
Results of non-financial corporations in 2000 and the first three quarters of 2001 (1)

1. INTRODUCTION

As is customary at this time of year, the Banco de España presents here annual results for non-financial corporations, for 2000 in this instance (based on the annual data or CBA), and quarterly results, for 2001 Q3 (drawn from the quarterly database or CBQ). The quarterly data now available confirm the slowdown in productive activity foreshadowed in the articles in the July and October editions of the Economic bulletin, in contrast to the vigorous growth of gross value added (GVA) during 2000. In line with the preliminary data compiled on the basis of CBQ data for the four quarters of 2000, published in the April edition of the Economic bulletin, the GVA obtained by the CBA for 2000 grew at a nominal rate of 7.1% in relation to the previous year. However, in the first three-quarters of 2001 there was a reduction in the rate of change of the GVA to 4.8%, a trend that may possibly intensify in Q4 (Table 1 and Chart 1).

Both the growth in 2000 and the progressive slowdown during 2001 to date have been affected by the recent trend in oil prices, which rose significantly during 2000, especially in the second half of the year. Even when the upward bias of the firms in the refining business (which, like those in the business of marketing fuel, are better represented in the Central Balance Sheet Office sample of firms than those engaged in other activities) is discounted, 2000 still shows a very positive performance. This stemmed, among other factors, from the healthy behaviour of demand. However, the slowdown in the growth of manufacturing corporations has been gaining momentum during 2001 (Table 2 and Box 1). These are the corporations most exposed to competition and they have suffered the consequences of lower external demand

(1) The information in this article relates to the 6,173 corporations that had sent information by 31 October 2001 to the Central Balance Sheet Office Annual Survey (CBA), and to the 732 corporations which, on average, sent information on the first three quarters of 2001 to the Central Balance Sheet Office Quarterly Survey (CBQ) in the period to 16 November 2001. The CBA sample corporations account for 25.7% of the total GVA of the sector non-financial corporations, while the coverage is 13.6% in the case of the CBQ. The sending of data to the CBA is in a way dependent on the formal approval of the accounts of the corporations by their shareholders, which explains why the publication of the accounts for year n in the annual monograph of the Central Balance Sheet Office takes until November of the year $n+1$. The data sent by the corporations to the CBQ are not end-quarter data and, in most cases, are based on estimates, which enables them to be published in these articles with a lag of 3 months on the final month of the calendar quarter to which the latest published information refers. The information compiled and published by the CBQ is less detailed than that of the CBA, but, as can be seen in Chart 1, it is a leading indicator of the latter.

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)		
	1999	2000	00 Q1-Q4 / 99 Q1-Q4	00 Q1-Q3 (a)	01 Q1-Q3 (a)
Number of corporations/total national coverage	7951/30.7%	6173/25.7%	894 / 16.5%	915 / 16.8%	732 / 13.6%
1. VALUE OF OUTPUT (including subsidies)	9.0	16.1	17.1	18.2	3.6
Of which:					
1. Net amount of turnover and other operating income	10.7	17.8	22.3	23.0	5.0
2. INPUTS (including taxes)	11.3	20.4	23.0	25.2	3.0
Of which:					
1. Net purchases	12.8	24.7	28.5	31.7	1.1
2. Other operating costs	11.1	13.4	9.5	10.7	5.7
S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2]	4.6	7.1	8.0	7.6	4.8
3. Personnel costs	5.9	7.1	5.5	5.8	4.9
S.2. GROSS OPERATING PROFIT [S.1 - 3]	3.3	7.1	10.0	9.1	4.8
4. Financial revenue	5.9	23.9	23.0	16.4	36.5
5. Financial costs	-2.4	22.8	29.9	23.9	28.2
6. Corporate income tax	12.4	-10.5	-11.4	17.1	8.0
S.3. FUNDS GENERATED FROM OPERATIONS [S.2 + 4 - 5 - 6]	2.9	4.2	11.7	6.7	4.6
7. Depreciation and provisions and other [7.1 + 7.2 - 7.3]	-0.9	-6.6	12.6	-7.9	22.4
7.1. Depreciation and operating provisions	7.5	7.0	7.9	6.5	0.4
7.2. Capital losses and extraordinary expenses	-0.6	-7.4	25.9	-15.8	85.5
7.3. Capital gains and extraordinary revenue	4.1	-15.5	24.5	11.0	-1.9
S.6. ORDINARY NET PROFIT [S.2 + 4 - 5 - 7.1]	1.5	9.8	10.1	8.9	8.9
MEMORANDUM ITEM:					
S.4. TOTAL NET PROFIT [S.3 - 7] (% of GVA at factor cost) (t-1, t) (b)	16.1-14.9	14.3-16.1	18.2-18.5	23.8-27.2	25.1-21.1
PROFIT RATIOS					
R.1 Ordinary return on net assets (before taxes)	7.8	7.6	8.4	8.4	8.5
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.0	5.1	5.4	5.3	5.4
R.3 Ordinary return on equity (before taxes)	9.5	9.4	10.4	10.4	10.7
R.4 Financial leverage (R.1 - R.2)	2.8	2.5	3.0	3.1	3.1
R.5 <i>Debt ratio</i>	43.4	47.3	45.5	45.1	47.9

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 item 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)		
	2000	00 Q1- Q4	00 Q1- Q3	01 Q1- Q3	2000	00 Q1- Q4	00 Q1- Q3	01 Q1- Q3	2000	00 Q1- Q4	00 Q1- Q3	01 Q1- Q3	2000	00 Q1- Q4	00 Q1- Q3	01 Q1- Q3
TOTAL	7,1	8,0	7,6	4,8	4,3	2,1	2,3	0,9	7,1	5,5	5,8	4,9	2,7	3,3	3,4	4,0
Total, excluding electricity	8,2	9,8	8,2	6,2	4,6	2,7	2,9	1,4	7,7	6,5	6,9	4,9	2,9	3,6	3,8	3,5
SIZE:																
Small	8,7	—	—	—	4,2	—	—	—	8,7	—	—	—	4,3	—	—	—
Medium	8,8	9,7	10,3	3,0	5,7	3,9	4,0	2,6	9,3	7,4	7,6	7,7	3,4	3,4	3,5	5,0
Large	6,9	7,8	7,5	4,9	4,1	2,0	2,2	0,7	6,8	5,3	5,7	4,6	2,6	3,2	3,4	3,9
STATUS																
Public-sector	7,5	10,5	8,7	9,5	-0,4	0,7	0,5	1,7	3,8	6,5	5,9	6,8	4,2	5,8	5,4	5,0
Private-sector	7,1	7,5	7,4	4,2	5,5	2,6	3,0	0,7	8,0	5,2	5,8	4,4	2,4	2,5	2,7	3,7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing	12,2	22,1	20,4	-6,1	2,7	2,0	2,0	0,1	6,7	6,1	6,1	3,8	4,0	4,0	4,0	3,7
Electricity, gas and water supply	1,3	1,9	5,6	0,1	-3,4	-5,1	-5,1	-3,9	-1,3	-2,6	-2,8	3,8	2,2	2,6	2,4	8,0
Wholesale and retail trade	6,6	1,3	0,1	14,7	9,9	7,9	8,2	6,4	11,1	9,3	9,6	9,8	1,1	1,3	1,3	3,2
Transport, storage and communications	1,0	2,0	0,9	11,0	-0,8	-2,7	-2,5	-3,3	3,6	2,9	3,7	1,1	4,4	5,8	6,4	4,6

Source: Banco de España.

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

and of a deceleration in domestic demand (affected mainly by the practical stagnation of gross capital formation), and also, although more recently, of the deterioration of expectations. The adverse performance of manufacturing during 2001 to date (with a fall in GVA of 6.1%) made a large contribution to the moderation of the growth of the aggregate of all firms, to a rate of 4.8% (as against 7.6% in the first nine months of 2000), a rate that is attributable to the buoyancy in the period of wholesale and retail trade and of communications.

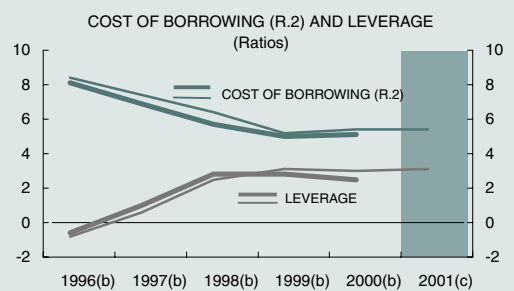
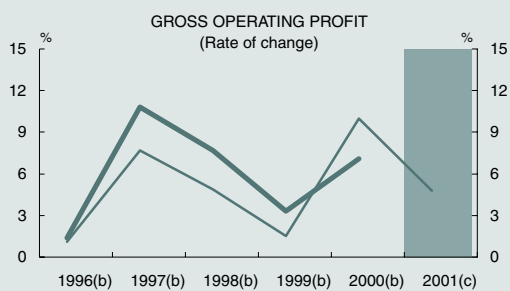
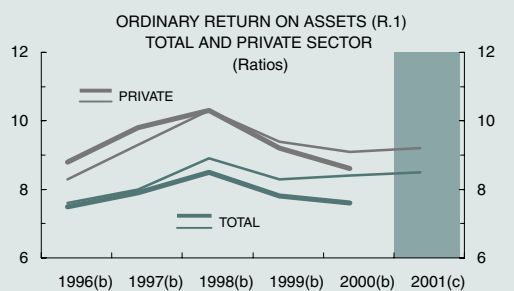
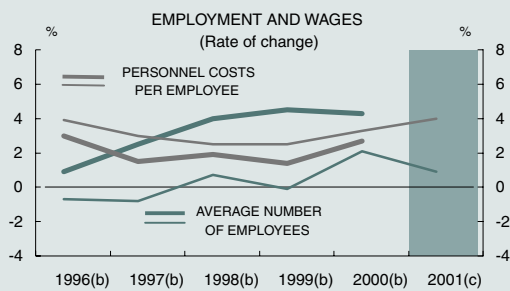
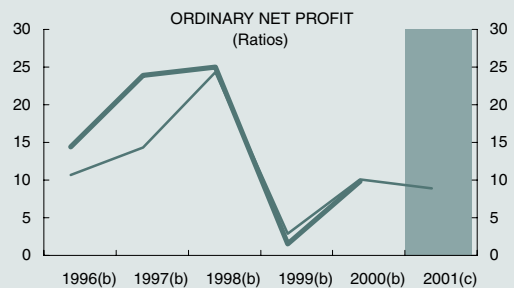
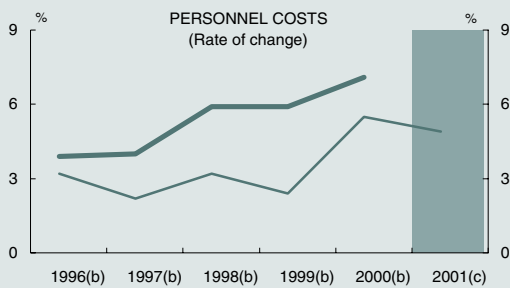
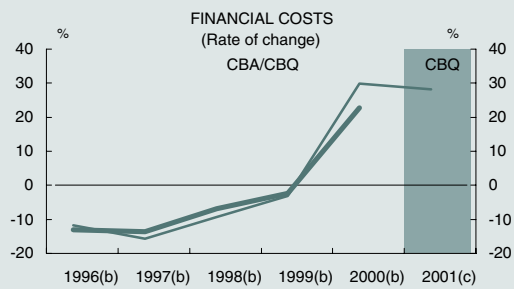
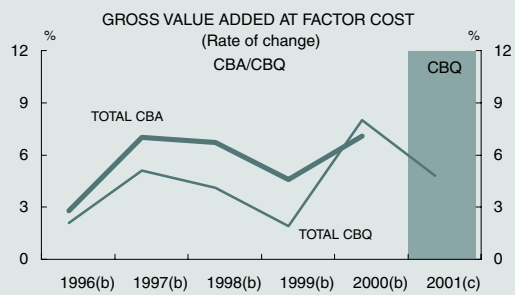
This performance by activity in the latest period was accompanied by similar growth in both personnel costs and operating profits (or surplus), so that the rate of change of ordinary net profits and, in consequence, of the profitability ratios has stabilised. Accordingly, it can be stated that ordinary net profits and the profitability ratios calculated on the basis of these variables

have still not been affected by the slowdown in business activity and continue to reflect the buoyant situation experienced by corporations in the recent period. Nonetheless, corporate profits have decelerated, mainly as a consequence of the decline in capital gains and the increase in capital losses, so that the share of net profits in GVA has fallen from 25.1% to 21.1% in the first three quarters of 2001, according to CBQ data.

From an historical perspective, the CBA data available for 2000 and previous years, confirm that, since 1983, when the Central Balance Sheet Office was set up, resident non-financial corporations have modernised their productive structures, significantly increasing their returns and improving their capacity to create employment. These data may be consulted in a monograph published at the same time as this article, or at www.bde.es.

CHART 1

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



		NUMBER OF CORPORATIONS				
		8,032	8,054	8,135	7,951	6,173
CBA		8,032	8,054	8,135	7,951	6,173
CBQ		725	722	835	883	894
		725	722	835	883	894
		% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS				
		34.0	33.7	33.7	30.7	25.7
CBA		34.0	33.7	33.7	30.7	25.7
CBQ		19.1	18.7	18.0	17.0	16.5
		19.1	18.7	18.0	17.0	16.5

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— CBA data

— CBQ data

Source: Banco de España.

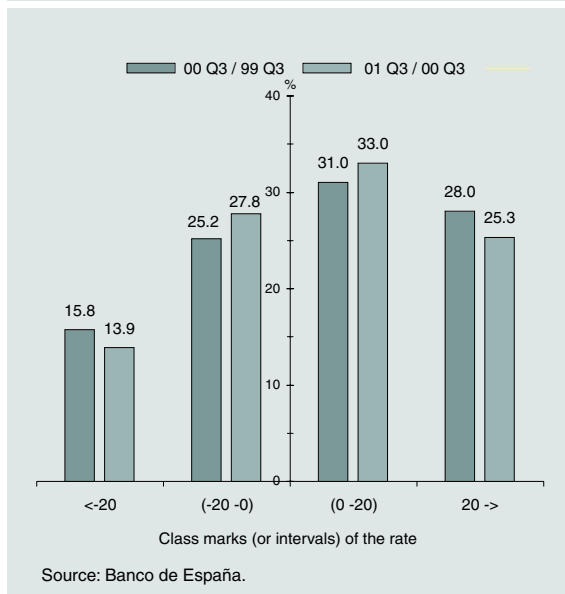
(a) Information available to 16 November 2001 (CBA and CBQ).

(b) The 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).

(c) Average of the first three quarters of 2001 over the same period of 2000.

CHART 2

**Distribution of corporations by rate of change in GVA at factor cost
(00 Q3 / 99 Q3, 01 Q3 / 00 Q3)**



In relation to employment, the increase in staffing levels during 2000 (for the sixth year running in the CBA, and at a rate of more than 4% for the last three) is consistent with the growth in productive activity in that period. On CBQ data, during 2001 to date, employment has continued to display positive rates, although significantly more moderate ones than in 2000. This growth in employment has led to an increase in personnel costs, both in 2000 as a whole and in the first three quarters of 2001, when average personnel costs were accelerating. This wage rise may be explained, to some extent, by the widespread application of inflation adjustment clauses in collective agreements, which have incorporated the increase in prices during 2000. Inflation in 2000 was strongly affected by the temporary effects of rises in unprocessed food and energy prices, which are now beginning to let up. However, whatever the reason for this drift, it is clear that the more increases in average compensation are tied to those in productivity the smaller will be the impact of the economic slowdown on employment.

The gross operating profit (or surplus) increased in 2000 at a much higher rate than in 1999, slowing down during the first nine months of 2001, along a similar path to that of GVA, as mentioned above. Financial costs, meanwhile, rose significantly in 2000, owing to the combined effect of the increase in borrowing in order to provide funds to resident subsidiary companies based abroad, in the form of share purchases or loans, and of the rise of 0.1 percent-

TABLE 2.b

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

	Total CBQ corporations 01 Q1-Q3	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
No. of corporations	732	436	296
Personnel costs			
Initial situation 00 Q3-Q1 (EUR million)	12,974.2	6,327.7	6,646.5
Rate 01 Q1-Q3 / 00 Q1-Q3	4.9	11.7	-1.8
Average compensation			
Initial situation 00 Q1-Q3 (EUR)	27,054	24,621	30,075
Rate 01 Q1-Q3 / 00 Q1-Q3	4.0	3.9	5.3
Number of employees			
Initial situation 00 Q1-Q3 (000s)	478	257	221
Rate 01 Q1-Q3 / 00 Q1-Q3	0.9	7.5	-6.8
Permanent			
Initial situation 00 Q1-Q3 (000s)	394	204	190
Rate 01 Q1-Q3 / 00 Q1-Q3	1.1	5.6	-3.7
Non-permanent			
Initial situation 00 Q1-Q3 (000s)	84	53	31
Rate 01 Q1-Q3 / 00 Q1-Q3	0.0	14.8	-25.9

Source: Banco de España.

age points in the cost of borrowing. In the first nine months of 2001 financial costs continued to grow at similarly high rates as in 2000, for the same reasons. Indeed, it appears that the reductions in interest rates have still not been passed through to the cost of borrowing borne by corporations. However, the indicator that probably best summarises the medium-term outlook for business is the ordinary return (on net assets and on own funds), which held at high levels (of 8.5% and 10.7%, respectively, in the first nine months of 2001). As these high returns were accompanied by steady borrowing costs, the sector non-financial corporations continued to enjoy positive leverage at the same level as in the first three quarters of 2000, which shows that there do exist factors conducive to a recovery in investment. However, these factors may be inhibited by the deterioration in expectations and the increase in uncertainty, while the recent rise in corporate borrowing restricts the capacity of firms to commit themselves to new investment projects, especially in a cyclical downturn.

In short, following 2000, an excellent year for business as a whole, with the sectoral differences that will be described below, activity in 2001 has shown clear signs of deceleration, although the economy continued to grow. The path of oil prices in 2001, the tendency for inflation to fall and the additional reduction in inter-

TABLE 3

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

	CBA		CBQ	
	1999	2000	00 Q1-Q4 (a)	01 Q1-Q3 (a)
Total corporations	7,951	6,173	894	732
Corporations reporting source/destination	7,951	6,173	855	709
	%	%	%	%
Net purchase	100.0	100.0	100.0	100.0
SOURCE OF PURCHASES:				
Spain	64.1	62.5	73.2	79.0
Total abroad	35.9	37.5	26.8	21.0
<i>EU countries</i>	24.9	23.3	16.5	15.0
<i>Third countries</i>	11.0	14.2	10.3	6.0
Net turnover	100.0	100.0	100.0	100.0
SALES DESTINATIONS:				
Spain	80.6	80.9	84.8	86.9
Total abroad	19.4	19.1	15.2	13.1
<i>EU countries</i>	14.7	14.4	10.7	8.1
<i>Third countries</i>	4.7	4.7	4.5	5.1

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

est rates are helping Spanish corporations to adapt to the uncertainty hanging over the international scene and to moderate its negative influence on domestic economic growth. Against this background, ongoing moderation in relation to margins and average wages is particularly important, as is the creation of conditions to sustain the growth of total factor productivity so that the firms can become more competitive, this being the basis of their future profitability and financial soundness.

2. ACTIVITY

As mentioned in the introduction, the CBA data confirm that 2000 was a year in which activity grew significantly, with nominal GVA growth rates of around 7%, considerably higher than those a year earlier. However, in the first three quarters of 2001, the nominal GVA growth rate fell to 4.8% on the same period of 2000. The healthy behaviour of 2000 was based on a recovery in external activity, and domestic consumption, which generally held at a good tempo for most of the year, until the fourth quarter, when both factors began to show signs of weakness. This downward trend in consumption and in foreign trade has been confirmed as 2001 has elapsed and it has had a significant impact on the results obtained by the corporations this year.

Also, the influence of the sharp swing in oil prices on the results of certain activities must be highlighted. On one hand, the strong oil price rises in 2000 increased considerably the GVA of corporations engaged in oil refining, and this was passed through to the performance of manufacturing as a whole, the sector in which refining is included (manufacturing corporations grew at a rate of 12.2% in this period according to the CBA). The fall in oil prices to low levels in 2001 has had an opposite effect to that in 2000, with sharp nominal reductions in GVA in refining, which, together with those also recorded in manufacturing other than refining, have led to a fall of 6.1% in 2001 to date in manufacturing as a whole, according to CBQ data. The analysis of imports and exports (see Table 3) illustrates the behaviour of foreign activity, showing that the percentage of sales to foreign markets declined during the first three quarters of 2001.

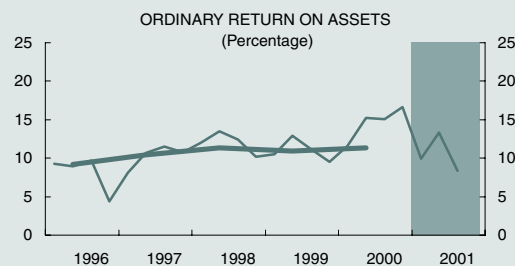
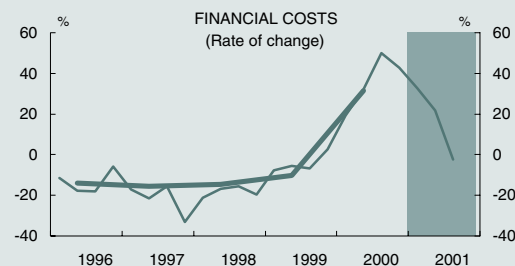
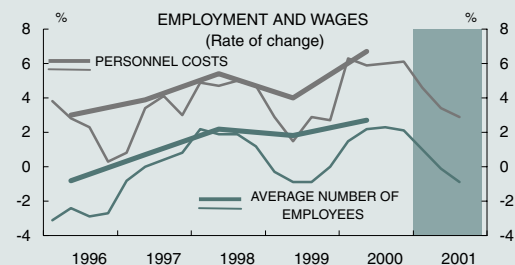
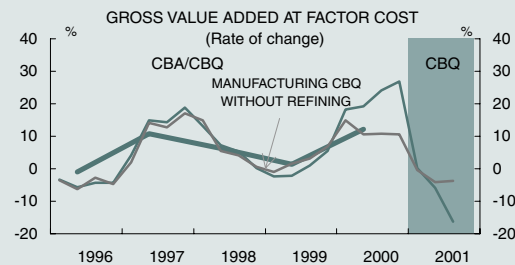
At the sectoral level, besides what has been said about the performance of manufacturing, wholesale and retail trade, which includes, inter alia, corporations marketing fuel, suffered the effects of the narrowing of the latter corporations' margins. These corporations were unable to pass through to the final consumer the higher price of their inputs, which led them to reduce their rate of growth significantly, in terms of GVA, to 6.6%. For their part, both the electricity and the trans-

Analysis of the manufacturing sector

Manufacturing is well represented in the Central Balance Sheet Office samples. This is a considerable advantage, given the interest of this sector, which is not usually subject to regulations, from the viewpoint of short-term economic analysis, and this is why a box is devoted specifically to this sector. There was a turning point in the trend in the activity of manufacturing firms reporting to the CBQ during the two periods analysed. On CBQ data, while GVA in manufacturing grew by 22.1% in 2000, in the first nine months of 2001 it fell by 6%. Two factors account for this turning point, which occurred in the second half of 2000, namely the weakness of foreign trade and the fluctuations in the price of oil, which saw significant increases in 2000, and major falls since the end of that year, down to low levels as at the close of data for 2001 Q3. In practice, all the manufacturing sub-sectors displayed the trends described above in both years, which reveals the importance of the first effect on the progress of manufacturing (the GVA of manufacturing corporations, excluding those engaged in refining, increased by 11.7% in 2000 and declined in 2001 by 2.8%).

In line with the trend in activity, employment increased significantly in 2000, at a rate of 2.7%. This is the highest rate recorded for this aggregate in the whole of the annual time series. However, during 2001 to date, the rate of increase of employment has been gradually slipping and by the end of Q3 it had reached 0.1%. The adjoining chart shows this progressive slowdown, which will require an improvement in the international situation to be reversed. Meanwhile, average compensation grew by 4% in 2000, slowing down in the first nine months of 2001 (3.7%). Financial costs increased notably, both in 2000 and in 2001. This, as in the case of the overall sample, is mainly explained by the increase in the borrowing of certain large firms. The cost of borrowing also contributed to the increase in financial costs in 2000, with minor increases, while in 2001 it remained practically unchanged. In any event, it is possible that the low level of this ratio has stimulated new investment. For its part, gross operating profit increased in 2000 by almost 20% and then fell by around 15% in the first three quarters of 2001, in step with productive activity. For this reason, the profitability of manufacturing corporations has fallen by three percentage points in 2001, although it remains high (10.9% in terms of the ordinary return on assets). In any case, the moderate upward trend in the cost of borrowing did not prevent manufacturing from continuing to show positive leverage in 2000 and in the first three months of 2001 (6.7 and 5 points respectively).

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



NUMBER OF CORPORATIONS

CBA	3,231	3,351	3,255	2,954	2,305
CBQ	372	365	360	351	343
	350	337	343	337	308
	398	392	384	427	411
	402	393	436	415	391
	378	378	404	378	248

% OF GDP OF THE MANUFACTURING SECTOR

CBA	38.9	40.3	43.0	30.1	30.1
CBQ	25.3	25.4	22.6	22.7	25.0
	22.7	25.7	22.3	22.9	24.1
	24.9	22.1	22.3	23.9	24.4
	21.4	21.7	25.5	26.1	22.3
	22.6	21.6	21.7	21.6	12.3

— CBA data.
— CBQ data.

Source: Banco de España.

(a) Information available to 16 November 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 corporations in specific situations**

	CBA		CBQ			
	1999	2000	99 Q1-Q4 (a)	00 Q1-Q4 (a)	00 Q3	01 Q3
Number of corporations	7,951	6,173	883	894	873	533
Personnel costs	100.0	100.0	100.0	100.0	100.0	100.0
Falling	21.0	18.5	30.0	24.5	25.1	27.1
Constant or rising	79.0	81.5	70.0	75.5	74.9	72.9
Average number of employees	100.0	100.0	100.0	100.0	100.0	100.0
Falling	22.8	24.6	39.0	35.5	35.0	41.4
Constant or rising	77.2	75.4	61.0	64.5	65.0	58.6
Average compensation (relative to inflation) (b)	100.0	100.0	100.0	100.0	100.0	100.0
Lower growth	51.2	47.7	48.8	47.1	49.1	45.4
Higher or same growth	48.8	52.3	51.2	52.9	50.9	54.6

Source: Banco de España.

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

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

port industries recorded moderate growth rates in 2000, affected by the reductions in prices and margins which have been affecting them in recent years, as a consequence of the liberalisation they are undergoing. As regards the first three quarters of 2001 and, again, leaving aside the manufacturing sector, which is referred to above (see Box 1), there was an improvement in wholesale and retail trade, whose GVA grew by 14.7%, largely as a consequence of the recovery in margins of firms selling fuel, while the electricity sector shows moderate increases, both due to the lower growth in demand for electricity and due to the reduction of receipts, owing to the fall in rates and the cut in the compensation received for the costs of transition to competition. Finally, it should be stressed that transport and communications have maintained a healthy tempo during the year to date (their GVA has risen by 11%), owing largely to the priority that telecommunications firms are giving to the generation of value, as opposed to a policy focused on gaining (or at least maintaining) market share, even at the cost of significant reductions in prices and margins, as applied in previous years. Also, as a consequence of the reduction in costs which mobile telephony corporations have benefited from, they have seen strong increases in their GVA in 2001. The situation of air transport in the latest period (from October 2001) has not been reflected in the accounts of the CBQ relating to the first three quarters of the year.

In terms of size, both in 2000 and in 2001 the large corporations have recorded lower rates of growth of activity, while medium and small corporations have displayed greater vigour. Finally, Chart 2 shows that while in 2000 Q3 28% of the corporations reported GVA growth of more than 20%, in 2001 Q3 only 25.3% were in this situation. This qualitative-type information is a further confirmation that a shift is taking place among the corporations towards more moderate levels of activity growth.

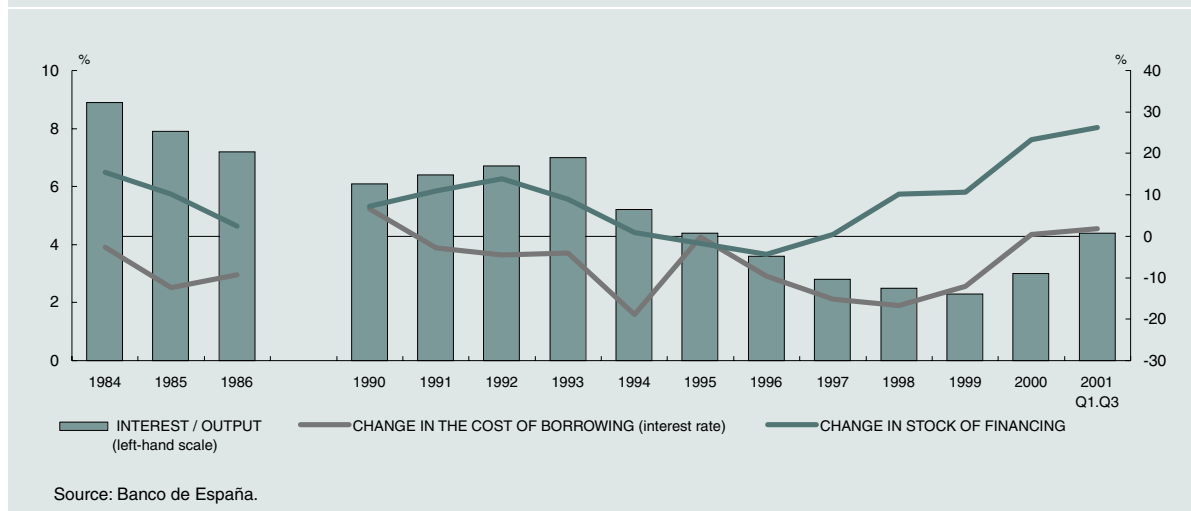
3. EMPLOYMENT AND PERSONNEL COSTS

One result drawn from the Central Balance Sheet Office databases in recent years has been the evidence of positive employment behaviour (2). Indeed, in 2000, for the sixth year running, the CBA corporations increased their staffing levels (by 4.3%). Notably, despite the

(2) The questionnaires the corporations send to the Central Balance Sheet Office (both for the CBA and the CBQ), and those for the filing of accounts at the Mercantile Registries (the basis of the CBBE/RM database which, as explained in Box 2, includes information on small firms), basically require information of an accounting type. Although the corporations are also asked for some employment data, these are necessarily less detailed and, therefore, more difficult to verify (see Box 5 of the 2000 edition of the *Resultados anuales de las empresas no financieras* published by the Central Balance Sheet Office, which is available on www.bde.es).

CHART 3

Financial costs and their components



bias of both samples of the central Balance Sheet Office towards large industrial firms (especially in the case of the CBQ), the staffing levels of non-financial corporations have, since 1998, increased at an annual rate of more than 4%. During the first three quarters of 2001 employment continued to grow, albeit more moderately (0.9%). As has become customary, this rate will be increased when the estimate for 2001 of the CBA becomes available. The latter includes in its sample, along with the CBQ corporations, other medium-size and small firms, which are more dynamic in terms of job creation. However, in line with activity, employment creation has clearly slowed somewhat in 2001, as shown by the stagnation of non-permanent employment in 2001 (with negative growth rates in the last two quarters), this being the type most immediately affected by economic downturns. This behaviour by non-permanent employment is also affected by the odd isolated but significant case in which non-permanent employment has been transformed into permanent during the first nine months of 2001, in order to secure the advantages offered by current legislation. In any case, it should be stressed that, on CBA data, permanent employment increased at a rate of more than 3% between 1998 and 2000, extending the growth path that commenced in 1995. And this despite the fact that some large firms of the sample have been affected by processes of modernisation and opening-up to foreign competition. In fact, as Table 2.1 shows, if the electricity sector, which is continuously reducing staffing levels, as a consequence of technological advances and the opening up to competition (as can be seen in time series included in the annual publication mentioned above) is disregarded, the rate for the other corporations would be 1.4% in the first three quarters of 2001.

At the sectoral level, the CBA data for 2000 show that the corporations recording the highest employment growth were to be found in manufacturing, wholesale and retail trade and construction, while job losses were concentrated in electricity, gas and water supply and in transport and communications. In the first nine months of 2001, wholesale and retail trade was again the industry to post the highest rates of employment growth (6.4%), building on the gains of recent years. Manufacturing recorded a rate of 0.1%, significantly down from the rate of 2% in the same period a year earlier and doubtlessly especially affected by the fall in external demand. The negative performance in electricity and transport and communications referred to above continued. However, in the case of electricity there has been a progressive reduction in the rate of decline of employment during 2001, which may signal the end of the workforce restructuring that has been taking place in recent years.

The lower growth of employment and the increase in average compensation in 2001 explain why personnel costs grew by 4.9%, two percentage points less than in 2000. Average compensation grew by 2.7% in 2000 (as against 1.4% in 1999), and by 4% in the first nine months of 2001, which shows a clear upward trend. In these circumstances it is very important that wage increases be linked to the productivity of the firm and the sector, so as to limit, insofar as is possible, the negative effects on medium-term business competitiveness, which is vital to sustain the level of job creation. Wholesale and retail trade deserves particular mention. As in previous periods its average compensation displayed more moderate behaviour, which perhaps explains why this sector has recorded the most continuity in terms of job creation.

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 profit				Funds generated				Return on assets (R. 1) (a)				Leverage (a)			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2000	00 Q1- Q4	00 Q1- Q3	00 Q1- Q3	2000	00 Q1- Q4	00 Q1- Q3	01 Q1- Q3	2000	00 Q1- Q4	00 Q1- Q3	01 Q1- Q3	2000	00 Q1- Q4	00 Q1- Q3	01 Q1- Q3
TOTAL	7,1	10,0	9,1	4,8	4,2	11,7	6,7	4,6	7,6	8,4	8,4	8,5	2,5	3,0	3,1	3,1
Total, excluding electricity	8,7	13,5	9,6	7,4	5,1	14,7	6,8	8,8	7,6	8,8	8,8	9,5	2,4	3,4	3,6	4,2
SIZE:																
Small	8,8	—	—	—	5,8	—	—	—	9,6	—	—	—	3,8	—	—	—
Medium	8,0	13,0	14,0	-2,9	9,2	14,0	14,1	-4,1	10,4	11,6	12,5	11,3	5,5	5,9	7,2	5,5
Large	7,0	9,8	8,9	5,1	4,6	11,6	6,4	5,1	7,4	8,3	8,3	8,4	2,3	2,9	3,0	3,0
STATUS:																
Public-sector	26,1	19,5	14,6	16,7	25,7	14,4	8,8	19,1	1,6	4,6	4,6	2,5	-3,7	-1,1	-1,0	-2,2
Private-sector	6,3	9,0	8,5	4,1	4,1	11,4	6,5	3,8	8,6	9,1	9,1	9,2	3,6	3,7	3,9	3,7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing	19,7	42,7	38,9	-14,8	13,9	40,6	26,3	-13,6	11,3	14,6	14,0	10,9	6,0	8,7	8,4	5,0
Electricity, gas and water supply	2,0	3,2	8,0	-0,8	1,1	3,5	6,4	-3,0	7,7	7,8	7,6	7,5	2,9	2,4	2,3	2,0
Wholesale and retail trade	1,0	-8,6	-11,0	21,2	-1,4	-2,2	-4,7	20,7	11,9	8,5	8,6	11,8	7,0	3,6	4,1	6,8
Transport, storage and communications	-1,2	1,5	-1,0	17,0	0,6	2,6	-1,4	14,5	6,4	7,8	8,0	12,1	0,9	1,5	1,7	6,9

Source: Banco de España.

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

Finally, Table 4 shows that in 2001 Q3 the percentage of firms reducing their staffing levels rose by six percentage points, to stand at 41.4% of the reporting firms in this period. It can also be seen that in 54.6% of the corporations average personnel costs rose by more than inflation in 2001 Q3, as against 50.9% the previous year. This confirms the need for more moderate wage growth tied to productivity gains, so as not to affect job creation.

4. PROFITS, MARGINS AND RATES OF RETURN

During 2000 activity grew at the same rate as personnel costs and also, therefore, as operating profits (or surplus), which grew by 7.1%. These two variables also grew at similar, albeit lower, rates during the first three quarters of

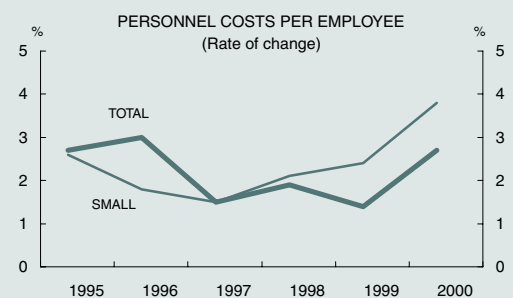
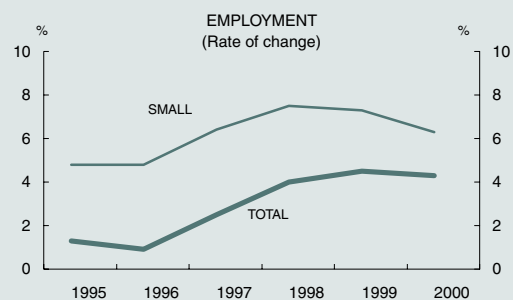
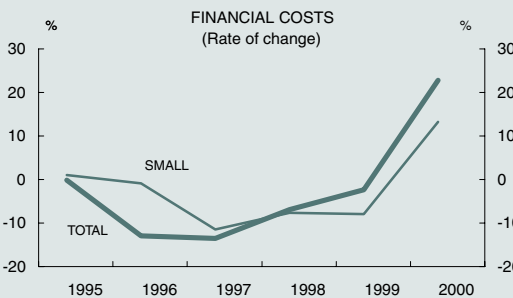
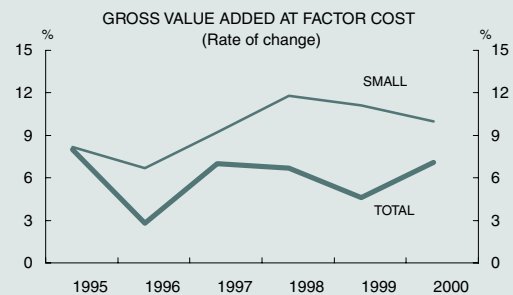
2001 (around 4.8%). Meanwhile, financial costs grew forcefully, both in 2000 (22.8%) and in the first nine months of 2001 (28.2%). This was partly attributable to the end of the downtrend in interest rates that had prevailed until 2000, but the factor that best explains the growth in financial costs is the raising of new funds to finance significant transactions for the purchase of financial assets (mainly shares) and loans to subsidiaries. Most of these transactions were executed in mid-2000 and therefore, since they are not reflected in the financial costs of the first two quarters of 2001, they continue to influence the rates calculated for 2001 (which compare the first three quarters of 2001 with the first three quarters of 2000). A breakdown of the increase in financial costs into its components can be seen more clearly in Table 5, which shows separately the impact that two factors (changes in rates and in financing) have had on

The results of small firms

The annual monograph of the Central Balance Sheet Office, as is well known, includes information from two databases. The main part of the publication (the white pages of the printed version) presents the results of the CBA, while those of the CBBE/RM (or CBB), obtained from the filing of accounts with Mercantile Registries, are presented in an annex (grey pages). This second database enables the performance of small firms, the segment that is least well represented in the CBA, to be analysed in 2000 and previous years. Although the information available in the CBB lacks the degree of detail available in the CBA, it is valid as a basis for calculating the variables that define activity, namely employment, compensation, margins and profits (not for returns, balance sheet structure or flows). In any case, the main value of the CBB is the large number of firms covered. In the 2000 monograph information is presented on 211,936 firms for 1999, and on 44,521 for 2000, respectively accounting for 10.6% and 2.2% of the GVA of the sector non-financial corporations. A significant fact, in that it departs from the general analysis for 2000 based on the CBA, is that although the activity of small Spanish firms continued to grow at a high rate in 2000 (their GVA grew by 10% in 2000), this rate was lower than the one recorded in 1999 (11.1%). All sectors of activity displayed very positive growth rates, although in every case, without exception, the rate was lower than in 1999. The adjoining chart shows that if, according to the CBA, 2000 was a year in which an expansionary growth path was recovered, the CBB shows that the productive activity of small firms began to slow down in 1999, and continued to do so in 2000. This difference in behaviour according to firm size is also corroborated by the CBA, where the more than 4,000 firms with these characteristics have recorded a decelerating GVA growth rate since 1999, a fact that is not apparent in the overall aggregate or in the sectoral analysis. An analysis of the reasons for this difference in behaviour between large and small firms is beyond the scope of this article. It would need to take into account the possible role of foreign markets in which, primarily, the large firms operate.

Personnel costs rose in 2000 by more than in 1999 (among the firms providing employment data they rose by 10.3%). However, and in line with the slight loss of momentum of activity, the growth of average employment decelerated, although it remained high. As a result, the expansion in personnel costs in small firms in 2000 did not stem from employment, but from average compensation, which rose by 3.8%, 1.4 percentage points more than in 1999. Although significant increases in employment were recorded in all sectors, the sector other services stood out again as the most dynamic (8.4% in 2000). Meanwhile, financial costs departed from the downward path they had been following in previous years, to record positive growth rates (13.2% in 2000) for the firms overall and in all sectors of activity. However, this heading still had a relatively low weight in the cost structure of firms. The information published, by law, by small firms is not sufficiently detailed to identify how much of this increase is due to the financial cost and how much to the new financing received. The SMEs in the CBB sample sustained a very high level of profitability, although it was slightly down on 1999. Thus the ordinary return on own funds (the only ratio that can be calculated using the information available in this database in the same way as it is calculated for the CBA) stood at 11.8% in 2000, only half a percentage point lower than in the previous year. At the sectoral level, the profitability of construction, other business services and hotels and catering was notable, standing in the range of 17% to 21.2%.

In short, Spanish SMEs ended 2000 with notable growth in their activity, although it was more moderate than in the previous year. Employment grew at high rates, although its trend is consistent with the general slowdown and also with rising average compensation. The maintenance of the profitability of small firms, which has begun to fall, will depend on the developments in the economy in general and on the adoption by the firms of measures to increase their competitiveness.



NUMBER OF CORPORATIONS (a)

CBA	8,128	8,032	8,054	8,135	7,951	6,173
CBB	130,786	173,575	223,470	238,471	211,936	44,521

% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS

CBA	34.5	34.0	33.7	33.7	30.7	25.7
CBB	7.0	8.9	10.8	12.0	10.6	2.2

— CBA data
— CBBE/RM or CBB data

Source: Banco de España.

(a) Information available to 16 November 2001 (CBA and CBB).

(b) The data for the Employment and Personnel costs per employee charts relate to the sub-set of corporations with consistent employment data (50% of the total of CBB).

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 Q3	01 Q3	00 Q3	01 Q3
Total corporations	100.0	100.0	100.0	100.0
R ≤ 0 %	23.7	22.4	26.3	27.4
0 % < R ≤ 5 %	15.3	21.2	12.2	15.8
5 % < R ≤ 10 %	17.1	15.0	12.5	11.5
10 % < R ≤ 15 %	11.4	13.2	10.7	10.9
15 % < R	32.5	28.2	38.2	34.4
Number of corporations	873	533	873	533
MEMORANDUM ITEM:				
Average return	9.1	9.5	11.5	11.7

Source: Banco de España.

the growth of financial costs in the first nine months of 2001 (the time series for this decomposition is shown in Chart 3):

	<i>01 Q1-Q3/00 Q1-Q3</i>
Change in financial costs	+28.2%
A. <i>Interest on borrowed funds</i>	
(1 + 2)	+28,3%
1. Due to the cost (interest rate)	+1,9%
2. Due to the amount of interest-bearing debt	+26,4%
B. <i>Commissions and cash discounts</i>	-0,1%

These data confirm that the growth of financial costs was basically due to the increase in external financing, which includes that received by other institutional sectors (financial institutions and the rest of the world) and intercompany financing (provided that there is an explicit cost). The restructuring of the Spanish corporate sector in recent years has enabled Spanish groups to emerge that have a strong international presence and strategies for diversification. This presence has been developed through subsidiaries which, being located abroad, do not feature in the Central Balance Sheet Office databases. In many cases, these subsidiaries are the ultimate destination for the borrowed funds raised by the parent companies. In addition, the electric utilities have been required by law to separate their activities of generation, transport, distribution and sale of electricity into different companies, even if they belong to the same group. This process, which accelerated from 1998, also helps explain the growth in financial costs, as will be explained

below. In any event, the increase in financial costs in 2000 and in 2001 was still, by historical standards, relatively small (around 4%) compared to total costs.

Ordinary net profits grew at high rates both in 2000 (9.8%) and in the first three quarters of 2001 (8.9%), owing to the significant dividend income received by certain large firms in the sample, which helped to offset the consequences of the slowdown in productive activity. Also contributing to this positive outcome was the small increase in depreciation and operating provisions, which was attributable both to the reduction in inventory provisions in 2001 and to the lower depreciation recorded by electric utilities. Part of this depreciation is linked to the income to compensate for the costs of the transition to competition (3), which decreased. In consequence, ordinary net profits, the numerator in the calculation of returns, did not decelerate, so that returns held at similar levels to those seen in 2000, which were already high. The ordinary return on assets (R.1) stood at 7.6% in 2000 and at 8.5% in the first nine months of 2001. However, when the quarterly (CBQ) data are used to obtain the rate for 2000, in the same way as the rate for the first three

(3) The costs of transition to competition are reflected in the balance sheets of the electric utilities as a right (asset) that has been realised through their inclusion in electricity bills and simultaneously written down. Insofar as these rights have been reduced at the end of 2000, the annual income received in this respect and the corresponding write downs have also decreased in comparison with those of the previous year.

TABLE 7

Capital and financial flows
(Structure: GVA at basic prices = 100)

Databases	% of GVA at basic prices		
	1998	1999	2000
Number of corporations / Total national coverage (a)	8135 / 33.7 %	7951 / 30.7 %	6173 / 25.7 %
Year	1998	1999	2000
1. Capital resources	31.5	30.8	29.6
1. Gross saving	29.5	29.6	30.0
2. Net capital transfers	2.0	1.2	-0.4
2. Uses of capital	25.4	31.7	31.8
1. Gross capital formation	24.1	30.6	31.0
2. Other uses of capital	1.3	1.1	0.8
3. Net lending (+). net borrowing (-) (1- 2.1 - 2.2 = -4)	6.1	-0.9	-2.2
4. Net increase in liabilities less net acquisition of financial assets	-6.1	0.9	2.2
1. Debt securities issued	-2.0	3.5	-3.0
2. Shares and other equity	-2.4	-21.8	8.0
3. Credit from credit institutions	4.8	3.8	9.4
4. Credit from rest of the world	4.9	11.1	19.8
5. Credit from other resident sectors	-5.3	-1.4	-10.9
6. Insurance technical reserves: pension funds	-0.1	0.7	-2.3
7. Trade credit and other liabilities net of other assets	-5.9	5.0	-2.7

Source: Banco de España.
(a) Measured in relation to the gross value added at basic prices of the sector non-financial corporations.

quarters of 2001 is obtained, it reaches 8.4%, which indicates that the level of profitability has still not fallen, despite the slowdown in 2001.

However, the performance of the sectors in this respect is uneven. The profitability of the manufacturing sector fell by three percentage points with respect to the first three quarters of 2000, owing to the above-mentioned performance. By contrast, both transport and communications and wholesale and retail trade have obtained rising returns in the year to date. In the case of the former, this was due to the improvements already mentioned in telecommunications companies, as a result of commercial strategies related to the entry of new competitors and after telephony had overcome a phase of saturation. Meanwhile, profitability in the wholesale and retail trade has returned to high levels in 2001, after a year in which the contraction of margins reduced the profitability of fuel distributors somewhat. In short, the levels of profitability achieved, together with the trend in the cost of borrowing, which held relatively steady during the periods analysed, enabled the corporations

to obtain once again, both in 2000 and in the first nine months of 2001, clearly positive leverages. Finally, it can be concluded from Table 6 that the percentage of firms with positive ordinary returns on assets in 2001 Q3 was higher than in the same quarter of 2000, but also there was a shift in numbers of firms towards more moderate levels of profitability, confirming what has already been discussed regarding the general trends in this period.

In short, the picture given by the information presented in the annual monograph of the Central Balance Sheet Office is one of generation of resources and employment, with some signs of weakening of demand at the end of the year, which has intensified in the first three quarters of 2001. In this setting, it is notable that the restructuring carried out in Spanish corporations, following a long period of boom, has put them in a position to confront present circumstances, which are less favourable than those of the recent past, with a reasonable level of growth and highly positive returns. In any event, it cannot be ruled out that, while the international

situation remains unclear, firms may postpone or slow down their investment decisions. However, there is a whole series of factors that may help to overcome the situation of deceleration that is currently affecting Spanish non-financial corporations. These include, inter alia, the healthy financial conditions, the gradual return to nominal stability, the current positive situation in some non-manufacturing sectors and the fact that jobs are still being created. The positive influence of these factors will be boosted in the event that the increases in average compensation turn out to be a temporary phenomenon.

5. INVESTMENT AND FINANCING

The above analysis is based on the information available in the CBQ and CBA databases presented in a format suited to business analysis, which does however incorporate elements of national accounting (GVA, for example). Flows of investment and financing and the balance-sheet position in the period (year) in question, in this case the year 2000, can also be studied on the basis of the CBA, but, for obvious reasons, not the CBQ, which collects information on a very small number of variables. Meanwhile, experience would suggest studying the concepts mentioned above, on the basis of CBA data organised in accordance with what Chapter III of the annual publication of the Central Balance Sheet Office, to which readers are referred, calls the presentation for the purposes of general economic analysis, which is none other than that of the national accounts.

In this respect, Table 7 shows balance-sheet changes arising from the transactions carried out in the period 1998 to 2000. The table integrates the capital and financial accounts of the corporations considered, which enable the trends in the investment and financing of the CBA corporations during the period in question to be studied. Such a study shows, in line with the CNE (National Accounts of Spain) for this

period, that the sample corporations kept the capital uses of 1999, in nominal terms, practically unchanged in 2000. Given the contraction in capital resources, this explains why the net borrowing of the reporting corporations rose during this period.

The second part of the Table presents the financial account. This shows that in 1999, and also in 2000, there was a significant net acquisition of shares and other equity (largely due to the increase in holdings in subsidiaries located abroad) and net incurrence of loan liabilities with the rest of the world and with resident financial institutions, for the most part to finance the acquisition of these holdings and also to finance other group companies ("loans to other resident sectors" and, to some extent, "trade credit"). The transactions mentioned also reflect the consequences of reorganisations carried out by major corporate groups in response to certain legal requirements (as in the case of the electric utilities, which have had to restructure themselves into groups of separate companies for each productive process). The net effect of these financial movements was a further increase in borrowing, which raised the funds necessary to cover the capital uses and the net acquisition of financial assets that could not be financed with the capital resources generated in the period. All these matters, relating to the national economy, can be consulted in the Financial Accounts of the Spanish Economy, published quarterly by the Banco de España at www.bde.es. As against that general reference, which does not suffer from the limitations that an approximation based on a group of corporations, like those of the CBA, may have, the one reflected here enables references to be made to the behaviour of the large corporate groups, of great importance in the current situation of the Spanish economy.

21.11.2001.