

RESULTS OF NON-FINANCIAL CORPORATIONS IN 2005 Q1

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Introduction

The information compiled by the Central Balance Sheet Data Office (CBSO) quarterly survey (CBQ) for 2005 Q1 shows that, overall, the non-financial corporations comprising this database started the year with growth in activity (as measured by nominal GVA) similar to that posted in 2004 Q1 (5%), although less than that for 2004 as a whole (6.1%). Despite this, employment picked up to a rate of 1.1% in 2005 Q1, which is very high for a group of firms with such particular employment characteristics as the CBQ reporting corporations. Also, the wage moderation of the preceding period continued and, after a long period of decline, there was an increase in financial costs, which was offset by a positive trend in dividends received, all of which resulted in an improvement in profitability.

The pace of activity was unchanged, despite the fact that the higher employment growth was expected to boost it. This may be explained by the alterations in the structure of the CBQ sample corporations' production account as a result of the sharp oil price rises. First, unlike in other economic sectors, the aggregate of CBQ corporations includes practically all the refining corporations, and second, it includes large non-refining corporations, for which oil is a major input. These two factors introduce a certain volatility into the performance of this small group of corporations, particularly in a period of sharp oil price rises like the recent one (for example, the GVA of refining and fuel marketing corporations² grew by nearly 80% in 2005 Q1 with respect to the same period of the previous year). The relative stability of oil prices between 2001 and 2003 enabled the aggregate "Total corporations except refining and fuel marketing corporations" to be used as a proxy for the behaviour of activity adjusted for these fluctuations. However, the significance and persistence of those price changes do not allow these inferences to be made from the latest data. Thus, if total refining and fuel marketing corporations are excluded from the aggregate, the GVA growth rate decreases to 2.6% in 2005 Q1, against 6.3% in the same period of 2004. This reflects a sharp increase in inputs in 2005 Q1, due to the effect of oil price rises in sectors such as transport (basically air transport) and electricity (in which the oil price rises have come on top of higher consumption of oil products, because the drought has reduced hydroelectric power generation) and in other industrial branches. However the growth in value of production of this aggregate of corporations rose from 4.6% in 2004 Q1 to 7.6% in 2005 Q1, which shows that activity as measured by production is moving more in step with employment.

As stated above, employment grew by 1.1% in 2005 Q1, a rate which not only exceeds the fall-off in 2004 Q1 (-0.6%), but is higher than the growth rates of this variable that began to be seen in the second half of that year. As in previous quarters, a staff reduction at a large telecommunications corporation appreciably lowered the rate of job creation of the aggregate. If that corporation is excluded, this variable rose by 1.7% in 2005 Q1, the highest employment growth rate reported in one quarter by the CBQ since 2000. Meanwhile, average compensation grew by 2.5% in 2005 Q1, which was down slightly on the previous year (2.9%) and confirmed the greatest wage moderation seen since 2004.

1. This article is based on the data provided to 14 June 2005 by the 677 corporations that reported information to the Central Balance Sheet Data Office. In terms of activity, these corporations account for 12.1% of the GVA of the sector non-financial corporations. As has become usual, this analysis of corporate performance in Q1 is based on a group of corporations with a lower coverage than that in subsequent quarters, when the proportion of GVA represented by the sample stabilises at around 15%. 2. The performance of fuel marketing corporations is very uneven compared with that of refining corporations, but their low weight in the sample and the fact that they are very directly affected by oil price fluctuations make it advisable to treat them together with refining corporations in this analysis.

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

TABLE 1

	CBA STRUCTURE	CBA		CBQ		
	2003	2002	2003	04 Q1-Q4 / 03 Q1-Q4 (a)	04 Q1 / 03 Q1	05 Q1 / 04 Q1
DATABASES						
Number of corporations		8.419	8.084	797	833	677
Total national coverage		30.1%	28.4%	15.0%	15.5%	12.1%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT	100.0	2.8	5.9	7.5	2.6	12.6
Of which:						
1. Net amount of turnover and other operating income	130.1	3.8	5.9	8.1	3.7	16.1
2. INPUTS (including taxes)	67.4	1.5	5.6	8.3	1.2	17.1
Of which:						
1. Net purchases	39.2	-1.1	3.8	9.3	-2.5	25.7
2. Other operating costs	27.9	6.4	7.7	7.1	7.1	5.3
S.1. GROSS VALUE ADDED AT FACTOR COSTS [1 – 2]	32.6	5.6	6.5	6.1	5.0	5.0
3. Personnel costs	16.6	5.3	4.5	2.9	2.3	3.6
S.2. GROSS OPERATING PROFIT [S.1 – 3]	15.9	5.9	8.7	8.6	7.2	5.9
4. Financial revenue	2.9	-6.0	8.4	3.4	8.3	19.4
5. Financial costs	2.9	-3.6	-1.8	-5.2	-7.7	6.0
6. Depreciation and operating provisions	6.9	3.2	4.7	-1.1	-1.4	-3.0
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.0	7.7	16.1	18.0	21.2	14.1
7. Capital gains and extraordinary revenue	5.5	51.2	5.7	-38.4	-67.7	6.8
8. Capital losses and extraordinary expenses	3.4	34.1	-29.9	-14.8	-30.2	39.7
9. Other (net provisioning and income tax)	5.1	105.6	-33.3	2.4	-45.2	-0.8
S.4. NET PROFIT [S.3 + 7 – 8 – 9]	6.1	-81.3	(b)	-2.9	-12.8	8.8
NET PROFIT / GVA (S.4 / S.1)		2.0	18.8	22.2	24.6	28.7
PROFIT RATIOS						
	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	7.9	7.8	8.5	6.3	6.8
R.2 Interest on borrowed funds / interest-bearing borrowing	5.1/IBB	4.4	4.0	4.0	3.9	3.9
R.3 Ordinary return on equity (before taxes)	S.3/E	11.0	11.0	12.4	8.4	9.5
R.4 ROI - cost of debt (R.1 – R.2)	R.1–R.2	3.6	3.8	4.5	2.4	2.9

SOURCE: Banco de España.

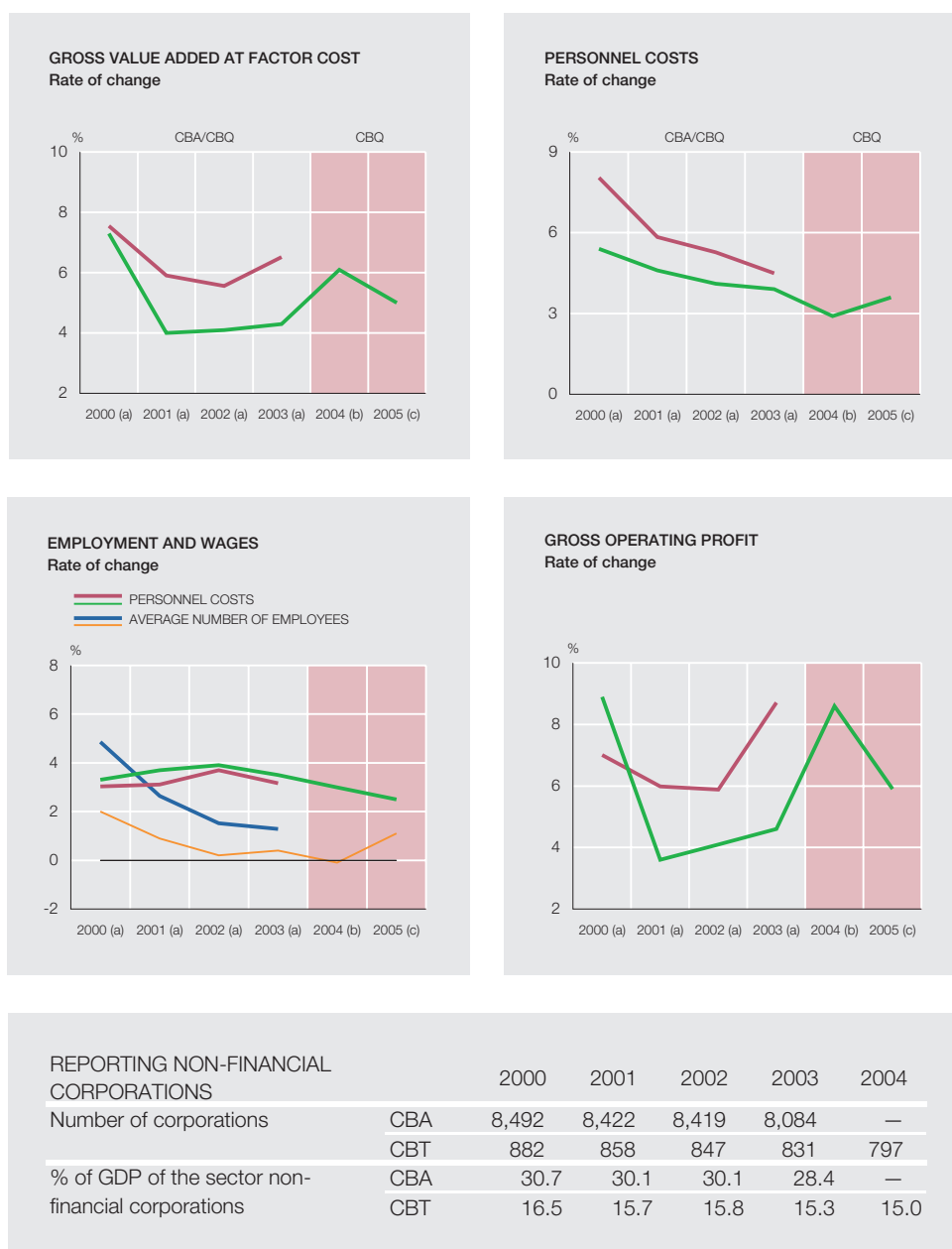
a. All the data in these columns have been calculated as the weighted average of the quarterly data.

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

c. The variables in the formulas are expressed as absolute values. NA = Net Assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include that portion of financial costs which is interest on borrowed funds (5.1) and not commissions and cash discounts (5.2).

Note: internal accounting movements have been edited out of items 4, 5, 7, 8 and 9.

The rate of job creation and the behaviour of average compensation explain why personnel costs rose by 3.6% in 2005 Q1, up more than one percentage point on the previous period. Given that activity behaved similarly to that in 2004 Q1, gross operating profit (5.9%) showed a rate of growth below that posted then (7.2%). Financial costs rose by 6%, basically due to the inflow of fresh borrowed funds, since interest rates were unchanged, thereby interrupting a declining trend initiated in 2003. However, the increase in financial costs was offset by the positive performance of financial revenue, basically in the form of dividends from foreign subsidiaries (rate of 19.4%), and this, together with a fall in depreciation and operating provisions, meant that ordinary net profit (ONP) continued to grow rapidly in 2005 Q1 (by 14.1%), in line with, although below, the rate of the previous two years, largely due to the results posted by refining corporations. This increase in ONP, along with the performance of financial costs, resulted in a net return on investment above that reported a year earlier. In addition, the ratio approximating the cost of debt held steady so that, yet another quarter, the difference be-



SOURCE: Banco de España.

- a. 2000, 2001, 2002 and 2003 data are the average data of the four quarters of each year (CBQ) relative to the previous year for the corporations reporting to the annual survey (CBA).
- b. Average of the four quarters of 2004 relative to the same period of 2003.
- c. Data for 2005 Q1 relative to the same period of 2004.

tween the return on investment and the cost of debt stood at a positive value (2.9), which was higher than that for the same period of 2004 (2.4). This growth of ONP did not pass through totally to final net profit (growth of 8.8%), due to the extraordinary expenses associated with exchange rate fluctuations and fixed asset write-downs. In any event, this performance of net profit is an improvement on that in the same period of 2004, when there were significant net falls in capital gains and extraordinary revenue.

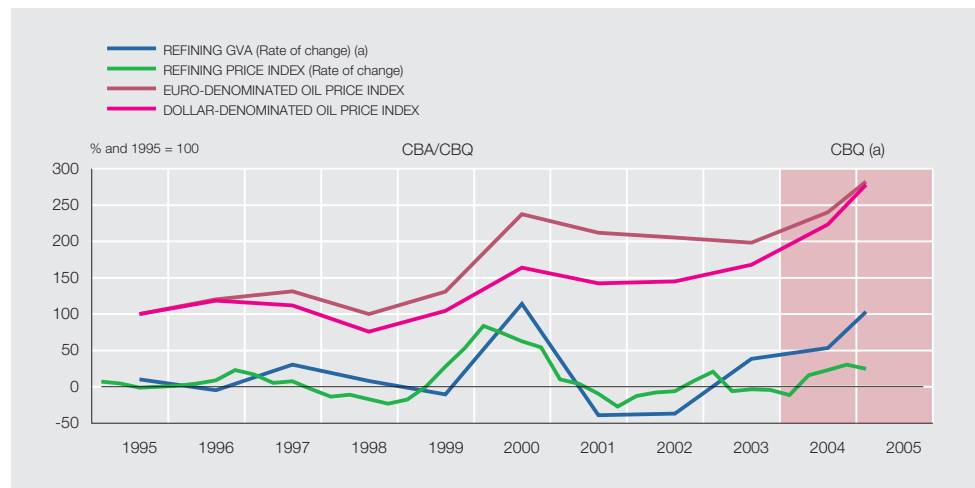
In short, the CBQ corporations began 2005 with stronger growth in the value of their output, while GVA was flatter. This was largely due to the fact that the composition of the CBQ sample



SOURCE: Banco de España.

- a. 2000, 2001, 2002 and 2003 data are the average data of the four quarters of each year (CBQ) relative to the previous year for the corporations reporting to the annual survey (CBA).
b. Average of the four quarters of 2004 relative to the same period of 2003.
c. Data for 2005 Q1 relative to the same period of 2004.

magnifies the effects of the high oil price growth, which manifest themselves in increased production costs and in narrower margins in certain productive sectors. These developments have not prevented the process of job creation, already apparent in 2004, from firming, and indeed gathering pace. Accordingly, although wage costs continued to move up at a moderate pace, personnel costs rose by more than in 2004. Despite the stagnation of value added growth and the increase in financial costs, the performance of dividends received enabled ONP to continue growing rapidly, at rates that were even higher than in 2004 Q1. The positive performance of net capital gains and extraordinary revenue in 2005 Q1, compared with the same period of 2004, accounts for the significant improvement in net profit for this period.



SOURCES: Banco de España and IMF.

a. 2004 and 2005 data relate to the CBQ.

Lastly, borrowing is increasing (this is the cause of the rise in financial costs) although the debt ratio is holding steady.

Activity

The data compiled by the CBQ for 2005 Q1 from the information furnished by the reporting corporations show that the growth rate of productive activity was sustained, although slightly more moderate in terms of value added than that of previous quarters (see Table 1 and Chart 1). Thus the GVA in this period increased by 5%, the same rate as that in 2004 Q1, but lower than that for 2004 as a whole, when GVA grew by 6.1% spurred by the expansionary development in the second half of that year. In any event, it is useful to assess the impact on these growth rates of the sharp upturn in oil prices in the last quarter (see Chart 2). Obviously the over-representation of refining corporations in the CBQ sample means that, because the higher prices of their inputs are passed on to their outputs, their GVA increases more than proportionately compared with other corporations in the sample, and strongly influences the performance of the aggregate (the GVA of refining and fuel marketing corporations grew by nearly 80% in 2005 Q1). Excluding the refining and fuel marketing corporations from the sample results in a slowdown in the creation of value added, which in 2005 Q1 affects the non-financial corporations reporting to the CBQ in several of their activity aggregates (see Table 2.A). Thus, for the aggregate "Total corporations except refining and fuel marketing corporations" the GVA went from growth of 6.3% in 2004 Q1 to an increase of 2.6% in the same period of the current year. But this reflects the higher cost of oil inputs for the large corporations in the sample, which are major consumers of oil, as evidenced by the fact that the inputs of this aggregate of corporations went from growth of 3.4% in 2004 Q1 to growth of 11.3% in the same period of 2005. Although the corporations in this aggregate could not totally pass on these higher costs, their production (sales adjusted for the change in finished products) performed favourably in 2005 Q1 (up 7.6%, against 4.6% in the same period of the previous year), which lends a certain coherence to the employment behaviour referred to below.

The slowdown of GVA growth affected various economic sectors, although unevenly and for different reasons. The energy sector posted the highest GVA growth in 2005 Q1 with respect to the same period of the previous year (GVA was up by 8.8%, against -1% in 2004 Q1),

**VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS**
Growth rate of the same corporations on the same period a year earlier

TABLE 2.A

	GROSS VALUE ADDED AT FACTOR COST				EMPLOYEES (AVERAGE FOR PERIOD)				PERSONNEL COSTS				COMPENSATION PER EMPLOYEE			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2003	04 Q1- Q4 (a)	04 Q1	05 Q1	2003	04 Q1- Q4 (a)	04 Q1	05 Q1	2003	04 Q1- Q4 (a)	04 Q1	05 Q1	2003	04 Q1- Q4 (a)	04 Q1	05 Q1
Total	6.5	6.1	5.0	5.0	1.3	-0.1	-0.6	1.1	4.5	2.9	2.3	3.6	3.2	3.0	2.9	2.5
SIZE																
Small	5.1	—	—	—	0.9	—	—	—	5.9	—	—	—	5.0	—	—	—
Medium	6.4	4.0	6.6	2.3	2.1	-0.2	-0.6	1.5	6.9	3.9	2.7	4.7	4.7	4.1	3.3	3.1
Large	6.6	6.2	4.9	5.1	1.2	-0.1	-0.6	1.1	4.1	2.8	2.2	3.5	2.9	2.9	2.9	2.4
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	2.6	5.6	-1.0	8.8	-2.1	-1.1	-1.4	-0.6	1.3	2.9	2.5	2.6	3.5	4.0	4.0	3.2
Industry	4.9	6.2	1.3	2.0	-0.9	-1.0	-2.0	1.3	2.5	1.6	0.0	3.1	3.4	2.6	2.1	1.8
Wholesale and retail trade	8.3	7.7	10.2	4.6	5.6	4.0	4.0	2.5	8.9	5.9	5.6	5.1	3.1	1.8	1.5	2.5
Transport and communications	6.7	4.5	5.9	3.5	-0.7	-1.8	-1.9	-1.7	2.9	1.8	1.6	2.3	3.6	3.7	3.6	4.1

SOURCE: Banco de España.

which was explained by the performance of refining corporations. In the electricity sector, which is another major aggregate included in the energy sector, GVA decreased by -0.9%, compared with 4.5% a year earlier. Despite the high demand for electricity (up by more than 5%, according to information provided by Red Eléctrica de España), the higher power generation costs, against a background of lesser use of hydroelectric power stations due to weather conditions and, simultaneously, of higher costs arising from the mechanism designed in the Kyoto protocol (which had a negative net impact on the GVA of electricity corporations in 2005 Q1) caused a narrowing in margins, which explains the results posted by this sector's corporations.³ The wholesale and retail trade sector reported the highest GVA growth after oil refining corporations, posting a rate of 4.6%, well behind the 10.2% recorded in 2004 Q1. As in the case of refining corporations, the wholesale and retail trade sector's performance was affected by the impact that oil prices have on the prices applied by refining corporations to fuel marketers. Thus, wholesalers and retailers, excluding fuel marketers, showed an increase in GVA of 6.4% in 2005 Q1, against 9.8% in 2004, this performance being affected by the slower growth of car sales relative to 2004 Q1. The transport and communications sector also saw its productive activity deteriorate slightly (3.5% for 2005 Q1, against 5.9% for the same period of 2004), reflecting both the higher costs borne by air transport corporations, affected by fuel price rises, and the slower growth of telecommunications corporations, which have had to bear significant promotion costs. Finally, in 2005 Q1 the industrial sector saw moderate GVA growth (2%) which, although higher than that a year earlier (1.3%), was well below the trend in the last two quarters of 2004. This performance

3. Law 1/2005 of 9 March 2005 regulating the regime for the trading of greenhouse gas emission allowances establishes a system for the issuance, transfer and trading of emission allowances. Under this law, corporations that emit above the allowances assigned to them must acquire supplementary allowances in an organised market managed by Iberclear. The first effects of this law became apparent in 2005 Q1. According to the information furnished by the electric utilities reporting to the Central Balance Sheet Data Office, inputs of nearly €50 million were recorded due to the purchase of allowances. This is one of the reasons for the -0.9% change in the GVA of the reporting electric utilities in that period. This method of recording exchanges of emission allowances as inputs in corporate accounting has yet to be confirmed in national accounting practices, since the alternative of considering them as exchanges of intangible assets has to be assessed.

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

	TOTAL CBQ CORPORATIONS 05 Q1	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	677	412	265
PERSONNEL COSTS			
Initial situation 04 Q1 (€m)	4.863,1	2.733,0	2.130,0
Rate 05 Q1 / 04 Q1	3,6	7,6	-1,5
AVERAGE COMPENSATION			
Initial situation 04 Q1 (€)	10.731,9	9.938,2	11.966,3
Rate 05 Q1 / 04 Q1	2,5	2,7	3,2
NUMBER OF EMPLOYEES			
Initial situation 04 Q1 (€ thousands)	453	275	178
Rate 05 Q1 / 04 Q1	1,1	4,8	-4,6
Permanent			
Initial situation 04 Q1 (€ thousands)	388	227	161
Rate 05 Q1 / 04 Q1	0,3	3,4	-4,0
Non-permanent			
Initial situation 04 Q1 (€ thousands)	65	48	17
Rate 05 Q1 / 04 Q1	5,7	11,2	-9,7

SOURCE: Banco de España.

was affected by the fall in the GVA of the transport equipment manufacturing and food, beverages and footwear sub-sectors. In sum, the industrial corporations did not show homogeneous performance in 2005 Q1, of which there is additional evidence in Box 1 on the performance of the CBQ industrial corporations.

As regards the situation of the business activities by market, the available CBQ information shows that domestic demand continues to be underpinned by productive activity. Table 3 shows how purchases and sales in Spain have gained in relative importance with respect to the situation a year ago. For its part, external activity still fails to show symptoms of recovery, in line with the picture suggested by other indicators, especially the balance of payments. Chart 3, which gives the distribution of corporations according to the increase in their GVA, without regard to size and economic sector, shows a significant increase in the percentage of corporations in which productive activity decreased. Table 2.A, which includes a breakdown by corporation size, shows that medium-sized corporations saw a substantial reduction in their levels of activity (growth of 2.3%, against 6.6% in 2004). These two items of information confirm that the further moderation in the pace of activity extends to practically all corporations in the sample, with an apparently greater impact on those of medium size.

**Employment and
personnel costs**

In 2005 Q1 the personnel costs of the CBQ reporting corporations grew at a rate of 3.6%, nearly one-and-a-half percentage points above that reported a year earlier (2.3%). The increase in this heading is due to the behaviour of employment, which went from a reduction of -0.6% in 2004 Q1 to an increase of 1.1% in 2005 Q1, since average compensation grew by 2.5%, nearly half a point less than a year earlier.

The positive performance of employment in 2005 Q1 confirms the growth that, according to CBQ data, began in the second half of 2004. Moreover, the special characteristics of the corporations comprising the quarterly sample (large corporations with a major presence in sec-

PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING SOURCES AND SALES DESTINATIONS
Structure

TABLE 3

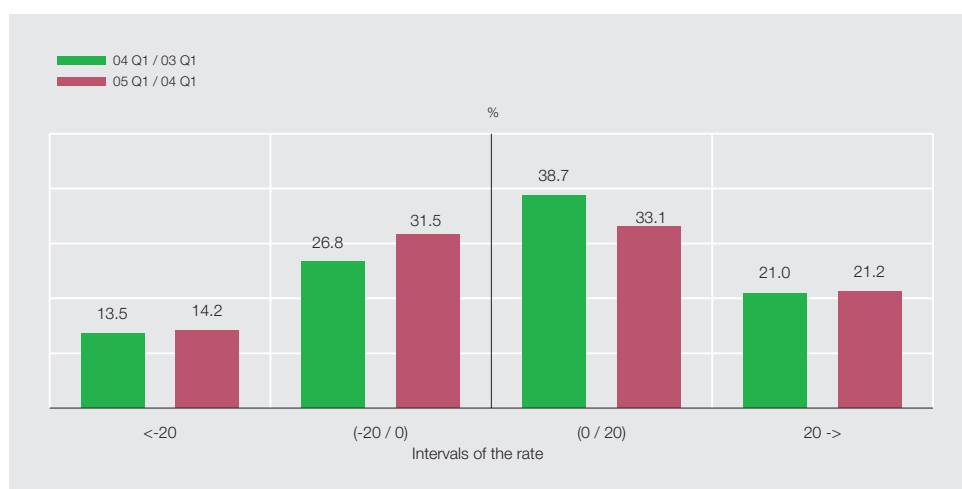
		CBA	CBQ		
		2003	04 Q1-Q4 (a)	04 Q1	05 Q1
Total corporations		8,084	797	677	677
Corporations reporting source/destination		8,084	768	657	657
Percentage of net purchases according to source	Spain	68.3	76.0	79.3	81.4
	Total abroad	31.7	24.0	20.7	18.6
	EU countries	19.2	17.8	15.5	13.3
	Third countries	12.5	6.2	5.2	5.3
Percentage of net purchases according to destination	Spain	82.9	87.6	88.1	88.6
	Total abroad	17.1	12.4	11.9	11.4
	EU countries	12.6	9.8	9.1	8.5
	Third countries	4.4	2.6	2.8	2.9

SOURCE: Banco de España.

a. All the data in this column have been calculated as the weighted average of the relevant quarterly data.

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

CHART 3



SOURCE: Banco de España.

tors undergoing processes of reorganisation), and the fact, repeatedly mentioned in previous articles, that a major staff reduction is under way in a large telecommunications corporation, lent a certain significance to the employment trend in the CBQ in this period. As regards sectors, it was wholesale and retail trade which, yet another quarter, saw the largest increase in staff (2.5%). This figure, however, is one-and-a-half percentage points down on that posted a year ago and ties in with the slowdown in activity in this sector. Furthermore, if the data for 2005 Q1 are compared with those for the same period of 2004, an improvement is noted in employment in the other economic sectors. Thus, although the energy sector showed slightly negative employment growth (the rate was -0.6%), it is significantly better than the figure a

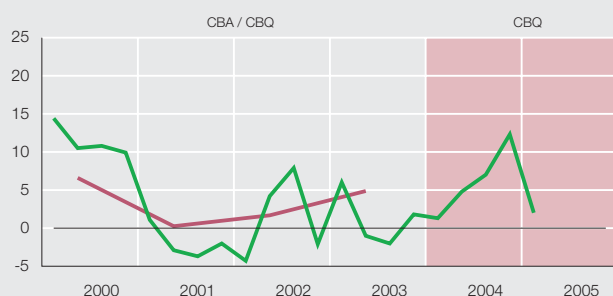
The sample of industrial corporations reporting to the CBQ posted moderate growth of GVA (2%) in 2005 Q1. This rate was higher than that reported in 2004 Q1 (1.3%), although below those in the second half of 2004, when capital goods investment rose significantly. The trend seen in the second half of 2004 did not continue into 2005 Q1, mainly because of the fall in GVA in the transport equipment manufacturing and food, beverages and tobacco sub-sectors. In the case of the former, there was some decline in trade margins linked to price-cutting policies, which, among other reasons, explains the fall in its GVA of -17.6%. The performance of the other industrial sectors was positive (GVA growth in these sectors as a whole was 9.5%), showing a trend more consistent with that reported in the second half of 2004. This trend is corroborated by an analysis of employment behaviour, since in 2005 Q1 the average number of employees grew by 1.3% in the industrial sector as a whole, which is the largest increase shown by this aggregate in the quarterly series since 2000. This phenomenon was seen in all industrial sub-sectors except food, beverages and tobacco, which continued to post negative rates. Average compensation grew by 1.8%, following the same pattern of moderation noted for

the total CBQ sample, and this, along with the behaviour of employment, caused personnel costs to grow by 3.1%. Given that this rate rose more quickly than that of GVA, the overall performance of activity and personnel costs led gross operating profit to grow by 0.5% in 2005 Q1. ONP, boosted by the receipt of dividends and the decrease in depreciation and operating provisions (-2.9%), picked up to a rate of 5.6%, which enabled industrial corporations to report increased profitability (the 2005 Q1 return on investment stood at 7.9%, up more than half a percentage point on the figure a year earlier. Since the cost of debt held at 3.8%, practically unchanged from the previous year, the difference between return on investment and the cost of debt continued at comfortable spreads, showing that industry profitability has not been affected by the absence of a clear take-off of productive activity. The major risks threatening these good prospects include, on the one hand, the upward trend in oil prices, which could generate imbalances and negatively affect the performance of the sector and, on the other, the hesitant course of the main economies of the main euro area economies, which are the natural export market of Spanish industrial corporations.

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

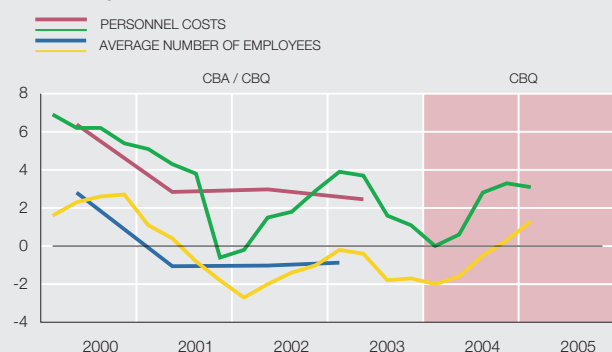
GROSS VALUE ADDED AT FACTOR COST

Rate of change



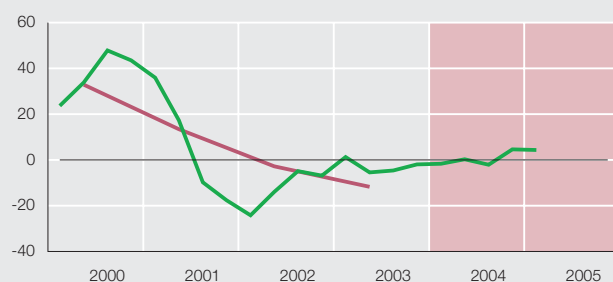
EMPLOYMENT AND WAGES

Rate of change



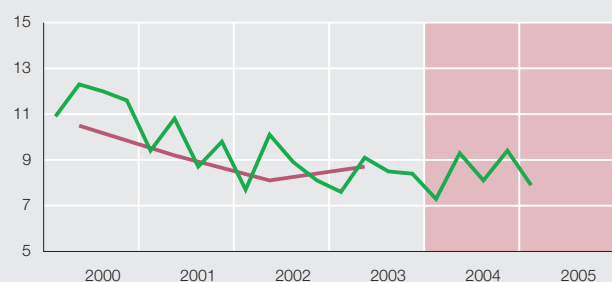
FINANCIAL COSTS

Rate of change



RETURN ON INVESTMENT

Ratios



REPORTING INDUSTRIAL CORPORATIONS

		2000				2001				2002				2003				2004				2005			
Number of corporations	CBA	2,974				2,814				2,715				2,420				—				—			
	CBQ	431	411	390	376	402	392	380	363	389	375	365	354	367	361	351	343	345	336	328	305	264	—	—	—
% of GDP of the sub-sector industrial corporations	CBA	31.4				28.2				27.9				25.6				—				—			
	CBQ	26.6	26.6	25.2	25.4	22.2	21.7	20.6	21.0	21.0	21.1	20.3	19.3	20.3	20.1	18.7	18.6	20.6	20.8	18.9	19.2	15.0	—	—	—

SOURCE: Banco de España.

PERSONNEL COSTS, EMPLOYEES AND AVERAGE COMPENSATION
Percentage of corporations in specific situations

TABLE 4

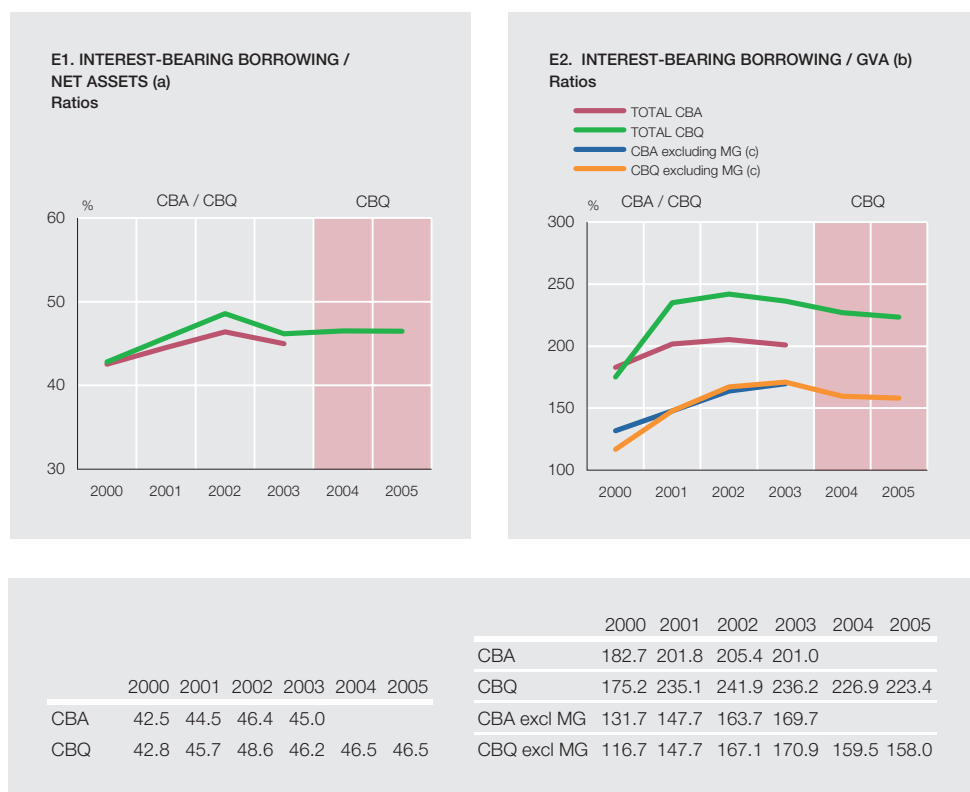
	CBA		CBQ			
	2002	2003	03 Q1-Q4 (a)	04 Q1-Q4 (a)	04 Q1	05 Q1
Number of corporations	8,419	8,084	831	797	833	677
PERSONNEL COSTS	100	100	100	100	100	100
Falling	27.8	25.4	31.1	32.3	33.5	29.4
Constant or rising	72.2	74.6	68.9	67.7	66.5	70.6
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.2	31.0	45.1	44.7	45.5	39.1
Constant or rising	68.8	69.0	54.9	55.3	54.5	60.9
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	47.1	37.4	43.6	46.8	42.3	53.0
Higher or same growth (b)	52.9	62.6	56.4	53.2	57.7	47.0

SOURCE: Banco de España.

- a. Weighted average of the relevant quarters for each column.
 b. Twelve-month change in the CPI.

DEBT RATIOS

CHART 4



SOURCE: Banco de España.

- a. Ratio calculated from final balance sheet figures. Own funds include an adjustment to current prices.
 b. Ratio calculated from final balance sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intragroup debt (approximation to consolidated debt).
 c. MG = Corporations in the sample that belong to the main reporting multinational groups.

**ENTRY INTO FORCE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS. EFFECTS
ON THE ACCOUNTING DATA OF CORPORATIONS IN THE FIRST PERIOD OF THEIR APPLICATION**

BOX 2

Regulation (EC) 1606/2002 of 19 July 2002 establishes that, for *each financial year starting on or after 1 January 2005*, corporations that have securities admitted to trading on EU stock exchanges must prepare their *consolidated annual accounts in conformity with IFRS*. Using the powers attributed to the Member States by this Regulation, Law 62/2003 of 30 December 2003 required the application of IFRS in Spain, exclusively in consolidated accounts, provided that, as at the balance sheet date, one or more companies of the group has issued securities admitted to trading on a regulated market of any EU Member State. In addition, in respect of corporations listed on any EU market that only publish individual annual accounts, law 62/2003 requires that they *state in the notes to their accounts* the main changes that would have arisen in equity and in the income statement if they had applied IFRS to prepare such statements. In short, *individual corporations* (whether quoted or unquoted) remain subject to the national rules and are, therefore, not affected by the application of IFRS when preparing their annual accounts, although quoted individual corporations will have to state in the notes to their annual accounts what the effect would have been on certain headings if they

had applied IFRS. Both matters have been reflected in Circular 1/2005 of the CNMV of 1 April 2005, which regulates the periodic public information that firms quoted on Spanish markets must supply on the occasion of the entry into force of IFRS.

The Central Balance Sheet Data Offices are currently analysing the impact of the introduction of IFRS in Europe. As regards Spain, it should be stressed that the number of non-financial corporations that will be required to present consolidated annual accounts and accounts with periodicity of less than a year (quarterly and half-yearly information requested by the CNMV) is very limited. Thus, barely 167 non-financial corporations, out of the almost one million non-financial corporations existing in Spain, according to December 2003 data (see Table 1), will have to prepare their consolidated accounts in accordance with IFRS. In terms of employment, these 167 corporations account for 3.5% of total employment. The rest of the non-financial corporations (i.e. unquoted public limited companies, private limited companies and other types) account for 96.5% of employment.

NON-FINANCIAL CORPORATIONS IN SPAIN. 2003

TABLE 1

	NUMBER (a)		EMPLOYEES (b)	GVA (b)
	Abs. number	%	%	%
TOTAL NON-FINANCIAL CORPORATIONS	980,572	100.00	100.00	100.00
1. Public limited companies	120,472	12.29	45.11	56.40
1. Quoted	167	0.02	3.52	10.69
1. Continuous market	106	0.01	3.43	10.45
Of which, IBEX-35	29	0.00	2.23	8.76
2. Floor trading	61	0.01	0.10	0.25
2. Unquoted	120,305	12.27	41.59	45.70
2. Private limited company	830,279	84.67	51.00	36.77
3. Other corporate status	29,821	3.04	3.89	6.83

a. Sources: Central Directory of Firms (DIRCE) of the National Institute of Statistics (INE) and author's calculations based on CNMV data.

b. Sources: INE and data estimated by the Banco de España Central Balance Sheet Data Office.

**IMPACT OF THE APPLICATION OF IFRS ON QUOTED NON-FINANCIAL GROUPS (CONSOLIDATED ACCOUNTS)
Preliminary results for 2005 Q1**

TABLE 2

AGGREGATE	DIFFERENCE IFRS/PGC90. 2004 Q1 DATA (a)	
	Net turnover	Net profit or loss for the current period
	%	%
1. Energy	-9.2%	5.3%
2. Industry	-2.6%	-2.6%
3. Construction	0.3%	-1.8%
4. Market services	-1.2%	2.9%
TOTAL	-4.7%	3.3%

SOURCE: BE calculations based on CNMV data.

a. Estimated impact: (2004 Q1 value reported in 2005 - 2004 Q1 value reported in 2004)/2004 Q1 value reported in 2004, information available as at the date this article was prepared. The observed differences include those arising from the application of IFRS and other causes.

Complete information is not available on the impact of the application of IFRS on quoted corporations that present consolidated accounts. The information supplied by the companies to the CNMV enables the deviations in turnover and profit or loss for the period, which are not always attributable to the application of the new accounting framework, to be analysed. Table 2 sets out that impact and shows that *the impact on sales (net turnover) and profits has been of little significance in the set of firms analysed* (average reduction in turnover of around 4%, and increase in profit for the period of 3%). By sector of activity, the sharpest fall in sales entailed by the application of IFRS is in energy, basically owing to new criteria for the recording of consolidated revenue. For example, in the electricity sector purchase and sale transactions with the electricity pool are offset. The most common cause of the slight increase in profits in the various sectors of activity is the fact that amortisation of goodwill is not compulsory.

While the impact of the application of IFRS is small, both in terms of the small number of firms affected and their low weight, its repercussions on the Central Balance Sheet Data Office's annual and quarterly databases (CBA and CBQ) are, as yet, non-existent, and no direct impact is foreseen in the short run. The introduction of the new accounting rules is compulsory for (annual and quarterly) consolidat-

ed accounts and *the Central Balance Sheet Data Office only receives, edits and analyses individual accounting statements*. The Central Balance Sheet Data Office eliminates, through an internal editing process, the financing transactions of resident companies belonging to Spanish groups (dividends, financial costs/revenue arising from intra-group transactions), in order to avoid duplication and erratic behaviour in the growth rates of the aforesaid items that hamper the work of analysts. Accordingly, until the current Spanish General Chart of Accounts for individual accounts (PGC90) is adapted to IFRS, they will have no direct impact on the publications of the Central Balance Sheet Data Office. However, there may be a small indirect effect on the individual accounts of resident non-financial corporations that belong to quoted groups, insofar as the consolidation guidelines for the group entail changes in accounting criteria in the individual accounts for their adaptation to IFRS¹. The Central Balance Sheet Data Office will analyse the impact that this second factor may have and will report its findings.

1. Which could be the case if the criterion in question is permitted by the PGC90. For example, a change in the method of measuring inventories from the LIFO method, permitted by the Spanish General Chart of Accounts but not by IFRS, to the FIFO method, which is accepted both by current Spanish legislation and by the IFRS.

year earlier, when job destruction of -1.4% took place. The industrial sector also saw an increase in the rate of change of average staff numbers, which at 1.3% was the most positive figure for this aggregate since 2000. This information seems to confirm the positive situation of the sector, despite the moderate growth of GVA in the latest period. Finally, the transport and communications sector, which, as noted above, includes a corporation that has undertaken a major staff reduction, saw employment decrease in 2005 Q1 at a rate (-1.7%) slightly below that of 2004 (-1.9%). If the effects of this staff reduction are eliminated, the rate of change for 2005 Q1 is 0.4%, thereby confirming the positive performance of employment in the other corporations in this sector.

Average wages grew by 2.5%, a rate which continues the trend towards greater moderation seen in 2004, a year in which wage costs rose by 2.9%. This same pattern of moderation was apparent in all sectors, although most notably in wholesale and retail trade and, in particular, industry, since wages grew more slowly in these sectors in 2005 Q1 (2.5% and 1.8%, respectively), in line with the behaviour of employment in the aforementioned two sectors. Table 2.B analyses the quarterly sample, separating corporations with a rise in employment from those in which it decreases. It shows that, as has become usual, the corporations with a net increase in employment were those in which compensation grew more slowly (2.7%), whereas those which reduced staff reported an increase in wage costs of 3.2% in the period in question. Finally, Table 4 shows that 2005 Q1 saw a significant increase in the percentage of corporations that created jobs, with a rise from 54.5% to 60.9%. Also noteworthy is the increase in the percentage of corporations in which personnel costs per worker grew more slowly than inflation: 53% in 2005 against 42.3% in 2004 Q1. In short, the available CBQ data confirm that the reporting corporations are generating jobs and at the same time maintaining a moderate rate of wage increases.

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

TABLE 5

	GROSS OPERATING PROFIT				ORDINARY NET PROFIT				RETURN ON INVESTMENT (R.1)				ROI-COST OF DEBT (R.1 - R.2)			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2003	Q1-Q4 (a)	04 Q1	05 Q1	2003	Q1-Q4 (a)	04 Q1	05 Q1	2003	Q1-Q4 (a)	04 Q1	05 Q1	2003	Q1-Q4 (a)	04 Q1	05 Q1
Total	8.7	8.6	7.2	5.9	16.1	18.0	21.2	14.1	7.8	8.5	6.3	6.8	3.8	4.5	2.4	2.9
SIZE																
Small	3.9	—	—	—	8.1	—	—	—	7.3	—	—	—	2.9	—	—	—
Medium	5.8	4.1	12.4	-0.7	14.3	13.1	23.3	-7.3	8.1	8.1	8.2	7.1	4.6	4.3	4.7	3.9
Large	9.2	8.7	7.0	6.1	16.5	18.2	21.1	15.0	7.8	8.5	6.2	6.8	3.8	4.5	2.3	2.9
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	3.1	6.4	-1.9	10.4	5.4	8.3	5.1	21.8	8.2	9.2	8.1	9.4	4.8	5.7	4.6	5.9
Industry	8.4	11.9	2.9	0.5	16.5	29.8	4.1	5.6	8.7	9.6	7.3	7.9	5.0	5.8	3.5	4.1
Wholesale and retail trade	7.4	10.1	15.9	4.1	8.6	8.7	18.5	3.8	11.5	10.5	11.4	11.5	7.6	6.5	7.4	7.2
Transport and communication	9.4	6.4	9.3	4.2	25.5	16.1	24.2	9.8	9.5	14.0	11.2	14.3	5.3	9.6	6.8	9.7

SOURCE: Banco de España.

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

Profits, rates of return and debt

The moderate course of GVA and the greater buoyancy of personnel costs due to the employment situation were conducive to lower growth in gross operating profit than in previous periods. In 2005 Q1 GOP grew by 5.9%, against 7.2% in the same period of 2004 and 8.6% in 2004 as a whole. These developments were strongly influenced by energy corporations, due to the positive impact of oil prices on refining corporations. Financial costs, unlike in previous quarters, posted growth (6%) in 2005 Q1. The following table explains the causes of these developments:

	<u>05 Q1/04 Q1</u>
Change in financial costs	+0.6%
A. Interest on borrowed funds (1+2)	+5.7%
1. Due to the cost (interest rate)	-0.5%
2. Due to the amount of interest-bearing debt	+6.2%
B. Commissions and cash discounts	+0.3%

In summary, in 2005 Q1 the increase in financial costs was basically due to the inflow of fresh financing, since the change due to interest rate fluctuations had practically no effect on this heading. Sectoral analysis of the available data indicates that the rise in financial costs was common to all sectors. In addition, corporations continued to resort to borrowing, taking advantage, albeit moderately, of the favourable financial conditions offered by the markets. As a result of the limited recourse to borrowing, in 2005 the debt ratios listed in Chart 4 showed a flat or slightly downward path, depending on which one is used. The ratio E1, which measures the proportion between interest-bearing borrowing and net assets, has held steady in 2005 to date, repeating the value reported in 2004 Q4. The ratio E2, which relates the level of interest-bearing borrowing⁴ to the gross value-added, decreased slightly in 2005 Q1. The ratio E2 is also calculated for the group of Spanish multinationals (GM), in order to provide an approximate measure of their per-

4. Consolidated, i.e. after adjustment to eliminate inter-company financing within the group.

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

TABLE 6

	CBQ			
	RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)	
	04 Q1	05 Q1	04 Q1	05 Q1
Number of corporations	833	677	833	677
Percentage of corporations by R <= 0%	24.4	25.5	27.7	28.5
profitability bracket				
0% < R <= 5%	22.2	23.3	16.2	18.0
5% < R <= 10%	14.5	17.1	10.2	12.1
10% < R <= 15%	11.5	9.3	9.6	10.2
15% < R	27.4	24.8	36.3	31.2
MEMORANDUM ITEM: Average return	6.3	6.8	8.4	9.5

SOURCE: Banco de España.

formance and their level of debt. As seen in Chart 4, the debt of smaller corporations follows a course similar to that of the multinationals, but with a considerably lower level of debt.

The increase in financial costs was offset to some extent by the inflow of dividends from foreign subsidiaries (the growth of financial revenue was calculated at 19.4% in 2005 Q1) and by a slight decrease in depreciation and operating provisions. All this resulted in ordinary net profit growth (ONP) of 14.1% in 2005 Q1, which in any event was lower than the ONP growth in 2004 Q1. The overall growth of ONP and financial costs enabled corporations to maintain high levels of profitability in 2005 Q1. Thus in this period the return on investment was 6.8%, up half a percentage point on that posted in 2004 Q1. The results were similar across all sectors, with energy and transport and communications standing out because they showed higher gains in profitability than those achieved a year earlier. In addition, the ratio that approximates financial cost held at 3.9%, the same as in 2004 Q1 and, as a result, the ratio that measures the difference between profitability and the cost of debt in 2005 was clearly positive for Q1 (2.9) and even higher than in 2004 Q1. Finally, net profit in 2005 Q1 increased by 8.8%, a rate which was lower than that of ONP in the same period, due to significant extraordinary expenses reflecting the decreased value of certain investments abroad, which were negatively affected by exchange rate fluctuations and by write-downs in the transport sector. In any event, the net profit of CBQ corporations as a whole was up by 8.8% with respect to the same period a year earlier. As a percentage of gross value added, net profit grew from 24.6% in 2004 Q1 to 28.7% in 2005 Q1, and, to some extent, this sums up the situation of the CBQ non-financial corporations, which, despite the flatness of value-added growth, continue creating jobs and raising their profitability, thus contributing to the build-up of equity which, along with recourse to borrowing, can be used to finance new investment projects.

17.6.2005.