
Results of non-financial corporations in 2001 Q2 (1)

1. INTRODUCTION

In step with other studies on the economic situation in the first half of 2001, the information provided by non-financial corporations to the Central Balance Sheet Office Quarterly Survey (CBQ) confirms the slowdown in business activity during this period, at a slightly more marked rate than in the previous quarter. Testifying to this deceleration is the nominal growth rate of gross value-added (GVA), which held at 4.8% in the first six months of 2001 compared with the figure of 7.5% posted by the reporting corporations in the first half of 2000. The performance of the various industries represented in the sample has been uneven: while manufacturing activity fell, the GVA of the industries most linked to final consumption has been more buoyant, with the wholesale and retail trade and the transport, storage and communications sector being cases in point. Nonetheless, both the decline in value added in manufacturing and the rise in the distributive sector have been affected by the oil price increases in the first half of 2000 and their stabilisation in the recent period.

Employment generation was influenced by the slowdown in activity in virtually all industries. The lower –albeit positive– rate of job creation during the first half of 2001 is the factor behind the more moderate increase in personnel costs than in the same period a year earlier. This is because average personnel costs accelerated somewhat, which may have undesirable effects on competitiveness and job creation. In turn, the growth rate of the gross operating result fell to 4.7%, i.e. little more than half the growth recorded by this variable in the first half of 2000. Financial costs grew notably, owing to the greater debt being incurred by corporations. However, the lagged effect of interest rate developments also explains, though to a lesser extent, the growth of financial costs.

Nonetheless, the favourable performance of financial revenue and the decline in depreciation and operating provisions in the electricity industry enabled the Ordinary Net Result (ONR), the variable on which the Central Balance Sheet Office bases its calculation of profit ratios, to grow by 10.1%. The ONR thus outperformed the related figure in the first half of 2000. The Total Net Result (TNR), which trends more erratically

(1) The information published refers to the 752 corporations which, in the period to 17 September 2001, reported their data to the CBQ. This non-statistical sample affords coverage of 14.3% of the total activity in the sector Non-financial corporations, measured in terms of gross value added at basic prices.

TABLE 1

Profit and loss account. Year-on-year performance
Growth rates of the same corporations on the same period a year earlier

Databases	CBA		CBQ (a)		
	1998	1999	00 Q1-Q4 /	00 Q1-Q2	01 Q1-Q2
Number of corporations/total national coverage	8135/34.0%	7842/30.4%	885/16.2%	930/17.0%	752/14.3%
1. VALUE OF OUTPUT (including subsidiaries)	6.2	9.4	17.0	19.6	5.4
Of which:					
1. Net amount of turnover and other operating income	5.1	7.5	22.4	23.8	7.0
2. INPUTS (including taxes)	5.9	11.9	22.6	27.9	5.8
Of which:					
1. Net purchases	2.8	13.7	28.2	36.9	3.7
2. Other operating costs	11.2	11.1	8.9	10.5	7.1
S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2]	6.7	4.7	8.3	7.5	4.8
3. Personnel costs	5.9	5.8	5.3	5.9	5.1
S.2. GROSS OPERATING RESULT [S.1 - 3]	7.7	3.5	10.7	8.8	4.7
4. Financial revenue	9.3	23.9	10.5	0.0	45.8
5. Financial costs	-6.9	10.3	25.2	11.7	39.6
6. Corporate income tax	15.9	13.0	0.9	12.6	13.2
S.3. FUNDS GENERATED FROM OPERATIONS [S.2 + 4 - 5 - 6]	10.4	3.8	9.2	6.1	3.3
7. Depreciation and provisions and other [7.1 + 7.2 - 7.3]	21.7	3.8	13.3	3.4	22.6
7.1. Depreciation and operating provisions	0.7	7.4	7.3	5.1	-2.4
7.2. Capital losses and extraordinary expenses	54.1	0.2	25.9	-29.2	94.2
7.3. Capital gains and extraordinary revenue	23.3	3.4	17.1	-21.9	10.6
S.6. ORDINARY NET PROFIT [S.2 + 4 - 5 - 7.1]	24.1	3.7	8.9	8.3	10.1
MEMORANDUM ITEM:					
S.4. TOTAL NET PROFIT [S.3 - 7] (% of GVA at factor cost) (t-1, t) (b)	14.7-14.9	16.1-15.1	21.0-20.1	25.9-26.1	25.8-21.0
PROFIT RATIOS					
R.1 Ordinary return on net assets (before taxes)	8.4	7.8	9.2	8.4	8.7
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.7	5.1	5.9	5.4	5.9
R.3 Ordinary return on equity (before taxes)	9.7	9.5	11.2	10.2	10.6
R.4 Financial leverage (R.1 - R.2)	2.6	2.8	3.3	3.0	2.8
R.5 <i>Debt ratio</i>	40.0	43.5	43.4	43.0	46.5

Source: Banco de España.

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

(b) These ratios are obtained for the same corporations in periods t and t-1.

Note: Internal accounting movements have been edited out of items 4, 5, 6, 7.2 and 7.3 in the calculation of rates.

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 (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	1999	00 Q1- Q4	00 Q1- Q2	01 Q1- Q2	1999	00 Q1- Q4	00 Q1- Q2	01 Q1- Q2	1999	00 Q1- Q4	00 Q1- Q2	01 Q1- Q2	1999	00 Q1- Q4	00 Q1- Q2	01 Q1- Q2
TOTAL	4.7	8.3	7.5	4.8	4.2	2.1	2.5	0.9	5.8	5.3	5.9	5.1	1.6	3.1	3.3	4.2
Total, excluding electricity	4.8	15.8	7.6	6.4	4.6	2.7	3.1	1.3	6.4	6.2	7.0	5.2	1.7	3.5	3.8	3.9
SIZE:																
Small	11.1	—	—	—	6.9	—	—	—	8.6	—	—	—	1.5	—	—	—
Medium	11.5	9.6	11.2	3.4	8.9	3.9	4.0	3.1	10.2	7.4	7.6	8.1	1.2	3.4	3.5	4.8
Large	3.5	8.2	7.3	4.9	3.1	1.9	2.3	0.6	4.9	5.1	5.8	4.8	1.8	3.1	3.4	4.2
STATUS																
Public-sector	0.1	9.4	6.1	7.9	0.7	0.8	0.2	1.1	4.6	6.2	5.6	7.1	3.8	5.4	5.4	5.9
Private-sector	5.4	8.1	7.8	4.4	5.0	2.5	3.3	0.8	6.1	5.0	6.0	4.5	1.1	2.4	2.6	3.7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing	1.6	22.6	18.8	-2.5	1.8	1.7	1.8	0.5	4.1	5.9	6.1	4.0	2.3	4.1	4.2	3.5
Electricity, gas and water supply	4.2	1.9	7.3	0.0	-5.7	-5.1	-4.7	-3.5	-3.5	-2.6	-3.4	4.1	2.3	2.6	1.4	7.9
Wholesale and retail trade	11.7	1.6	3.0	11.3	6.6	7.9	8.5	6.6	9.5	9.2	10.1	9.8	2.7	1.2	1.5	3.0
Transport, storage and communications	0.7	2.0	-0.6	10.6	-1.3	-2.9	-2.2	-3.7	3.2	2.4	3.5	2.1	4.5	5.5	5.8	6.0

Source: Banco de España.

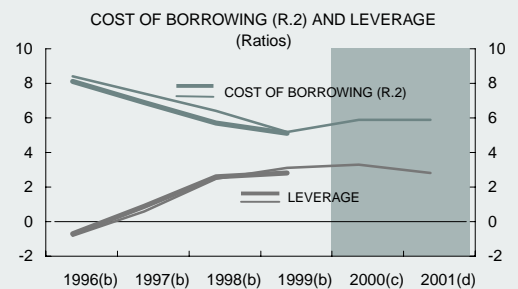
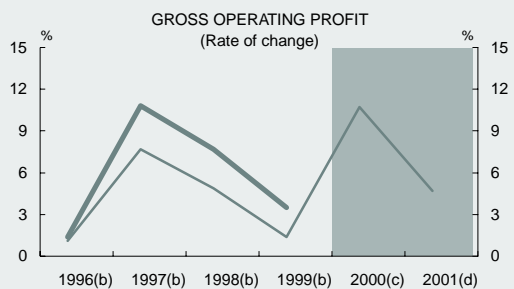
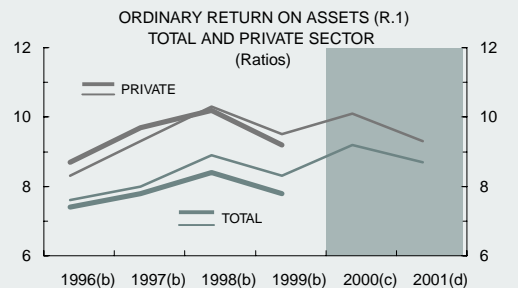
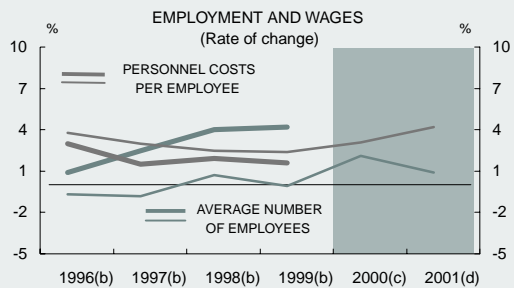
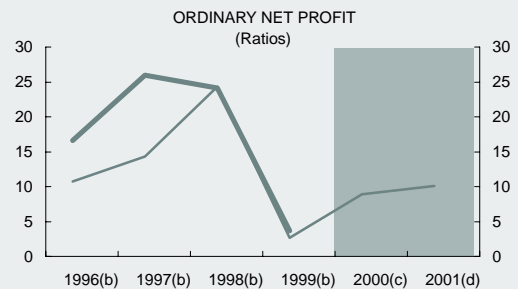
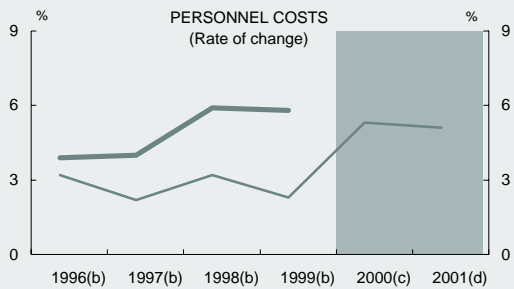
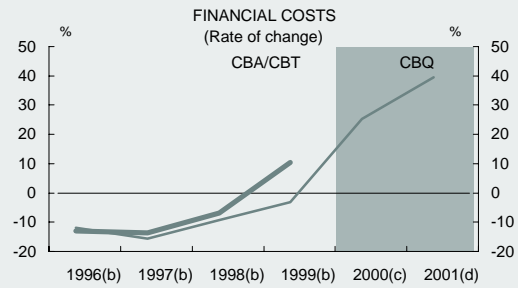
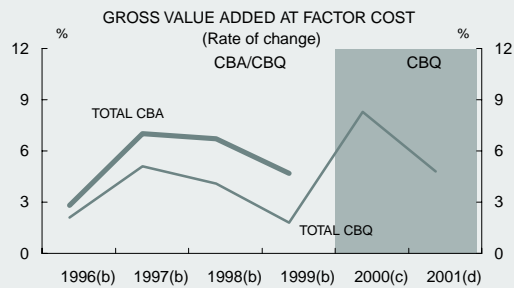
(a) All the data in these columns have been calculated as the weighted average of the quarterly data.

than the ONR (owing to the fact that it includes the effect both of “capital losses and extraordinary expenses” and “capital gains and extraordinary revenue”), fell in relation to the previous year due essentially to large corporations’ extraordinary provisioning for their participating interests (2). As a result of the performance of the ONR, the ordinary return on net assets (R.1) and on equity (R.3) held at high levels, slightly up on the first half of the year 2000. Consequently, despite the slight rise in interest rates, the business sector as a whole continued to show clearly positive leverage, albeit slightly down on the previous year.

(2) For the reasons set out in previous articles, the TNR is expressed as a percentage of the GVA of the same corporations in the two periods under comparison (see the memorandum item in Table 1).

In sum, the tables and charts included in this article and other more detailed graphics that the Banco de España *Boletín estadístico* is beginning to disseminate (see Box 2) reveal a picture characterised by the slowdown in both activity and employment generation and by growth in financial costs. However, the high growth rate of the ONR allows the CBQ non-financial corporations to continue posting very positive returns, irrespective of the ratio with which they are measured. In any event, the aforementioned slowdown, combined with the serious uncertainty over the global economic situation, casts doubt on how the Spanish economy will fare in the coming months. However, set against such uncertainty, the healthy balance sheet position of Spanish corporations and their high rates of return provide a sound basis for tackling the challenges of a less buoyant and riskier scenario.

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



		NUMBER OF CORPORATIONS					
CBA		8,032	8,054	8,135	7,842		
CBQ		725	722	835	882	885	752
		% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS					
CBA		34.2	33.9	34.0	30.4		
CBQ		19.1	18.7	18.0	16.9	16.2	14.3

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— CBA data

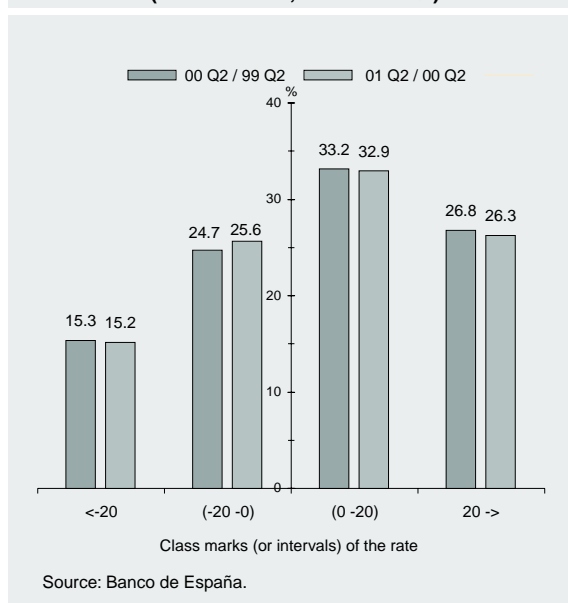
— CBQ data

Source: Banco de España.

- (a) Information available to 17 September 2001 (CBA and CBQ).
- (b) The 1996, 1997, 1998 and 1999 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).
- (c) Average of the four quarters of 2000 over the same period of 1999.
- (d) Average of the first two quarters of 2001 over the same period of 2000.

CHART 2

**Distribution of corporations by rate of change
in GVA at factor cost
(00 Q2 / 99 Q2, 01 Q2 / 00 Q2)**



2. ACTIVITY

As can be seen in Table 1 and Chart 1, the set of non-financial corporations reporting to the CBQ in the first six months of 2001 recorded nominal growth in their activity (i.e. GVA) of 4.8% in relation to the same period a year earlier, which compares with growth of 7.5% for the same corporations during the first half of 2000. The slowdown in productive activity has also been confirmed by the change in net turnover, which declined from 23.8% in the first half of 2000 to 7% in 2001, and by that in net purchases (3.7% in 2001 against 36.9% in 2000). That said, the high growth rates of these variables in the year 2000 were much influenced by the oil price rises then taking place. Nonetheless, the change in GVA in all the corporations in the sample during the first half of 2001 shows that the different activity groupings in which these corporations are classified (see Table 2.a) performed unevenly. In sum, there was a notable contraction in manufacturing industry (declines of 2.5% in GVA), which was on a lesser scale in the food, beverages and tobacco industry. Also notable were the slackness in the electricity, gas and water industry, and the strong growth in GVA in wholesale and retail trade (11.3%) and in transport, storage and communications corporations (10.6%). As regards the end use of output, Table 3 shows a gradual decline in sales abroad, which dipped from a growth rate of 14.6% in the year 2000 as a whole to 13.8% in the first half of 2001.

TABLE 2.b

**Employment and personnel costs
Detail according to changes in staff levels**

	Total CBQ corporations 01 Q1-Q2	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
No. of corporations	752	452	300
Personnel costs			
Initial situation 00 Q1-Q2 (EUR million)	9,046.5	4,252.4	4,794.1
Rate 01 Q1-Q2 / 00 Q1-Q2	5.1	11.4	-0.6
Average compensation			
Initial situation 00 Q1-Q2 (EUR)	18,470	16,611	20,488
Rate 01 Q1-Q2 / 00 Q1-Q2	4.2	3.6	6.3
Number of employees			
Initial situation 00 Q1-Q2 (000s)	490	256	234
Rate 01 Q1-Q2 / 00 Q1-Q2	0.9	7.5	-6.5
Permanent			
Initial situation 00 Q1-Q2 (000s)	408	207	201
Rate 01 Q1-Q2 / 00 Q1-Q2	1.0	5.6	-3.7
Non-permanent			
Initial situation 00 Q1-Q2 (000s)	82	49	33
Rate 01 Q1-Q2 / 00 Q1-Q2	0.1	15.4	-23.5

Source: Banco de España.

Under manufacturing industry, GVA in oil refining ran at a negative growth rate of 6.5% in the period to date in 2001 compared with the same period a year earlier. This was due to the fact that in the first half of 2000 oil prices grew strongly, and this fed through in full to refinery output (increasing the GVA of refining corporations), which is tantamount to a pass-through to the inputs of the oil marketing and distribution corporations (diminishing their GVA). The GVA of the electricity, gas and water production and distribution corporations was flat during the period under analysis as a result of the slowdown in demand. According to information from the industry, demand grew by 4.9% in the first half of 2001, against 7.2% in the same period a year earlier. And combining with this was a reduction in the electricity charge and the fall in activity in the gas industry. As indicated above, the recent performance of industries geared ultimately to final consumption, i.e. the wholesale and retail trade, and transport, storage and communications, was markedly different. The performance of corporations in the wholesale and retail trade has been influenced by the aforementioned rise in the input prices of fuel marketing and distribution corporations during the first half of 2000. And this, in step with the fall in GVA in refining, explains why, once the market has stabilised, the former corporations have seen their GVA climb significantly in the first half of 2001. In any event, if the corporations engaged in this activity are stripped out, the GVA of the re-

TABLE 3

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

	CBA	CBQ (a)	
	1999	00 Q1-Q4 / 99 Q1-Q4	01 Q1-Q2 / 00 Q1-Q2
Total corporations	7,842	885	752
Corporations reporting source/destination	7,842	846	726
	%	%	%
Net purchases	100.0	100.0	100.0
SOURCE OF PURCHASES:			
Spain	63.9	74.3	77.2
Total abroad	36.1	25.7	22.8
<i>EU countries</i>	25.0	15.2	15.6
<i>Third countries</i>	11.1	10.5	7.2
Net turnover	100.0	100.0	100.0
SALES DESTINATIONS:			
Spain	80.7	85.4	86.2
Total abroad	19.3	14.6	13.8
<i>EU countries</i>	14.6	10.0	8.4
<i>Third countries</i>	4.7	4.6	5.4

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

maining wholesale and retail trade firms still increases by 7.2%, albeit less than the previous year (12.8%), confirming the slowdown referred to. Turning to communications corporations, the assumption put forward in the commentary on the data for 2001 Q1 appears to have been confirmed; namely, that these firms are generating more value-added as a result of the priority granted to this end compared with previous strategies aimed at increasing market share.

Lastly, an alternative measure of the trajectory laid out in the previous paragraphs is to consider, as Chart 2 does, the performance of each of the individual corporations included in the CBQ sample. The chart shows that the number of corporations whose GVA is trending positively was less in the first half of 2001 than in the first half of 2000. In any event, 59.2% of the reporting corporations saw their nominal GVA continue to increase in this period, and that at a rate of more than 20% in 26.3% of the corporations.

3. EMPLOYMENT AND PERSONNEL COSTS

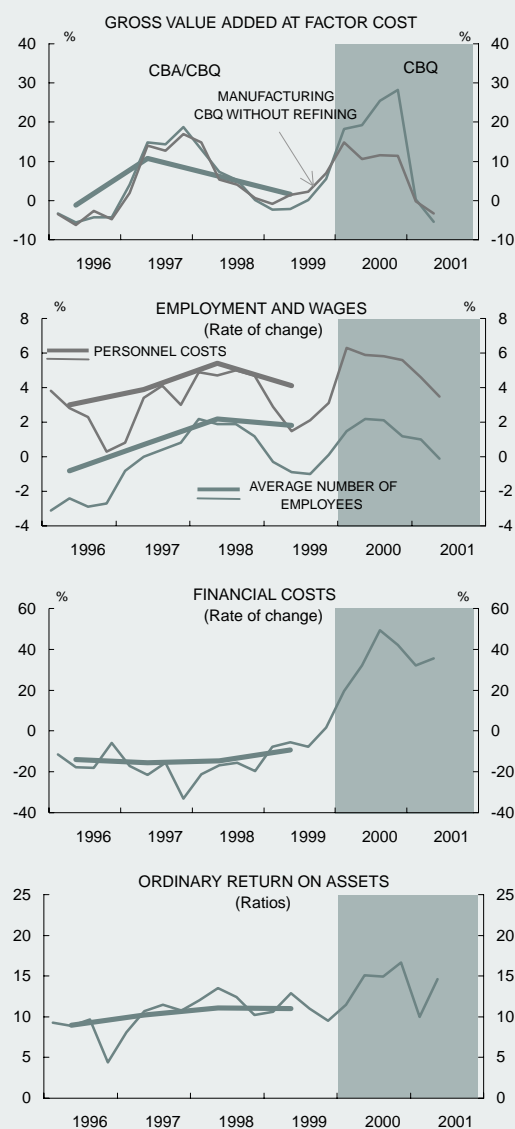
CBQ reporting corporations' personnel costs grew at a rate of 5.1% during the first

half of 2001 compared with 5.9% in the same period in 2000. The information available suggests that this reduction is due, in relative terms, to changes in employment and not to average compensation. Indeed, although the number of employees (Table 2.a) continued to trend favourably, it did so during the first six months of 2001 at a significantly lower rate (0.9%) than that recorded in the same period the previous year (2.5%). Sector by sector, it can be seen that "electricity, gas and water" and "transport and communications" continue to show the consequences of recent staffing adjustments (their related rates are negative: -3.5% and -3.7%, respectively). Meantime, job creation in the wholesale and retail trade (with the number of employees growing 6.6%) and the industries with limited coverage (whereby they are not shown in Table 2.a) explains why the rate of the total aggregate rises to the value indicated. Employment grew slightly in manufacturing (0.5%), despite the decline in activity in this industry. Disregarding the trend in activity by industry, Table 2.b reveals that the change in employment in the first half of the year is atypical, since the increase in permanent employees was higher than that for temporary workers (1% in the case of the former compared with 0.1% for the latter).

Analysis of the manufacturing sector

As may be deduced from the main body of this article, there was an across-the-board decline in manufacturing in the first six months of 2001. All sub-sectors were affected with the exception of "food, beverages and tobacco". The nominal rate of change of GVA in manufacturing during the first half of 2001 was -2.5%, compared with 18.8% in the same period in 2000. As indicated on previous occasions, developments in manufacturing corporations as a whole in the year 2000 were much affected by the rise in international oil prices. That led to strong nominal increases in the GVA of the oil refining industry that year and, symmetrically, to sharp falls in the year 2001. If this sub-sector is stripped out, the change in manufacturing activity in the first half of 2001 stands at -1.8%, compared with 12.8% the previous year. Also notable because of their negative impact are the glass, ceramics and metal sub-sectors. The slowdown has also passed through to job creation. During the period under study the increase in staffing was 0.5%, against 1.8% during the first half of 2000. This deterioration in the growth rate of employment has been widespread, equally affecting all the manufacturing sub-sectors in the sample. Average compensation grew by 3.5%, a rate slightly down on that for the year 2000 (4.1%). This prompted personnel costs to increase by 4.2% in the first six months of 2001. The slowdown in activity, combined with the increase in personnel costs, gave rise to a significant reduction in the gross operating result (-8.4%), to which virtually all the manufacturing sub-sectors contributed (only the "food, beverages and tobacco" sub-sector has posted positive values, with a nominal change of 1.2%). Financial costs rose by 33.8%, against 25.8% in the same period the previous year. This increase was due both to higher borrowing costs (up from 5.3% to 6% between the first halves of the years 2000 and 2001, respectively) and to the greater resort to foreign funds. Despite this negative trend, and owing to the fact that manufacturing corporations were starting from very high levels of profitability, the decline in ordinary returns (the return on assets dipped from 13.4% to 12.1% between 2000 and 2001) has not prevented notably positive leverage values from continuing to be obtained both in manufacturing industry as a whole and in the various sub-sectors. In sum, manufacturing industry has been affected by the greater weakness shown by domestic and foreign activity in relation to the first half of 2001. And this has had a significant impact on an industry exposed to competition. The exogenous factors of uncertainty added by the dramatic events in September make co-operation among all economic agents within corporations particularly necessary so that the productive activity and employment generating capacity of manufacturing firms may regain momentum once confidence is restored and demand steps up.

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



NUMBER OF CORPORATIONS

CBA	3,231	3,351	3,255	2,918
CBQ	372	365	337	360
	351	343	337	308
	398	392	384	327
	411	401	392	435
	414	390	377	317

% OF GDP OF THE MANUFACTURING SECTOR

CBA	38.9	40.3	43.0	30.1
CBQ	25.3	25.4	22.6	22.7
	25.0	25.7	22.3	22.9
	24.1	24.9	22.1	22.3
	23.9	24.4	23.9	20.9
	25.4	26.0	21.4	21.6
	21.1	21.1	19.2	

— CBA data.

— CBQ data.

Source: Banco de España.

(a) Information available to 17 September 2001 (CBA and CBQ). The CBQ data are growth rates on the same quarter of the previous year.

TABLE 4

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

	CBA		CBQ			
	1998	1999	99 Q1-Q4 (1)	00 Q1-Q4 (a)	00 Q2	01 Q2
Number of corporations	8,135	7,842	882	885	906	675
Personnel costs	100.0	100.0	100.0	100.0	100.0	100.0
Falling	21.4	21.0	30.0	24.5	21.9	25.2
Constant or rising	78.6	79.0	70.0	75.5	78.1	74.8
Average number of employees	100.0	100.0	100.0	100.0	100.0	100.0
Falling	25.7	22.8	39.0	35.3	34.8	41.3
Constant or rising	74.3	77.2	61.0	64.7	65.2	58.7
Average compensation (relative to inflation) (b)	100.0	100.0	100.0	100.0	100.0	100.0
Lower growth	40.9	51.4	48.8	47.1	48.5	45.4
Higher or same growth	59.1	48.6	51.2	52.9	51.5	54.6

Source: Banco de España.
(a) Weighted average of the relevant quarters for each column.
(b) Twelve-month percentage change in the CPI.

Accompanying the reduction in job creation in the first half of 2001 has been an increase in average compensation. For the whole sample, personnel costs per employee, i.e. average compensation, grew by 4.2% in the first six months of 2001, against 3.3% in the same period a year earlier. Table 2.b shows that, as is habitual, average compensation (personnel costs per employee) in cor-

porations increasing staff levels grew less than in those that reduced them. Average compensation has trended similarly across the different industries, growing by 3% in wholesale and retail trade, 3.5% in manufacturing and above 4.1% in the remaining industries. Table 4 addresses the matter on a corporation-by-corporation basis and shows that in 54.6% of all firms average compensa-

CHART 3

Business margin (a)

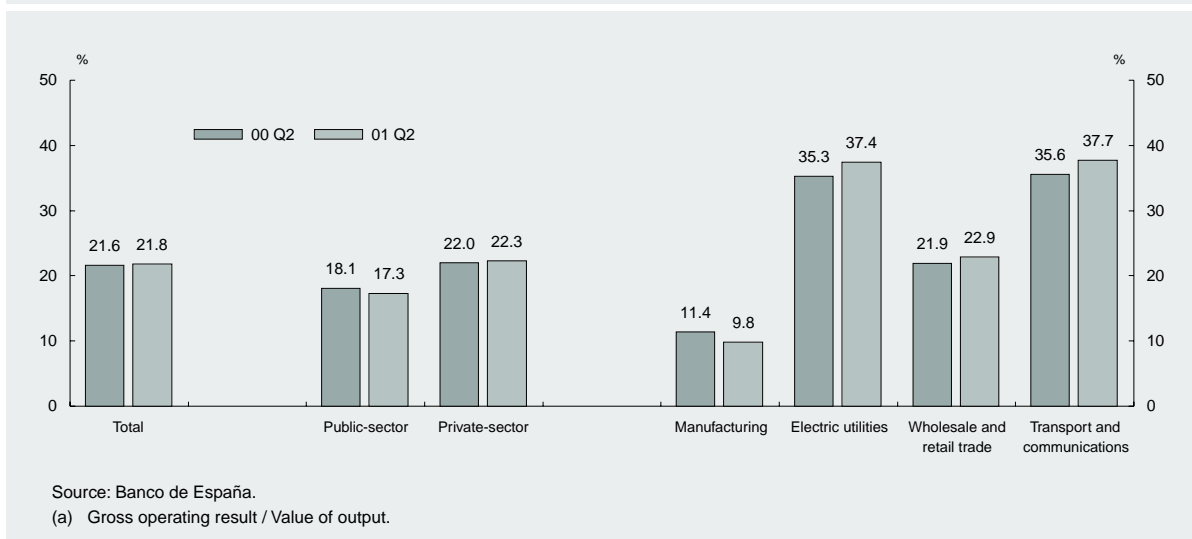


TABLE 5

**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 (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	1999	00 Q1- Q4	00 Q1- Q2	01 Q1- Q2	1999	00 Q1- Q4	00 Q1- Q2	01 Q1- Q2	1999	00 Q1- Q4	00 Q1- Q2	01 Q1- Q2	1999	00 Q1- Q4	00 Q1- Q2 I a II	01 Q1- Q2
TOTAL	3.5	10.7	8.8	4.7	3.8	9.2	6.1	3.3	7.8	9.2	8.4	8.7	2.8	3.3	3.0	2.8
Total, excluding electricity	2.7	14.9	8.2	7.6	3.8	12.2	6.8	6.7	8.0	9.8	8.9	9.4	2.7	3.5	3.1	3.1
SIZE:																
Small	15.3	—	—	—	18.6	—	—	—	10.0	—	—	—	4.6	—	—	—
Medium	13.4	12.9	16.0	-2.3	14.6	13.6	14.7	-3.0	11.1	11.7	13.7	12.2	6.5	6.0	8.7	6.4
Large	2.0	10.6	8.4	5.0	2.3	9.1	5.7	3.6	7.5	9.1	8.2	8.6	2.4	3.2	2.8	2.7
STATUS:																
Public-sector	-15.3	16.5	7.3	10.0	6.8	11.2	-1.3	12.9	1.5	4.6	4.0	2.6	-3.9	-1.1	-1.5	-2.2
Private-sector	4.7	10.1	8.9	4.3	3.6	9.0	7.0	2.7	9.2	10.1	9.4	9.3	4.2	4.2	4.0	3.3
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing industries	-1.5	44.4	35.9	-8.4	-2.3	42.2	25.5	-7.3	11.0	14.6	13.4	12.1	6.4	8.7	8.1	6.1
Electricity, gas and water supply	6.6	3.2	10.3	-0.9	3.7	3.4	4.7	-4.4	7.3	8.3	7.6	7.6	3.0	2.9	2.7	2.2
Wholesale and retail trade	14.9	-8.0	-5.3	13.3	12.6	-3.1	0.0	7.6	12.3	8.9	9.4	11.1	8.0	3.8	5.1	6.2
Transport, storage and communications	-1.3	1.8	-3.5	16.0	2.6	0.0	-3.1	11.4	6.5	8.6	7.3	12.5	0.2	2.0	0.9	6.5

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

tion growth exceeded inflation in 2001 Q2 (51.5% of such firms were in that situation in the same quarter in 2000). That may adversely affect profitability and the capacity to generate employment and funds for new investment, a point of particular significance in the sectors most open and exposed to foreign competition.

4. PROFITS, MARGINS AND RATES OF RETURN

As a consequence of developments in activity and personnel costs, the growth rate of the gross operating result of the corporations reporting to the CBQ fell to 4.7% from 8.8% in the first half of 2000 (see Table 5). As in the case of activity, this performance is due to the differentiat-

ed behaviour of margins (measured by the gross operating result/value of output ratio) in the various industries, in terms of their lesser or greater exposure to competition (see Chart 3). Compared with the high growth rates of the gross operating result in "wholesale and retail trade" and "transport, storage and communications" corporations, the corporate surplus contracted in manufacturing in the first half of 2001.

Financial costs continued to increase significantly (39.6%), remaining on the path initiated in 1998, which steepened following the rises in borrowing costs as from 1999. The breakdown of such costs in terms of effect (change in costs due to the change in the cost of borrowing, i.e. to changes in interest rates, on one hand, and change in financial costs due to

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)	
	00 Q2	01 Q2	00 Q2	01 Q2
Total corporations	100.0	100.0	100.0	100.0
R ≤ 0 %	18.6	17.1	22.3	20.8
0 % < R ≤ 5 %	14.1	16.3	10.8	12.9
5 % < R ≤ 10 %	14.6	17.2	10.5	11.7
10 % < R ≤ 15 %	14.1	15.1	10.3	13.2
15 % < R	38.6	34.3	46.1	41.4
Number of corporations	906	675	906	675
MEMORANDUM ITEM:				
Average return	8.9	9.3	10.8	11.6

Source: Banco de España.

changes in the amount of debt, i.e. in borrowed funds, on the other) is as follows:

Change in financial costs	39.6%
A. <i>Interest on borrowed funds (1+2)</i>	39.6%
1. Due to the cost (interest rate)	9.3%
2. Due to the amount of interest-bearing debt	30.3%
B. <i>Commissions and cash discounts</i>	0.0%

As can be seen, the strong rise in financial costs arose mainly from the increase in borrowed funds, but also from the rise in interest rates compared with their level in the first half of 2000 (3). In any event, despite the greater weight financial costs are acquiring (as a proportion of output they rose from 3.7% in the first half of 2000 to 5.2% in the same period in 2001), their impact on results cannot yet be considered to be very significant. Moreover, part of this debt has been used by corporations to purchase shares abroad, which are acting as a source of income generation, i.e. of greater financial revenue. It is precisely the increase in

(3) The growth of borrowed funds reflected under "Change in financial costs" should not be confused with the debt ratio (R.5) at the bottom of Table 1. The former refers to the net flow of debt incurred by corporations between the end of 2000 Q2 and the end of 2001 Q2. The R.5 ratio shows the relationship between interest-bearing liabilities and equity (both balance-sheet data) at the end of the period concerned. Note that an increase (decrease) in debt in any period may correspond to a fall (rise) in R.5, simply because there is a bigger increase (fall) in equity in this period.

financial revenue in the first half of 2001, along with the decline in depreciation and operating provisions, which explains why the ONR has grown by 10.1%. It has duly outperformed the result for the first half of 2001 (8.3%), despite the course of activity and, above all, despite the trend of the gross operating result. The growth of financial revenue is largely due to dividend inflows from foreign investees. The fall in depreciation and operating provisions is due, among other causes, to the reduction in the assistance to electric utilities in connection with the costs of the transition to competition (CTC), to which the provisions for depreciation of the corporations in this sector are to some degree connected (4). In sum, and with the caveats mentioned, the ONR –the variable the Central Balance Sheet Office uses to calculate profitability ratios– reflects the satisfactory situation of the corporations reporting to the CBQ, despite the slow-down in activity mentioned in this article.

Tables 5 and 6 give a detailed report of changes in and the breakdown of the profitability ratios and of borrowing costs. As regards the ordinary return on assets (R.1), this amounted

(4) Lesser assistance with the CTC means less depreciation of equipment and machinery acquired under the regulated market. Further, as the adjustment of the CTC were known in 2000, corporations proceeded in that period to depreciate, with a charge to reserves, the equipment and machinery whose depreciation could no longer be charged off to future assistance with CTC. Both factors explain why depreciation and operating provisions fell during the first half of 2001.

Dissemination of Central Balance Sheet Office data in the Banco de España *Boletín estadístico*

The Internet edition of the Banco de España *Boletín estadístico* ([www.bde.es/Estadísticas/Boletín estadístico/chapter 15](http://www.bde.es/Estadísticas/Boletín%20estadístico/chapter%2015)) has, since July, been drawing together statistics from the Central Balance Sheet Office, essentially CBA and CBQ time series, which are presented as homogeneously as possible. The aim in disseminating this information, which is in Chapter 15 of the *Boletín estadístico*, has been to provide users with longer series than those offered in these quarterly articles, while also making it easier to download the data, which will be updated as and when new information becomes available. The chapter is in two sections. The first contains three general tables and the second 16 tables of time series. The general tables seek to place those of the second section in the context of the work conducted by the Central Balance Sheet Office and to define the concepts included in the time series tables. The latter are grouped into two series of eight tables each, and relate to the CBA (odd numbers) and to the CBQ (even numbers), so that each CBA table has an identical heading to the CBQ table to which it corresponds. Both references, that of the CBA series and that of the CBQ series, complement each other, and their dissemination is intended to assist analysts and users who follow the work of the Banco de España Central Balance Sheet Office.

to 8.7% in the first half of 2001, slightly down on that recorded in 2000. The favourable trend in the business of corporations in the wholesale and retail trade and the transport, storage and communications industry accounts for profitability levels being maintained as far as the overall aggregate of firms is concerned. The fall in R.1 in manufacturing, from 13.4% in the first half of 2000 to 12.1% in the first half of 2001, has not prevented the level of profitability from continuing to be clearly higher than borrowing costs (i.e. from showing clearly positive leverage). As to corporations as a whole, the change in the ordinary return on assets, combined with that in borrowing costs for corporations, which increased by half a percentage point (from 5.4% to 5.9%), led to a very positive leverage ratio of 2.8 for corporations as a whole. Though two-tenths of a point below that for the first half of the previous year, this ratio was in step with an economic outlook that is generally slowing, but one which sustains a healthy climate in which firms may pursue their business. Table 6 shows that there has been a slight increase in the number of corporations

with positive ordinary returns (on both net assets and on equity). Here, profitability levels in the upper brackets have been somewhat lower than those attained a year ago, but average returns have been higher than in the first half of 2000. This should be borne in mind in any overall assessment of the position of non-financial corporations.

It may thus be concluded that the CBQ non-financial corporations, where developments are consistent with those suggested in complementary studies, continued to post more moderate growth in activity in 2001 Q2 than in the previous quarter. The slowdown has affected manufacturing and the electricity sector, while the performance of the industries whose output is earmarked for final consumption has improved. Against this background, profitability ratios remain positive and higher than borrowing costs, which places firms on a sound footing to face the heightening uncertainty overshadowing the international economic situation.

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