RESULTS OF NON-FINANCIAL CORPORATIONS IN 2004 AND IN THE FIRST THREE QUARTERS OF 2005

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Introduction[1]

As in previous years, the January *Economic Bulletin* of the Banco de España gives the results of the corporations that contributed to the Central Balance Sheet Data Office Annual Survey (CBA) up to the end of the past financial year (2004) and those of the corporations participating in the Central Balance Sheet Data Office Quarterly Survey (CBQ) in the first three quarters of 2005. The latter can be considered a preliminary indicator of the 2005 results.

Table 1 and Chart 1 analyse the trend in business activity in the aforementioned periods and show that the annual results for 2004 are, in the main, in line with the patterns and trends reported by the CBQ for that year. Specifically, in 2004 the growth rate of corporations' gross value added (GVA) was similar to that in 2003, while in the first three quarters of 2005 there was a mild slowdown in the overall activity of the corporations reporting to the CBQ. As is known, the corporations reporting to the CBQ (and to the CBA) are not selected by statistical sampling, and this database mainly represents large corporations operating in wholesale and retail trade, transport and communications, and industry. Recently the most buoyant activities in the Spanish economy have been construction and other services, which are under-represented in the samples, especially in the CBQ, so the resulting patterns do not fully coincide with the trend in activity reflected by the Spanish Quarterly National Accounts.

The engines of growth in 2004 were transport and communications, and wholesale and retail trade, driven by the strength of domestic demand. However, in 2005 these sectors grew somewhat more slowly (see Table 2.A). In the case of transport, the slowdown is due to the rising fuel prices, while the performance of wholesale and retail trade reflects the slowdown in retail sales, which capture the effect of alternative sources. Industry also contributed to the good results in 2004, since it benefited from the recovery of investment in capital goods, but this trend was not sustained in 2005. Overall, business activity has recently been strongly influenced by the rising oil prices, which reached historical highs in 2005. This is particularly affecting refining and fuel marketing corporations and also impinges on transport firms, electric utilities and industry in general. If refining and fuel marketing corporations are excluded from the aggregate, the GVA for the rest of the firms increased at the same pace in 2004 as it did in 2003, at a growth rate of 6.3%, whereas in the first three quarters of 2005 GVA growth according to the CBQ was 2.8%, against 4.9% in the previous year, evidencing the slowing trend mentioned above. However, the figures also reflect a worsening of the net balance of external activity of the sample corporations, both in 2004 and in the first three quarters of 2005 (2005 Q1-Q3). In summary, the data confirm the sustained growth of activity in 2004, basically due to the positive contribution from activities related to private consumption and investment in capital goods, whereas in 2005 certain signs of slowdown in the corporations making up the CBQ have been detected, since these companies have been strongly influenced by the higher fuel prices and by the deterioration in external activity against a backdrop of weak demand in the euro area economies.

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1. The information for 2004, used to compile this article, is a summary of that featured in the publication "Banco de España. Resultados anuales de las empresas no financieras 2004", released on 29 November 2005. The data used for this publication were provided by the 6,535 non-financial corporations reporting to the Central Balance Sheet Data Office annual survey to end-October 2005. The quarterly series are drawn from the information provided by the 706 corporations companies which, on average, sent data to the CBQ survey to mid-November 2005. The CBA sample represents 25.6% of the total activity of the non-financial corporations sector (measured by gross value added at basic prices), while the coverage of the CBQ sample is around 12.2%.

PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES AND PROFIT RATIOS TABLE 1
Growth rates of the same corporations on the same period a year earlier

	CBA STRUCTURE	CBA		CBQ (a)		
DATABASES	2004	2003	2004	04 Q1-Q4/ 03 Q1-Q4	04 Q1-Q3/ 03 Q1-Q3	05 Q1-Q3/ 04 Q1-Q3
Number of corporations		8,569	6,535	816	827	706
Total national coverage		30.5%	25.6%	15.0%	15.3%	12.2%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidies)	100.0	6.1	7.7	7.9	6.7	12.6
Of which:						
— Net amount of turnover and other operating income	134.2	5.5	8.3	8.1	6.8	15.3
2. INPUTS (including taxes)	67.0	5.8	8.0	9.0	7.6	17.2
Of which:						
— Net purchases	39.5	4.3	12.5	10.1	8.5	21.9
— Other operating costs	27.3	7.6	2.7	7.2	7.4	8.0
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	33.0	6.5	7.0	5.9	5.2	4.5
3. Personnel costs	16.0	4.7	4.1	3.2	3.0	3.7
S.2. GROSS OPERATING PROFIT [S.1 – 3]	16.9	8.6	10.0	8.0	6.9	5.0
4. Financial revenue	3.3	4.8	15.2	3.0	0.8	12.1
5. Financial costs	2.8	-2.6	-3.8	-6.9	-7.0	8.4
6. Depreciation and operating provisions	6.8	4.3	2.3	-0.8	-1.5	-1.8
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	10.7	15.4	22.2	17.4	15.7	9.7
7. Capital gains and extraordinary revenue	3.6	6.7	-35.1	-33.4	-58.1	81.3
8. Capital losses and extraordinary expenses	3.3	-26.9	-5.5	-26.3	-40.3	81.7
9. Other (provisions and taxes)	4.1	-35.6	-15.8	0.6	-29.7	-19.9
S.4. NET PROFIT [S.3 + 7 – 8 – 9]	6.9	(b)	15.8	7.9	10.5	21.7
NET PROFIT/GVA (S.4/S.1)		17.9	20.9	24.2	24.8	27.9
PROFIT RATIOS	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	7.8	8.1	8.4	7.7	8.5
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.9	3.6	4.0	4.0	3.9
R.3 Ordinary return on equity (before taxes)	S.3/E	11.0	11.8	12.1	10.8	12.5
R.4 ROI - cost of debt (R.1 – R.2)	R.1–R.2	3.9	4.5	4.4	3.7	4.6

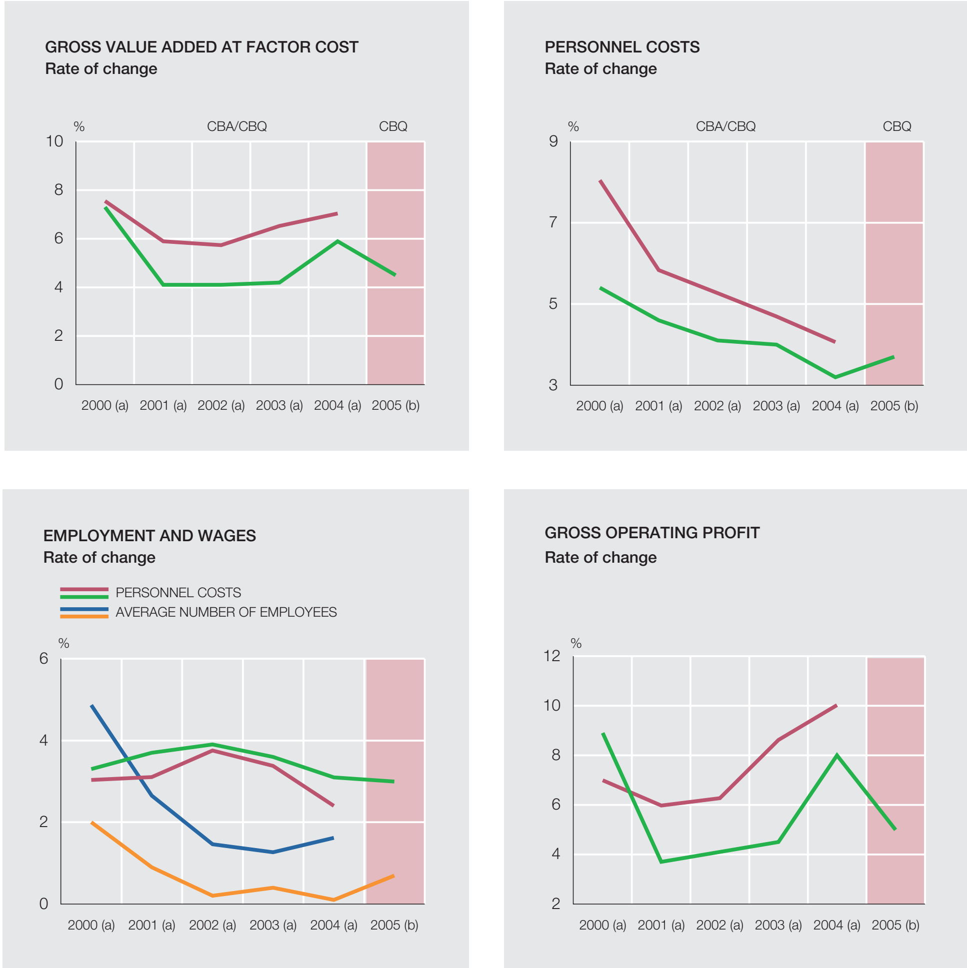
SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.
b. Rate not significant or not calculable because the relevant figures are of opposite sign.
c. The variables in the formulas are expresed 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: In calculating rates, internal accounting movements have been edited out of items 4,5 and 9.

In this setting, the behaviour of personnel costs was contained, both in 2004, when they grew by 4.1%, and in 2005 Q1-Q3, when this item rose by 3.7%, due basically to wage moderation. Thus on CBA data for 2004, the rate of change of wage costs was 2.4%, one percentage point less than the previous year, while the CBQ reflects growth of wage costs per worker of 3% for the first three quarters of 2005, a similar rate to that in the same period of 2004. The other component that explains the behaviour of personnel costs, i.e. employment, performed favourably both in 2004 (a year in which, on CBA data, it grew by 1.6%, up 0.3 pp on 2003) and in 2005 Q1-Q3, when average employment rose by 0.7%. This figure is in line with the sound performance of this variable at global level, particularly if account is taken of the composition of the quarterly sample and if it is compared with the rate for the same period of 2004 (–0.1%). Additionally, in 2004 and in 2005 Q1-Q3 a large communications corporation was undergoing far-reaching staff adjustment, on which information has given in previous articles. If the effect of this adjustment is excluded, the rate of change in the rest of the corporations in

NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE

CHART 1



REPORTING NON-FINANCIAL CORPORATIONS		2000	2001	2002	2003	2004	2005
Number of corporations	CBA	8,489	8,417	8,420	8,569	6,535	—
	CBQ	883	859	848	832	816	706
% of GDP of the sector non-financial corporations	CBA	30.7	30.1	30.2	30.5	25.6	—
	CBQ	16.5	15.7	15.8	15.3	15.0	12.2

SOURCE: Banco de España.

a. 2000, 2001, 2002, 2003 and 2004 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).
b. Average of the first three quarters of 2005 relative to the same period in 2004.

the sample shows more expansionary behaviour, with employment growth of 2.1% in 2004 and of 1.2% in the first three quarters of 2005.

The behaviour of economic activity and the moderate growth of personnel costs, acting in unison, meant that gross operating profit also showed expansionary behaviour in 2004, in which year it grew by 10%, the highest rate for this caption in the annual series since 1998. In the first three quarters of 2005 the surplus increased by 5%, down slightly on the 6.9% recorded in the same period of the previous year. Financial costs again showed a negative rate of change in 2004 (–3.8%), basically as a result of additional interest rate cuts. However, the

NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE (cont'd)

CHART 1

REPORTING NON-FINANCIAL CORPORATIONS		2000	2001	2002	2003	2004	2005
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SOURCE: Banco de España.

a. 2000, 2001, 2002, 2003 and 2004 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).
b. Average for the first three quarters of 2005 in relation to the same period in 2004.

quarterly data show a break in this trend in 2005, basically because of increased borrowing and because interest rates, which stand at very low levels, seem to have bottomed out. Thus financial costs have increased in 2005 Q1-Q3, the first time that this has happened since 2001. Financial revenue rose substantially both in 2004 and in 2005 Q1-Q3 as a result of significant inflows of dividends from the foreign subsidiaries of Spanish multinationals, following the recovery of the economies that received these companies' investments. All this enabled ordinary net profit to grow by 22.2% in 2004 and by 9.7% in the first three quarters of 2005, and this growth helped to keep rates of return at high levels, slightly above even those in the immediately preceding periods. Thus in 2004 the CBA corporations posted a return on invest-

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 (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2004	04 Q1-Q4	04 Q1-Q3	05 Q1-Q3	2004	04 Q1-Q4	04 Q1-Q3	05 Q1-Q3	2004	04 Q1-Q4	04 Q1-Q3	05 Q1-Q3	2004	04 Q1-Q4	04 Q1-Q3	05 Q1-Q3
Total	7.0	5.9	5.2	4.5	1.6	0.1	-0.1	0.7	4.1	3.2	3.0	3.7	2.4	3.1	3.1	3.0
SIZE																
Small	6.4	—	—	—	-0.1	—	—	—	3.7	—	—	—	3.8	—	—	—
Medium	6.8	4.0	2.9	3.1	2.4	-0.5	-0.6	0.9	5.2	3.2	3.0	5.0	2.8	3.7	3.6	4.1
Large	7.1	6.0	5.3	4.5	1.6	0.1	-0.1	0.7	3.9	3.2	3.0	3.6	2.3	3.1	3.1	2.9
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	6.2	6.0	3.9	10.2	-1.4	-1.1	-1.2	-0.6	2.0	2.9	2.7	3.0	3.5	4.0	3.9	3.6
Industry	4.7	6.1	4.6	2.1	0.0	-0.7	-1.2	-0.1	2.9	2.2	1.7	3.3	2.9	2.9	2.9	3.4
Wholesale and retail trade	10.2	6.9	6.5	3.7	5.4	4.3	4.6	2.3	8.1	6.7	6.8	4.5	2.6	2.3	2.1	2.2
Transport and communications	6.0	4.4	4.7	2.7	-1.4	-1.7	-2.0	-0.3	1.9	1.5	1.7	2.7	3.4	3.3	3.8	3.0

SOURCE: Banco de España.

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

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

		TOTAL CBQ CORPORATIONS 2005 Q1 - Q3	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		706	418	288
PERSONNEL COSTS				
Initial situation 04 Q1-Q3 (€m)		15,597.8	9,017.0	6,580.8
Rate 05 Q1-Q3/ 04 Q1-Q3		3.7	7.1	-1.0
AVERAGE COMPENSATION				
Initial situation 04 Q1-Q3 (€m)		29,534.0	26,569.1	34,865.4
Rate 05 Q1-Q3/ 04 Q1-Q3		3.0	3.1	4.0
NUMBER OF EMPLOYEES				
Initial situation 04 Q1-Q3 (000s)		528	339	189
Rate 05 Q1-Q3/ 04 Q1-Q3		0.7	3.9	-4.9
Permanent	Initial situation 04 Q1-Q3 (000s)	438	275	163
	Rate 05 Q1-Q3/ 04 Q1-Q3	0.8	3.6	-3.7
Non-permanent				
	Initial situation 04 Q1-Q3 (000s)	90	64	26
	Rate 05 Q1-Q3/ 04 Q1-Q3	0.3	5.2	-11.8

SOURCE: Banco de España.

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

Structure and rate of change

TABLE 3

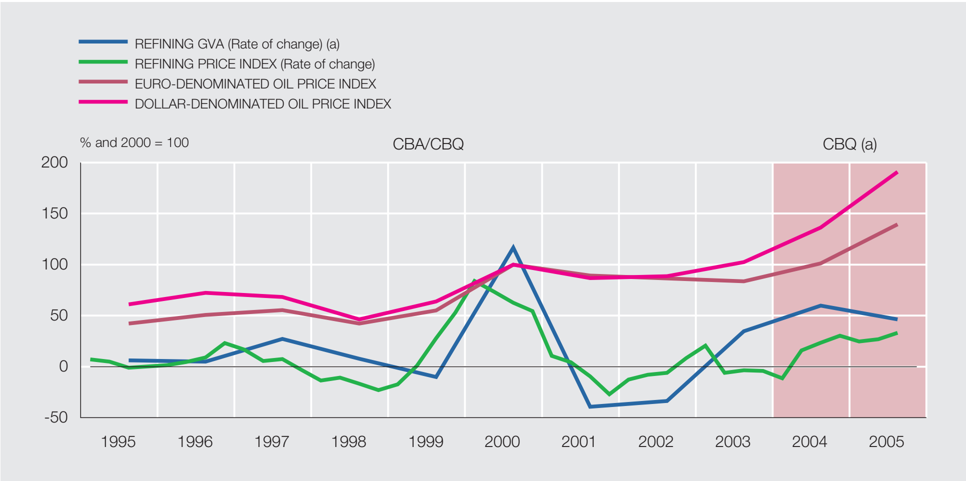
		CBA		CBQ (a)	
		2003	2004	04 Q1-Q3	05 Q1-Q3
Total corporations		6,535	6,535	706	706
Corporations reporting source/destination		6,535	6,535	681	681
Percentage of net purchases according to source	Spain	69.3	68.0	77.8	79.8
	Total abroad	30.7	32.0	22.2	20.2
	EU countries	17.5	17.3	15.6	13.6
	Third countries	13.3	14.7	6.6	6.6
Percentage of net turnover according to destination	Spain	83.6	84.0	87.1	87.7
	Total abroad	16.4	16.0	12.9	12.3
	EU countries	11.8	11.5	9.5	8.7
	Third countries	4.6	4.4	3.4	3.6
Change in net external demand (exports less imports), rate of change (b)	*Industry*	9.9	-3.6	8.8	-5.6
	Other corporations	-9.3	-32.1	-34.7	-3.8

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the relevant quarterly data.
b. The rates of change for 2003 refer to the 8,569 corporations reporting to the CBA that year.

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2



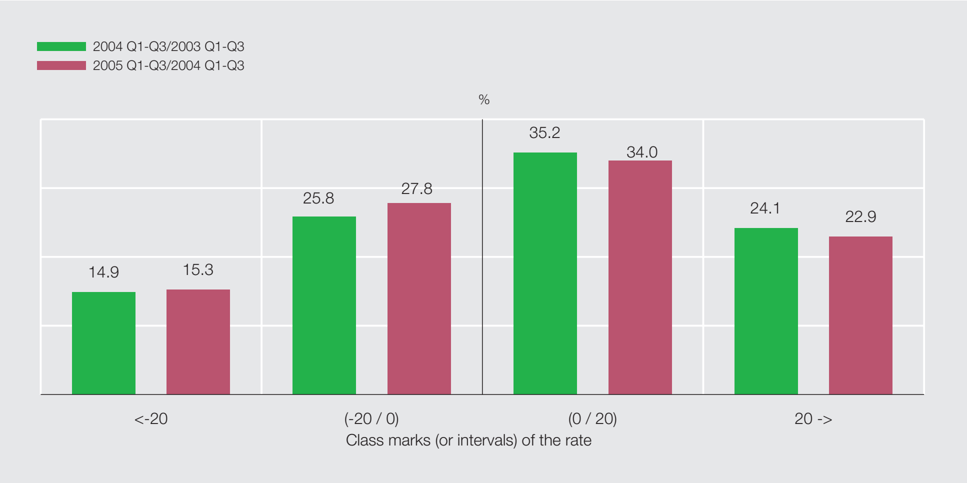
SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio *(Informe mensual de precios).*

a. 2004 and 2005 data relate to the CBQ.

ment of 8.1%, up 0.3 pp on the prior-year figure, while this ratio was 8.5% for 2005 Q1-Q3 for the CBQ corporations. Meanwhile, since the cost of borrowed funds held at minimal values both in 2004 (3.6%) and in the first three quarters of 2005 (3.9%), the difference between ROI and the cost of debt reached values that were positive and growing in comparison with the preceding periods. As regards extraordinary results, 2004 saw a decrease both in expenses and, in particular, in extraordinary revenue, the net effects of which, after taking into account

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

CHART 3



SOURCE: Banco de España.

the decrease in extraordinary provisioning, was net profit growth of 15.8%. The opposite occurred in the first three quarters of 2005, when the high growth of extraordinary revenue and expenses offset each other, while provisioning (basically for loss in value of the securities portfolio) decreased notably, largely due to recovery in the market value of investees of Spanish multinationals. Accordingly, the rate of change of net profit was 21.7% in this period. In any event, if this bottom line of the profit and loss account is expressed as a proportion of GVA, it can be seen that both in 2004 and in the first three quarters of 2005 the profits generated by corporations reached highs in the annual and quarterly series, respectively.

In sum, the activity of the corporations contributing to the Central Balance Sheet Data Office database was buoyant in 2004 and in the first three quarters of 2005, although it began to show certain signs of a slowdown in 2005, which are related to the situation of the industrial sector and to the deterioration of external activity. Aside from the small size of these samples (basically the CBQ), it should be taken into account that the most buoyant sectors in the current economy (construction and other services) are scantly represented in them. Also, the information available on foreign trade shows that imports gained in relative weight with respect to total purchases, while exports only managed to hold steady as a proportion of total sales. The job creation figures are holding at positive rates, against a background of moderately increasing wage costs. To this should be added the dividend inflows received from Spanish multinationals as a result of economic improvement in the areas in which their investments are concentrated. All this boosted the generation of ordinary profit and gave rise to high returns, boosted by moderating financial costs, and to the stabilisation of debt ratios. The effect of extraordinary income was to moderate the net profit with respect to 2004 ordinary results and to increase them notably in the first three quarters of 2005. The risks in this scenario impinge unevenly on the sectors analysed. On the one hand, the sharp upward trend of oil prices has started to pass through to certain sectors in the form of higher costs, and may, if it continues at the current level, contribute to inflationary and wage pressure, and thus lead to additional losses in competitiveness. On the other, the sluggishness of the euro area, together with the losses in competitiveness, has reduced the intensity of growth of certain sectors, such as industry, which has a higher external exposure.

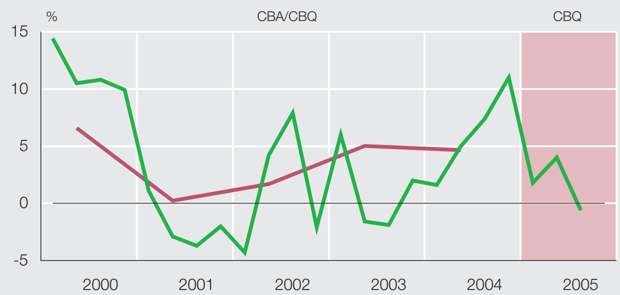
Activity

Business activity, as measured by GVA growth, increased by 7% in nominal terms in 2004. This rate was slightly higher than that in 2003, thereby prolonging the trend of sustained

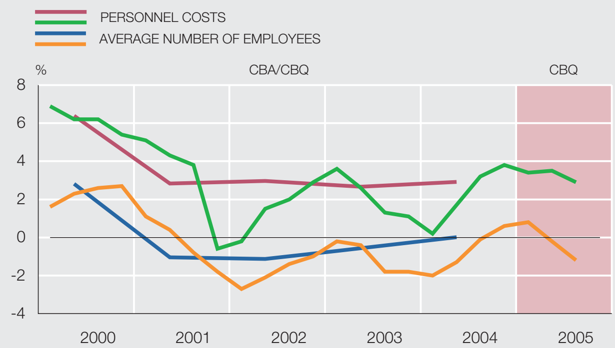
The figures from the Central Balance Sheet Data Office indicate that 2004 saw a firming of the moderately expansionary trend of Spanish industry that had started to become apparent in the previous year, with GVA posting a rate of change of 4.7%, very similar to that in 2003. However, the quarterly data for the first three quarters of 2005 seem to reflect a slowdown in activity, with GVA growth of 2.1%, appreciably lower than the 4.6% reported by the CBQ in the same period of the previous year. The slowdown in this aggregate, discernible in all its component sub-sectors, is in line with the progressive loss of vigour shown by industrial production throughout 2005 and in consonance with the information from other sources. Also contributing to this is the instability that is still being shown by the main economies in the euro area, and that particularly affects an aggregate like industry, which exhibits a greater dependence due to the trade relationship with the euro area countries. Of all the sectors analysed, those performing most negatively were glass, ceramics and metals, in which GVA, albeit up by 4.8%, rose much more slowly (at half the rate) than in the same period of 2004, and particularly electrical, electronic and optical equipment and transport equipment, the GVA of which decreased by –0.4% and –4.9%, respectively, in 2005. Employment trended very moderately in the two periods under review, but, nonetheless, improved in comparison with the two preceding periods. Thus the CBA figures show that the rate of change of employment was zero for 2004, against –0.7% in 2003, and the information compiled by the CBQ for the first three quarters of 2005 shows a slight decrease of –0.1%, compared with the fall of –1.2% in this aggregate in the same period of the previous year, which may indicate that business expectations continue to be favourable. In any event, the quarterly figures reflect a worsening in employment as the year progressed, in line with the slowdown in productive activity in this aggregate. Average compensation in 2004 exhibited the same moderation as that seen in the total sample. The figures available up to September 2005 reflect growth of 3.4%, which is higher than the average of the sample and evidences a slight change of trend as a result of the progressive increase in this item as the year progressed. However, the sub-sectors in which activity was less expansionary were also those with smaller wage increases. The developments so far described meant that in 2004 industrial corporations increased

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

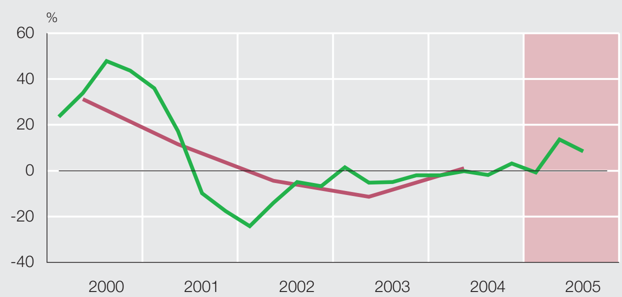
GROSS VALUE ADDED AT FACTOR COST
Rate of change



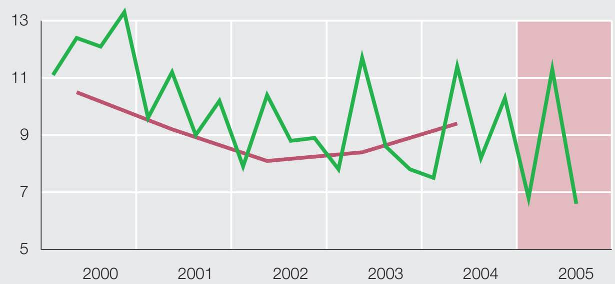
EMPLOYMENT AND WAGES
Rate of change



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	2,551	1,990	—
	CBQ	431 411 390 378	402 392 380 363	389 375 365 354	366 361 352 345	353 344 336 326	322 292 202 —
% of GDP of the sub-sector industrial corporations	CBA	31.4	28.2	27.9	27.4	21.1	—
	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	20.1 19.9 18.7 18.6	20.9 20.9 19.1 19.4	19.3 18.6 11.2 —

SOURCE: Banco de España.

their ordinary returns and that in the first three quarters of 2005 a slowdown in productive activity became noticeable. In any event, profitability was high in both periods, although, for the reasons stated above, slightly lower in 2005 (8%) if compared with that recorded a year earlier (8.7%). Financial costs held at minimal levels, so the ratio measuring the difference between return on investment and the cost of debt remained clearly positive (5.7 in 2004 and 4.3 in the first three quarters of 2005). Hence, in 2004 Spanish industry saw a firming of the expansionary trend that had become apparent in the previous year, as a result of the greater buoyancy of investment in capital goods. This trend did not continue in the first three quarters of 2005, when there was a progressive slowdown in activity and a slight deterioration in job creation which, however, did not lead to a significant decline in profitability. Additionally, there are certain factors of risk that pose a threat to the continuing recovery of the productive activity shown by industry in 2003 and 2004. These include most notably, in addition to those deriving from the upward trend in oil prices and the ongoing sluggishness of the euro area countries, others whose impact has started to become apparent more recently and that point to problems of competitiveness in Spanish industry.

growth shown in recent years. Yet another year, this growth was based on the resilience of trade and of transport and communications, which showed GVA increases of 10.2% and 6%, respectively, confirming that private consumption continued to be the main driving force behind productive activity in 2004. However, in 2004 industry also showed expansionary behaviour thanks to the greater buoyancy of investment in capital goods. This pick-up, which had become apparent from the second half of the previous year, enabled this sector to record, for the second year running, rates of change of GVA of nearly 5%, after two years of practically zero growth. The data in Table 3 confirm that in 2004 net external demand (exports less imports) made a negative contribution to output growth, since its balance showed a negative rate of change both in 2004 and in 2005 Q1-Q3, evidencing a deterioration in competitiveness. It should, nonetheless, be taken into account that the clear improvement in the international situation and in world trade was not reflected in greater buoyancy in the euro area countries, which has reined in growth and negatively affected the expectations of certain sectors, like industry, that are more dependent on trade with these countries. Finally, mention should be made of the sharp nominal increase in GVA shown by oil refining corporations which, as a result of the rising oil prices, reported a rise in their margins and, consequently, in GVA, which grew by around 60% in 2004 (see Chart 2). Also affected, albeit in the opposite direction, were fuel marketers, the costs of which increased. Since they could not pass through these costs in full to sales prices, their trade margins narrowed. Excluding both these aggregates, GVA growth for both 2004 and 2003 stood at 6.3%, confirming the trend towards solid, stable growth recorded in most of the sectors analysed. The resulting scene for 2004 was thus one of sustained growth of productive activity in an international environment of greater stability and buoyancy, which had not yet spilled over into a recovery of activity in the euro area countries. This, together with the upward trend in oil prices and the aforementioned loss of competitiveness, is the main factor of risk threatening the ongoing expansionary trend of business activity.

Against this background, the information available up to 2005 Q3 shows moderate growth in productive activity, with a slight slowdown relative to the increase posted in 2004 by the reporting corporations, among which the firms engaging in construction and certain services activities are not well represented. This would explain the difference between the performance shown by the CBQ and that based on the quarterly National Accounts, which suggest a more favourable performance for 2005 Q1-Q3. Specifically, on CBQ data, GVA in 2005 Q1-Q3 rose by 4.5%, nearly 1 percentage point less than the rate posted by the quarterly sample for the same period a year earlier (5.2%). Moreover, this performance was strongly affected by the oil price hike in 2005. Hence the GVA of oil refining again grew at a high rate (46.2%) and the energy

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

TABLE 4

	CBA		CBQ (a)			
	2003	2004	03 Q1 - Q4	04 Q1 - Q4	04 Q1 - Q3	05 Q1 - Q3
Number of corporations	8,569	6,535	832	816	827	706
PERSONNEL COSTS	100	100	100	100	100	100
Falling	25.5	28.8	31.3	32.2	32.7	28.3
Constant or rising	74.5	71.2	68.7	67.8	67.3	71.7
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.6	31.6	45.2	44.4	45.0	40.7
Constant or rising	68.4	68.4	54.8	55.6	55.0	59.3
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	37.2	45.6	43.9	46.6	46.3	49.2
Higher or same growth (b)	62.8	54.4	56.1	53.4	53.7	50.8

SOURCE: Banco de España.

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

sector as a whole saw its GVA rise by 10.2%. If, as done in the 2004 analysis, the refining and fuel marketing corporations are eliminated from the sample, more moderate GVA increases are obtained both in 2005 (2.8%) and in 2004 (4.9%), which shows more clearly the slowing trend of the sample corporations, in which transport companies and electric utilities – strongly affected by the rise in energy costs – are well represented. As stated above, this trend does not agree with that shown by alternative indicators. After the energy sector, the next highest increases in GVA were posted by wholesale and retail trade, which in the first three quarters of 2005 showed growth of 3.7%. This, however, was appreciably lower than in 2004 (6.5%), in line with the lower growth of consumption. The transport and communications sector also grew more moderately in the first three quarters of 2005 (2.7%) than it did a year earlier (4.7%), due to a strong impact of the oil price rise on transport companies and to the rise in the advertising costs of certain large telecommunications corporations. Also, in the first three quarters of 2005 industrial corporations recorded lower GVA growth (2.1%) compared to that in the same period of 2004 (4.6%), this slowdown being apparent in all the aggregates comprising the sector, as explained in Box 1. By contrast, electricity, gas and water production and distribution utilities, which are the other aggregate that, along with refining, makes up the energy sector, showed an increase of 2.6% in the first three quarters of 2005, exceeding in this case the 0.4% posted a year earlier. This favourable performance was mainly due to the growth of demand for electricity (up by 4% in 2005 to date) in a year in which production costs rose as a result of the drought, obliging thermal power stations to raise their output to make up for the lower hydroelectricity generation[2]. Noteworthy as regards external activity is, as shown in Table 3, the fall in net exports by industry, which, in any event, in both 2004 and the first three quarters of 2005 is lower than the fall recorded by corporations as a whole. This is in line with the information given by other sources on the pass-through of higher fuel costs via prices.

2. As mentioned in previous articles, since the beginning of 2005, firms have been subject to greenhouse gas emission regulations placing an upper limit on emissions. Corporations that exceed these limits must acquire supplementary allowances in the market. In this new legal framework, electricity sector corporations, which emit gases in their productive processes, have had to acquire emission allowances, on top of those that had been assigned to them, amounting to approximately €170 million in the first three quarters of 2005. These purchases were recorded by corporations as an addition to inputs, so their GVA is reduced by the amount of the purchases. By contrast, the Central Balance Sheet Data Office has reclassified these expenses as extraordinary (under "acquisition of allowances"), which is in line with the nature attributed to these transactions in the National Accounts. In short, in the results shown by the Central Balance Sheet Data Office, the acquisition of supplementary allowances has not affected the GVA generated by these corporations.

Using the information included in the databases constructed on the basis of the accounts filed with the Spanish Mercantile Registries, the Central Balance Sheet Data Office (CBSO) has constructed a database (CBBE/RM, or CBB) which enables the behaviour of small and medium-sized enterprises (SMEs) to be studied. Although the CBB data become available with a greater lag than those of the CBA and they are less detailed, they make it possible to find the main features defining the behaviour of this corporate aggregate that complements the one included in the CBA database, which, as is known, is biased towards large corporations. The CBB is constructed so as not to include any corporation included in the CBA. The annual report of the Central Balance Sheet Data Office includes an annex summarising the main information drawn from this aggregate of small and medium-sized enterprises and on the basis of which this box has been prepared. The CBB data for 2003 relate to a total of 375,080 firms which, in terms of GVA, make up 15.4% of the total of the sector non-financial corporations. For 2004, as at the date of publication of the CBSO annual report, information had been received from 69,913 corporations, representing 2.6% of the national total.

The information gathered by the CBB indicates that the activity of small and medium-sized enterprises increased moderately in 2004. Their GVA was up by 5.7%, a mild deceleration compared with the 6.4% of 2003. This trend towards slower growth extended to practically all the sectors analysed, with the exception of construction, real estate and hotels and restaurants, the only ones that in 2004 posted rates of change of GVA similar to or slightly higher than those of 2003. Against this background, personnel costs grew by 6.6% in 2004, more than one percentage point less than a year earlier (7.8%), due to the more moderate rise in wage costs per worker apparent throughout all the sectors of the sample without exception. Regarding employment data, in 2004 the SMEs included in the CBB increased their workforce by 3.2%, a rate similar to, although slightly below, that of 2003, which was 3.5%. This rate confirms yet another

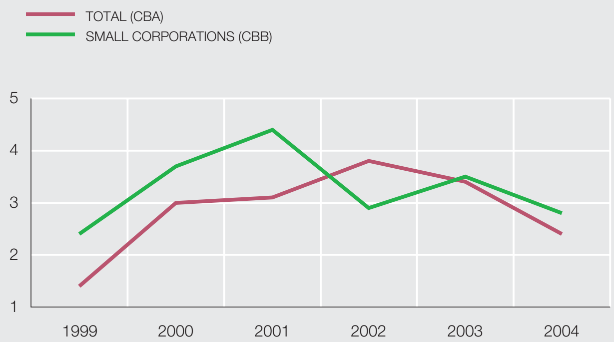
RESULTS OF SMALL CORPORATIONS

GROSS VALUE ADDED AT FACTOR COST
Rate of change

FINANCIAL COSTS
Rate of change

EMPLOYMENT
Rate of change

PERSONNEL COSTS PER EMPLOYEE
Rate of change



		1999	2000	2001	2002	2003	2004
Number of corporations	CBA	8,245	8,489	8,417	8,420	8,569	6,535
	CBB (a)	211,753	231,792	245,732	320,115	375,080	69,913
% of GDP of the sector non-financial corporations	CBA	31.8	30.7	30.1	30.2	30.5	25.6
	CBB (a)	10.6	10.8	11.0	13.5	15.4	2.6

SOURCE: Banco de España.

a. In the case of the "Employment" and "Personnel Costs per Employee" charts, the data relate to the sub-set of corporations with consistent employment figures (65% of the CBB total).

year the greater vigour with which small and medium-sized enterprises can generate employment compared with the larger corporations included in the CBA. Sectoral analysis shows that it was basically industrial SMEs that were responsible for the more marked slowdown in job creation in 2004, since in that year the average number of their workers increased by practically zero, against an increase of 1.6% in 2003, thereby continuing the downward trend apparent since 1998 in employment growth in industrial SMEs. Meanwhile, in 2004 employment growth in market services was identical to that of the previous year, while construction was, as expected, the sector posting the sharpest rises in employment, higher even than in 2003, in line with the performance of its productive activity.

The growth of activity, along with the more moderate behaviour of personnel costs, enabled SMEs to show a moderate rise in gross operating profit of 3.4% in 2004, which was higher than the growth rate of this same profit figure in the previous year (2.8%). As in the CBA, financial costs fell for the third year running, while financial revenue grew strongly in 2004 (10.7%). All this, along with the sustained trend in depreciation, enabled ordinary net profit (ONP) in 2004 to grow by 4.4%, somewhat more than twice the rate in the previous year (2%). This improvement raised the already high profitability of Spanish SMEs, particularly those engaged in construction. Thus the ratio measuring ordinary return on equity, the only ordinary return that can be calculated from the CBB information, stood, for the sample as a whole, at 8.7% in 2004, up 0.2 pp on the previous year. For their part, construction SMEs posted a return of 16.1%, which was one percentage point more than in the previous year.

To sum up, in 2004 SMEs showed sustained growth at total aggregate level and in most economic sectors, although the construction and market services sectors were those that, in terms of activity and of job creation, recorded the most expansionary behaviour. To these developments should be added the wage moderation in the period and the positive performance of financial results, which enabled this aggregate, taken as a whole, to maintain a good rate of ordinary results and, therefore, high levels of profitability, better even than those achieved in the previous year. However, like the large corporations, industrial SMEs, which are the ones most exposed to external competition, are showing signs of a gradual slowdown, which is a fresh testimony to the need to take measures to improve the competitiveness of the Spanish economy.

Finally, Chart 3, which groups corporations according to the increase in GVA without regard to size and economic sector, shows that in the first three quarters of 2005 the percentage of corporations whose GVA increased in this period was somewhat more than two percentage points lower than that recorded in the same period of 2004. In addition, the shift was basically towards the segment of corporations with more moderate decreases in GVA, confirming that the mildly decelerating trend shown by the aggregate figures is independent of size and/or activity of the corporations.

Employment and personnel costs

Personnel costs increased moderately both in 2004 (4.1%) and in the first three quarters of 2005 (3.7%), confirming the trend of prior years. The growth in 2004 was somewhat more than half a percentage point lower than in 2003. Although the 2005 quarterly data show a slight rise with respect to 2004, this was due solely to the higher growth of employment in 2005.

Average compensation (personnel costs per worker) grew by 2.4% in 2004, one percentage point less than in 2003, while the quarterly figures up to September 2005 show wage increases of 3%, similar to those a year earlier (3.1%). Both the CBA and the CBQ describe similar trends, with progressive containment of the growth of these costs, which stabilised in the third quarter of 2005 at a rate of around 3%. This behaviour was across the board, except in the industrial sector, which was the only aggregate to show a slight rise in average compensation, probably linked to the negative trend in its employment figures throughout 2005, particularly in the third quarter. Notable among the other sectors was wholesale and retail trade because, as has now become customary, average compensation rose more moderately both in 2004 (2.6%) and in the first three quarters of 2005 (2.2%). Finally, analysis of Table 4 shows that in 2005 Q1-Q3 the percentage of corporations with wage increases remaining below the rate of inflation has moved up to 49.2%, compared with 46.3% a year earlier, despite the rise in recent months as a result of the energy price hikes.

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 (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2004	04 Q1 - Q4	04 Q1 - Q3	05 Q1 - Q3	2004	04 Q1 - Q4	04 Q1 - Q3	05 Q1 - Q3	2004	04 Q1 - Q4	04 Q1 - Q3	05 Q1 - Q3	2004	04 Q1 - Q4	04 Q1 - Q3	05 Q1 - Q3
Total	10.0	8.0	6.9	5.0	22.2	17.4	15.7	9.7	8.1	8.4	7.7	8.5	4.5	4.4	3.7	4.6
SIZE																
Small	11.0	—	—	—	17.9	—	—	—	7.0	—	—	—	3.2	—	—	—
Medium	8.9	5.2	2.7	0.9	10.0	10.6	4.2	-1.3	8.2	8.4	8.6	7.7	4.7	4.8	5.1	4.5
Large	10.1	8.2	7.1	5.2	23.5	17.7	16.2	10.1	8.1	8.4	7.6	8.5	4.5	4.4	3.6	4.6
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	7.7	6.9	4.3	12.1	9.6	10.2	8.2	19.2	8.1	9.0	8.4	9.5	4.7	5.5	4.9	6.0
Industry	7.0	11.1	8.1	0.7	11.3	28.4	13.4	2.8	9.4	9.4	8.7	8.0	5.7	5.6	4.9	4.3
Wholesale and retail trade	13.0	7.1	6.1	2.6	19.4	6.7	4.0	5.1	12.7	10.0	9.7	8.7	9.0	5.8	5.5	4.7
Transport and communications	9.0	6.3	6.8	2.6	27.9	15.8	17.5	7.5	9.5	14.6	14.3	16.4	5.3	10.1	9.9	11.8

SOURCE: Banco de España.

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

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

TABLE 6

		CBQ (a)			
		RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)	
		04 Q1 - Q3	05 Q1 - Q3	04 Q1 - Q3	05 Q1 - Q3
Number of corporations		827	706	827	706
Percentage of corporations by profitability bracket	R <= 0%	23.5	23.8	26.0	26.6
	0% < R <= 5%	21.7	20.5	16.5	15.8
	5% < R <= 10%	15.5	17.6	11.2	12.8
	10% < R <= 15%	10.9	10.9	8.8	10.5
	15% < R	28.4	27.2	37.5	34.3
MEMORANDUM ITEM: Average return		7.7	8.5	10.8	12.5

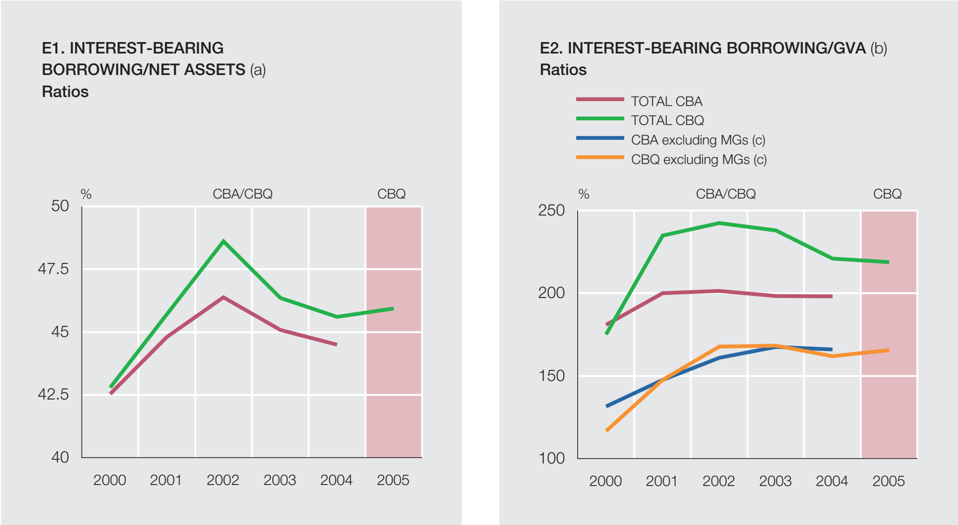
SOURCE: Banco de España.

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

The employment figures were clearly expansionary, both in 2004, when the average number of workers grew by 1.6%, and in the first three quarters of 2005, when the CBQ recorded net rises in employment of 0.7%. The rate recorded by the CBA for 2004 represents an increase of 0.3 pp above that of the previous year. This improvement was seen in all economic sectors except for transport and communications. The figures of this sector are influenced by a major staff reduction at a large communications corporation that has been underway throughout 2004 and 2005. Excluding this adjustment, the rate of change of employment in the sector is 1% in 2004, against –0.4% in 2003, and its trend is more in

DEBT RATIOS

CHART 4



	2000	2001	2002	2003	2004	2005
CBA	42.5	44.8	46.4	45.1	44.5	
CBQ	42.8	45.7	48.6	46.4	45.6	45.9

	2000	2001	2002	2003	2004	2005
CBA	180.9	200.0	201.4	198.4	198.0	
CBQ	175.1	234.9	242.4	238.0	220.9	218.7
CBA excl. MGs	131.6	147.6	161.0	167.5	166.0	
CBT excl. MGs	116.6	147.6	167.7	168.3	161.9	165.7

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 of consolidated debt).
c. MGs: sample corporations belonging to the main reporting multinational groups.

line with that of the sector as a whole and that of the sample. The 2005 quarterly figures also show the effect of this staff reduction. Excluding this effect, employment in the first three quarters of 2005 is up by 1.2%, which, once again, is higher than the rate for the same period of 2004 (0.9%). As regards sectors, wholesale and retail trade was the sector in which employment increased most clearly in 2005 (2.3%), although this growth is nearly half that recorded a year earlier (4.6%), a development that is in line with the slowdown in the sector's productive activity in 2005. The other sectors, although showing less positive rates of change than those of wholesale and retail trade in 2005, improved notably in comparison with the rates for the first three quarters of 2004, confirming the inferences drawn from alternative sources. Additional confirmation of this behaviour comes from Table 4, which shows that in 2005 Q1-Q3 59.3% showed net increases in employment, against 55% in the first three quarters of 2004.

Profits, rates of return and debt

The performance of productive activity, along with the more moderate and contained growth of personnel costs, enabled gross operating profit (GOP) to grow by 10% in 2004. In the first three quarters of 2005, this balance increased by 5%, down slightly on the figure of 6.9% recorded a year earlier. The more moderate growth rate of this variable in 2005 is a result of the slowdown in productive activity, an all-pervasive phenomenon throughout the sectors analysed, except in energy for the reasons given above (see Table 5). Financial revenue grew rapidly in both 2004 and 2005 as a result of the inflow of dividends from foreign subsidiaries, with rates of change of 15.2% in 2004 and of 12.1% in the first three

The information gathered by the CBQ is a key analytical tool for monitoring the activity, costs, profits and profitability of corporations. For its part, the CBA enables diverse analyses which have a different focus from and are in greater depth than those of the CBQ, although they are released with a far greater time lag than those of the quarterly survey. The two databases can be considered to be complementary and, in fact, a link can be established between them by constructing a standard profit and loss account that is compatible with the two approaches (that with the format used in Table 1 of this article). To do this, given that the quarterly survey contains less information than the annual one, approximations must be made and not all the items can be made to coincide perfectly. However, these differences do not affect the analysis of the basic captions and the problem of lack of information only affects certain minor items. This is shown by the following table, which uses the structure of the 2004 profit and loss account with all the CBA items. The captions not available in the quarterly survey have been signalled by preceding them with a letter. As can be appreciated, these captions are of minor importance in relation to the total expenses and revenues making up the profit and loss account[1].

1. This structure is reproduced in the first column of Table 1 of this article.

DATABASES	CBA 2004
Number of corporations	6,535
Total national coverage	25.6%
PROFIT AND LOSS ACCOUNT	
1. VALUE OF OUTPUT (including subsidies)	100.0
Of which:	
1.1 Net amount of turnover and other operating income	134.2
1.2 (–) Consumption (wholesale and retail trade and real estate sectors)	-36.3
1.a Other items (not available in CBQ)	2.1
2. INPUTS (including taxes)	67.0
Of which:	
2.1 Net purchases	39.5
2.2 Other operating costs	26.7
2.b Other items (not available in CBQ)	0.8
S.1. GROSS VALUE ADDED AT FACTOR COST (1 – 2)	33.0
3. Personnel costs	16.0
S.2. GROSS OPERATING PROFIT (S.1– 3)	16.9
4. Financial revenue	3.3
5. Financial costs	2.8
6. Depreciation and provisions	6.8
S.3. ORDINARY NET PROFIT (S.2 + 4 – 5 – 6)	10.7
7. Capital gains and extraordinary revenue	3.6
8. Capital losses and extraordinary expenses	3.3
9. Other (provisions and taxes)	4.1
S.4. NET PROFIT (S.3 + 7 – 8 – 9 – 10)	6.9

SOURCE: Banco de España.

quarters of 2005. The trend of financial costs changed significantly in 2005, as shown by the following table:

	2004/2003	*05 Q1-Q3/04 Q1-Q3*
Change in financial costs	**–0.6%**	**+8.4%**
A. Interest on borrowed funds	*–5.6%*	*+8.2%*
1. Due to the cost (interest rate)	–8.0%	–2.1%
2. Due to the amount of interest-bearing debt	+2.3%	+10.3%
B. Commissions and cash discounts	*+1.8%*	*+0.2%*

CAPITAL AND FINANCIAL FLOWS
CBA
(Structure: GVA at basic prices = 100)

TABLE 7

Databases	% of GVA at basic prices 2002	2003	2004
Number of corporations / Total national coverage	8.420/30,2%	8.569/30,5%	6.535/25,6%
CAPITAL ACCOUNT			
1. Capital resources	29.6	33.0	39.7
1.1 Gross saving	30.8	31.1	33.2
1.2 Net capital transfers	-1.2	2.0	6.5
2. Uses of capital	28.3	30.3	31.6
2.1 Gross capital formation	26.7	29.0	30.7
2.2 Other uses of capital	1.6	1.3	0.9
2.3 Statistical discrepancy	0	0	0
3. Net lending (+), net borrowing (–) (1 – 2 = 5)	1.3	2.7	8.1
FINANCIAL ACCOUNT			
4. Net financial assets acquired	27.6	8.4	31.0
4.1 Cash and deposits	1.1	0.5	0.4
4.2 Securities other than equity	1.2	4.1	3.1
4.3 Loans	1.5	-3.6	13.9
4.4 Shares and other equity	23.9	7.5	13.7
5. Net financial operations plus net liabilities incurred (6 + 7)	27.6	8.4	31.0
6. Net financial operations (4 – 7 = 3)	1.3	2.7	8.1
7. Net liabilities incurred	26.2	5.7	22.9
7.1 Securities other than equity	-2.8	-1.0	-0.3
7.2 Loans	17.9	4.8	15.5
7.2.1 Loans from financial institutions	7.4	0.3	6.9
7.2.2 Loans from the rest of the world	-6.7	11.4	-4.2
7.2.3 Loans from other resident sectors	17.2	-6.8	12.8
7.3 Shares and other equity	12.0	-0.1	3.4
7.4 Pension funds	-1.9	-0.1	0.0
7.5 Trade credit and other accounts payable (net)	1.0	2.1	4.4
MEMORANDUM ITEM: GVA at basic prices	104,506	111,851	100,349

SOURCE: Banco de España.

As can be appreciated, the interest rate cuts were the cause of the lower financial costs in 2004. In 2005 Q1-Q3, the cost of borrowing again decreased (–2.1%), albeit to a lesser extent, given the low levels of interest rates. However, the increase in financing in the first two quarters of 2005 absorbed the fall in financial costs and prompted an increase in financial costs. In any event, the rise in recourse to external sources of financing can be considered moderate, as shown by the debt ratios E1 and E2 (see Chart 4). The two panels of the chart show that both 2004 and the first three quarters of 2005 saw a steadying of the debt ratios as calculated both with respect to total net assets (E1) and with respect to GVA (E2).

The behaviour described for financial costs and revenue enabled ordinary net profit (ONP) to grow more rapidly than GOP. Hence ONP increased by 22.2% in 2004 and 9.7% in the first three quarters of 2005, when, as noted in the preceding paragraph, financial costs showed positive rates of change. In any event, both periods saw increases in ONP that were more than sufficient to maintain, and even raise, the high ordinary rates of return enjoyed by corporations. Thus the return on investment stood at 8.1% in 2004 (up 0.3 pp on 2003) and at 8.5% in the first three quarters of 2005 (bettering the 7.7% in the same period of the previous year). Since

INTRODUCTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS. EFFECTS ON THE ACCOUNTING DATA OF CORPORATIONS IN 2005 Q1

BOX 4

Box 2 of the Central Balance Sheet Data Office's quarterly article in the July 2005 *Economic Bulletin*, relating to corporate results in 2005 Q1, informed about the introduction of International Financial Reporting Standards (hereafter "IFRS") to the consolidated accounts of publicly traded Spanish groups and made an initial assessment of the accounting impact of their application[1]. In summary, the box concluded that:

These regulations have not affected the analyses conducted by the CBQ because the latter uses individual annual accounts not subject to IFRS.

The number of corporations (groups) affected by the new regulations was very small among non-financial corporations as a whole. Only 0.02% of non-financial corporations (generating 10.7% of jobs in the sector) is subject to IFRS.

The impact of application of IFRS on the 2005 Q1 income statement was a fall in turnover of around 4% and an increase in net profit of 3%.

This box updates our earlier analysis with data for the first half of 2005, and extends it by including the accounting reconciliation of the 2004 closing balance sheet to the 2005 opening balance sheet, sent to the CNMV by listed groups.

The half-yearly information supplied by listed groups to the CNMV can be used to approximate the deviations in certain income statement captions due to the application of IFRS. Table 1 shows the effect on corporations as a whole, which is limited for the total of 167 corporations analysed, albeit not for certain economic sectors[2]. Turnover fell by 4.1% due to the application of IFRS, profit for the period increased by 5.6% and depreciation and amortisation expense fell by –1.4%. As regards economic sectors, the application of IFRS resulted in a fall in sales that was sharpest in the energy sector, mainly attributable to new criteria for recording consolidated income. Specifically, in the electricity sector, offsetting is applied to purchase and sale transactions with the electricity pool, which are recorded at the margin on sales to the regulated market. The increase seen in profit is due to the diminution in deferred taxes and the disappearance of the obligation to amortise goodwill in the main corporations in the sector. The impact on the industrial sector cannot be analysed in detail because of the heterogeneity of the corporations in it; however, at aggregate level it can be said that the impact of IFRS is smaller in both turnover and net profit. The decrease in profit for the period of construction corporations was caused by the greater financial costs of their concession-holder subsidiaries, since the conditions for capitalisation of interest on loans are stricter under IFRS than under Spanish accounting regulations. Finally, in market services, the largest differences relate to property corporations, the turnover of which decreased due to the different interperiod allocation of sales, which are now accounted for once the property deeds have been executed. Also, the reduction in the amount of amortisation reflects the different treatment of the useful life of intangible assets under IFRS and the fact that, as indicated above, goodwill is not amortised. This decrease in amortisation may partly explain the increase in net profit.

Table 2 shows the impact of IFRS on the main captions of the consolidated balance sheet, using the information available from the

1. Regulation (EC) No 1606/2002 of the European Parliament and of the Council stipulated that groups with securities publicly traded on EU stock exchanges must prepare their consolidated annual accounts in conformity with IFRS for financial years starting on or after 1 January 2005. This Europe-wide obligation was introduced into Spain through amendment of the Commercial Code and through the issuance of CNMV Circular 1/2005 regulating the periodic public information to be reported by corporations with securities publicly traded on Spanish markets. The information required for the first half of 2005 includes a reconciliation statement of the 2004 accounts calculated under IFRS to those calculated under the 1990 General Chart of Accounts, which enables the impact of the change to be assessed in this box.

2. Table 1 compares the differences between the information supplied in 2005 (when IFRS were already in force) for the first half of 2004 and that furnished in 2004 for that same period. It should be taken into account that the differences that appear here are not due solely to the application of the new regulations, but also to the accounting revisions routinely carried out by corporations to remedy material errors.

IMPACT OF APPLICATION OF IFRS
Listed non-financial groups (consolidated accounts).
Half-yearly estimate of results for the first half of 2005

TABLE 1

Aggregate	Difference IFRS – PGC 90 (a)		
	Turnover	Profit for the period	Depreciation/Amortisation expense
	%	%	%
Total	-4.1	5.6	-1.4
1. Energy	-8.4	8.4	-3.0
2. Industry	-2.3	4.5	-9.1
3. Construction	0.7	-13.0	19.5
4. Market services	-2.4	9.4	-1.3

SOURCE: Banco de España, using CNMV data.

a. Estimated impact: (2004 Q2 value reported in 2005 – 2004 Q2 value reported in 2004) / 2004 Q2 value reported in 2004.
Information available up to mid-November 2005. The differences include those derived from the application of IFRS and other sources.

INTRODUCTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS. EFFECTS ON THE ACCOUNTING DATA OF CORPORATIONS IN 2005 Q1 (cont'd) BOX 4

reconciliation of the 2004 closing balance sheet to the 2005 opening balance sheet (an obligatory statement defined in CNMV Circular 1/2005) for consolidated groups. The scant effect of the application of IFRS on non-current assets (fixed assets in the terminology of the 1990 General Chart of Accounts, hereafter "PGC 90") can be appreciated, although there are significant reclassifications in the balance sheet. The decrease in equity is mainly due to the treatment of treasury stock as a reduction of equity, rather than as an asset as required up till now under the PGC 90, it also being required to recognise any gain or loss on treasury stock transactions in equity. Finally, the total amount of the balance sheet has decreased in all sectors except the industrial sector, partly due to the effect of the decline in equity.

Until the revision of accounting rules currently underway to adapt the accounting framework for individual accounts to IFRS has been completed (which, according to ICAC plans, will be in 2007), it is not foreseeable that any changes directly relating to the application of these rules will arise in Central Balance Sheet Data Office publications.

IMPACT OF APPLICATION OF IFRS TABLE 2
Listed non-financial groups (consolidated accounts).
Differences in balance sheet reconciliation: IFRS (2005 opening) - PGC 90 (2004 closing)

Aggregate	Difference IFRS – PGC 90 (a)		
	Non-current assets	Equity	Total assets/liabilities
	%	%	%
Total	-0.6	-11.3	-2.9
1. Energy	1.2	-6.6	-0.6
2. Industry	5.3	2.5	2.0
3. Construction	0.6	-9.9	-5.5
4. Market services	-3.8	-20.9	-5.2

SOURCE: Banco de España, using CNMV data.

a. Estimated impact: (2005 opening value under IFRS – 2004 closing value under PGC 90) / 2004 closing value under PGC 90.
Information available up to mid-November 2005.

the cost of borrowing is at a historical low (between 3.6% and 3.9%), the ratio that measures the difference between profitability and the cost of debt is once again clearly positive, both in the total sample and in all its component sectors.

Most noteworthy in respect of extraordinary results is the fall in 2004, basically due to the decrease in extraordinary revenue. The sharp reduction in extraordinary provisioning in the first three quarters of 2005 was due to the reversal of amounts provisioned for investments abroad in previous years. The recovery of these amounts meant that net profit grew by nearly 21.7% up to September 2005. As a percentage of GVA, net profit reached highs in the annual and quarterly series of 20.9% and 27.9%, respectively.

These results evidence the recent favourable performance of Spanish corporations. The mild slowdown in activity in the first three quarters of 2005 has not prevented the generation of profits and job creation from continuing at a brisk pace, against a background of wage moderation. Further, the renewed high buoyancy of world trade has contributed to rising business income and profits through the inflow of dividends from foreign subsidiaries. This has helped the expansion of ordinary (and, basically in the first three quarters of 2005, extraordinary) profit, which has resulted in increased returns. The main risks in this scenario are the behaviour of foreign demand, the persistence of high oil prices and the difficulties in strengthening the euro area economies.

CAPITAL AND FINANCIAL FLOWS
SPANISH NATIONAL ACCOUNTS AND FASE
(Structure: GVA at basic prices = 100)

TABLE 8

Databases	% of GVA at basic prices		
	2002	2003	2004
CAPITAL ACCOUNT (Spanish National Accounts, base 1995)			
1. Capital resources	22.0	21.2	22.4
1.1 Gross saving	19.7	19.0	19.7
1.2 Net capital transfers	2.4	2.2	2.7
2. Uses of capital	29.6	29.7	32.2
2.1 Gross capital formation	29.4	29.6	32.1
2.2 Other uses of capital	0.2	0.2	0.1
3. Net lending (+), net borrowing (–) (1 – 2) (Spanish National Accounts, base 1995)	-7.5	-8.6	-9.8
a. Adjustement (a)	2.4	1.2	0.9
3'. Net lending (+), net borrowing (–) (3 – a = 6)	-9.9	-9.8	-10.7
FINANCIAL ACCOUNT			
4. Net financial assets acquired	20.5	20.7	14.0
4.1 Cash and deposits	5.6	2.9	3.0
4.2 Securities other than equity	1.2	2.0	0.9
4.3 Loans	-0.2	-0.1	1.0
4.4 Shares and other equity	13.8	15.8	9.1
5. Net financial operations plus net liabilities incurred (6 + 7)	20.5	20.7	14.0
6. Net financial operations (4 – 7 = 3)	-9.9	-9.8	-10.7
7. Net liabilities incurred	30.4	30.4	24.6
7.1 Securities other than equity	-0.7	-0.4	0.0
7.2 Loans	17.5	19.8	19.5
7.2.1 Loans from financial institutions	11.4	13.6	18.2
7.2.2 Loans from the rest of the world	5.7	5.8	1.0
7.2.3 Loans from other resident sectors	0.4	0.4	0.3
7.3 Shares and other equity	12.5	11.0	5.8
7.4 Pension funds	-0.5	-0.1	-0.1
7.5 Trade credit and other accounts payable (net)	1.6	0.1	-0.6
MEMORANDUM ITEM: GVA at basic prices (Spanish National Accounts, base 1995)	346,513	367,257	392,116

SOURCE: INE (Spanish National Accounts) and Banco de España *(Financial Accounts of the Spanish Economy).*

a. This captation includes the differences between the capital account balance compiled by the INE (caption 3) and the financial account balance compiled by the Banco de España (caption 6).

Investment flows and financing

The analysis of the financing and investment flows contained in Table 7 is based on the CBA, since the CBQ does not include detailed information in this respect. From Table 7 it can be deduced that during the past three years the corporations in this sample have generated a growing level of capital resources and are now in a net lending position. According to this, the CBA corporations (a sample biased towards large corporations and in which the effect of newly formed corporations is practically absent) are able, with the funds generated by them and the capital transfers received by them[3], to finance their capital investment and, in addition, have a surplus with which to undertake transactions[4].

3. Including most notably the assumption by the State of the debt of RENFE as part of the reorganisation of RENFE/GIF provided for in Royal Decree Law 7/2004 of 27 September 2004. **4.** Previous Central Balance Sheet Data Office reports have referred to the apparent contradiction in the CBA corporations having a net lending position, when the Spanish National Accounts and the Financial Accounts of the Spanish Economy show net borrowing by the total sector. These two results are not contradictory, since the CBA comprises a small number of corporations and it is the newly formed companies, not included in the CBA, which largely explain the net borrowing by non-financial corporations in aggregate. New corporations invest and require funds to finance the commencement of their activities, since they do not generate sufficient income in the initial stages of their existence to finance these activities.

As regards transactions of a financial nature, 2004 saw a significant increase in the level of assets purchased and of net liabilities assumed. Table 7 shows that, after the period 1998-2002 in which the large Spanish multinationals expanded abroad vigorously (through share purchases, loans and reorganisations), they reined in the pace of financial transactions in 2003 and used the profits from current transactions to consolidate the restructuring of their balance sheets. In 2004 the corporations in the annual sample stepped up their financial transactions again, although these did not reach the levels prior to 2002. The significant events in 2004 include, insofar as financial assets are concerned, the granting of loans as a result of transactions with subsidiaries, the balancing entry of which is, in part, the increase recorded in "loans from other resident sectors" on the liabilities side. Also noteworthy are certain share purchase transactions representing the continuation of the process of expansion in other countries and the use of surplus savings to repay in 2004 the loans received in previous years.

Finally, Table 8 sets out capital and financial flows presented in Spanish National Accounts information for the sector non-financial corporations. It aims not so much to explain the behaviour of these data, which are analysed in other Banco de España publications, as to provide a further basis of comparison, in this case relating to the total non-financial corporations sector, with an aim to refining/qualifying some of the conclusions drawn from the CBA information. In this table the flows are expressed as a percentage of GVA of the sector non-financial corporations according to the Spanish National Accounts with base year 1995 (at the time of going to press the Spanish Statistics Office had not yet published the accounts of the sector non-financial corporations in the Spanish National Accounts with base year 2000). It can be seen that in 2004 net borrowing increased slightly in comparison with the previous year (–9.4% against –9.2%). Comparison of this balance with that drawn from the CBA for these same years discloses a substantial difference in both level and trend, since, as mentioned above, the Central Balance Sheet Data Office figures for both 2003 and 2004 show a positive capital account balance (net lending), which is, moreover, growing. Footnote 4 remarks on this apparent inconsistency.

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