.4	9.6	2.9	2.9	3.1	3.7
STATUS:																
Public-sector	14.7	-5.8	-7.5	8.9	20.4	6.2	5.2	7.9	3.7	4.5	3.4	5.5	-2.2	-0.9	-1.7	0.0
Private-sector	7.4	4.3	2.7	12.0	9.9	3.0	5,7	7.4	10.1	9.0	9.7	10.2	4.5	4.1	4.4	4.3
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing industries	7.5	-2.3	-1.8	48.5	8.9	-2.3	1.3	40.3	11.2	10.7	11.1	15.7	5.3	6.4	6.3	9.8
Electricity, gas and water supply	-0.1	6.8	7.5	3.4	5.5	3.6	3,8	8.0	7.4	7.3	8.4	8.7	2.4	3.0	3.7	3.3
Wholesale and retail trade	20.7	14.5	6.6	-6.0	19.2	13.0	10.3	0.4	11.6	11.8	11.0	8.7	5.9	7.6	6.2	3.8
Transport, storage and communications	7.6	-1.1	-3.0	0.8	13.6	2.7	2,4	-4,3	7.2	6.4	6.4	10.9	0.6	0.1	0.5	4.2

Source: Banco de España.
(a) All the data in these columns have been calculated as the average of the quarterly data.

on the market, even when taking into account the aforementioned rises in interest rates. In any event, the effect of changes in this item on total corporate profits is significantly smaller than it would have been 10 years ago, since in the year 2000 it represented 3.4 % of total production (so that changes have only a small impact on the generation of surpluses and profits), less than half of the weight of this item at the beginning of the 1990s.

The following table shows to what extent the change in financial costs is due to rises in inter-

est rates and what part of their growth is explained by the change in financing received:

	<u>00 Q1-Q4/99 Q1-Q4</u>
Change in financial costs	+27.1 %
A. <i>Interest on borrowed funds (1+2)</i>	+27.1 %
1. Due to the cost (interest rate)	+13.5 %
2. Due to the amount of interest-bearing debt	+13.6 %
B. <i>Commissions and cash discounts</i>	+0.0 %

As the breakdown of financial costs shows, they rose in 2000 due to the upward movement

TABLE 6

**Structure of reporting corporations' ordinary returns
on net assets and on equity**

	CBQ			
	Ordinary return on net assets (R.1)		Ordinary return on equity (R.3)	
	99 Q4	00 Q4	99 Q4	00 Q4
Total corporations	100.0	100.0	100.0	100.0
R <= 0 %	26.3	27.6	28.8	31.8
0 % < R <= 5 %	14.4	13.8	11.5	10.9
5 % < R <= 10 %	15.4	13.6	12.0	9.7
10 % < R <= 15 %	12.2	9.9	10.2	8.2
15 % < R	31.7	35.1	37.5	39.4
Number of corporations	842	516	842	516
MEMORANDUM ITEM:				
Average return	7.6	10.3	9.0	12.8

Source: Banco de España.

in interest rates, which was passed through to the firms' cost of financing, and due to the greater recourse by the firms to new external financing. The data available from the CBQ survey does not enable the precise nature of the increases in corporations' net worth during the period in question to be determined (so as not to overburden the firms, the CBQ questionnaire requests information on a very limited number of variables). As a result it is impossible to determine how much of this finance was used for gross capital formation and how much to buy shares and other equity. However, the information at hand suggests that the available funds were used for both purposes and that investment in financial assets appears to have grown. This could explain to some extent the slowdown in the gross capital formation in the period. In this respect, it should be taken into account that in 2000 firms in the telecommunications and electricity industries pressed ahead with their internationalisation by acquiring stakes in new companies and taking control of others already within their corporate groups.

As already mentioned, the strong growth in financial costs continued to have a limited impact on the profit and loss account and, accordingly, did not prevent the sample firms posting significant growth in funds generated in 2000, with a rate of change of 7.3 %, which was almost two percentage points up on the 1999 rate. Also, total net profit rose to 22.7 % of total

production, a figure that well reflects the successful year the Spanish corporate sector had in 2000. This figure would have been higher but for the extraordinary amounts set aside in Q4 by certain large firms to provisions for costs arising from early retirement and from the securities portfolio, warranted by the recent trend in the share prices of technology firms. On the other hand, certain extraordinary income arising from gains generated by significant share dealing transactions boosted net profits, although to a lesser extent than they were reduced by the aforementioned provisions. Note that none of this share dealing is reflected in the depreciation and provisions item of Table 1, which only reflects that of an ordinary nature or, which amounts to the same, that arising from ordinary operations.

The analysis of returns and leverage confirms the excellent business situation in 2000. Despite the slowdown in productive activity detected in the second half of the year, ordinary returns (on both net assets and on equity, which only consider the firms' ordinary operating activity), starting from a high level, grew in the period considered for the aggregate of all the firms and, in practice, in all industries, all size categories and in the public and private sectors (see Table 5). The information provided by Table 6, which distributes the firms according to their returns, shows that in 2000 Q4 the rise, albeit small, in the percentage of firms with

negative returns, was compatible with a gradual shift in numbers of firms towards higher levels of returns. The overall result of these phenomena was positive. Ordinary returns on net assets rose from 8.5 % on average in 1999 to 9.6 % in 2000. This increase in profitability was accompanied in 2000 by a rise in the cost of financing, as measured by the ratio of interest on borrowed funds to interest-bearing borrowing. This rose from 5.2 % in 1999 to 5.9 % in 2000, which was a smaller increase than that in ordinary returns on assets (which rose by 1.1 percentage points as mentioned above), so that leverage (the difference between the return on assets and the cost of financing) rose again, to reach a new historic high. This is one of the best indicators of the excellent business situation at the end of 2000. The return obtained on ordinary operating activity, per unit of assets, exceeded the cost of financing needed to make the investment by almost four percentage points. Accordingly, insofar as certain factors of instability that

are eroding the confidence of economic agents are controlled, the expectations of continuity in the generation of profits, investment and employment can be expected to be maintained. Given that some of these factors are exogenous to the Spanish economy (the trend in oil prices) and others are beyond the control of domestic agents (the fall in the share prices of «technology» firms on international and Spanish markets, and the induced effects on the rest of the stock market and on household wealth), the variables over which the economy and Spanish agents have decision-making power should be monitored with the greatest attention. In any event, it seems obvious to assume that the competitive environment in which the Spanish economy operates is continually widening, and that only by harnessing its relative advantages can Spain continue to converge with the main countries of the euro area.

20.3.2001.