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# Results of non-financial corporations in 2002 and in the first three quarters of 2003

## 1. INTRODUCTION

As is customary in late November or early December, the Banco de España presents here the results of non-financial corporations gathered by the Central Balance Sheet Data Office Annual Survey (CBA) for the previous year and those compiled by the Central Balance Sheet Data Office Quarterly Survey (CBQ) for the first three quarters of the current year, which are a preview of the results for the year as a whole (1).

According to the summary presented in Table 1 and Chart 1, the CBA data for 2002 confirm the broad lines previously identified by the CBQ that business activity seemed to undergo a moderate recovery in that year, with a nominal GVA growth rate of 6.1%, similar to that in the previous year. Against an international backdrop that was hardly propitious, Spanish non-financial corporations kept up a sustained rate of growth (which quickened as the year unfolded) underpinned by the sound performance of consumption and investment in construction reported by other alternative sources. The information on the first nine months of 2003 from the CBQ, which is still provisional, shows that the growth of business activity was somewhat more sustained at a rate of 6.3% (against 2.9% in the same period of 2002). Again, this was consistent with the performance of consumption and construction, as well as with an incipient recovery in investment in capital goods during that period. The more stable international financial environment, especially the improved economic situation in the United States, and the end of the more acute episodes of the Latin American crisis have helped to reinstate a climate of greater confidence in business activity. Despite this, the contribution of foreign trade to GVA growth continued to be negative as a result of the persisting sluggishness of the euro area and of unstable oil prices.

The greater exposure of industry to foreign trade means that the results of this branch are particularly affected by the international economic situation. Against this background, indus-

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(1) This article summarises the information reported by the 6,288 non-financial corporations that had completed the CBA survey form up to the end of October 2003. The full CBA results for 2002 are available in the publication *Banco de España. Central de Balances. Resultados anuales de las empresas no financieras 2002* (in Spanish only), which was issued on 2 December 2003 to coincide with the release of this article. The CBQ results for the first three quarters of 2003, which are also presented in this article, are compiled from the information reported by an average of 750 corporations up to mid-November 2003. The CBA sample corporations account for 24.9% of the total activity of the non-financial corporations sector (measured in terms of gross value added at basic prices for this sector), while the coverage of the CBQ is 13.5%.

TABLE 1

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

Databases	CBA structure	CBA		CBQ (a)		
	2002	2001	2002	02 Q1-Q4 / 01 Q1-Q4	02 Q1-Q3	03 Q1-Q3
Number of corporations / Total national coverage		8,124 / 28.6%	6,288 / 24.9%	851 / 15.5%	867 / 15.6%	750 / 13.5%
1. VALUE OF OUTPUT (including subsidies)	100.0	4.1	2.9	1.4	-0.5	4.5
Of which:						
1. Net amount of turnover and other operating income	132.3	6.2	3.7	2.7	1.7	4.6
2. INPUTS (including taxes)	67.9	3.3	1.4	-0.5	-2.5	3.4
Of which:						
1. Net purchases	40.4	-1.1	-1.0	-2.6	-5.1	1.9
2. Other operating costs	27.3	8.6	6.7	5.0	4.2	6.2
S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2]	32.1	5.7	6.1	4.5	2.9	6.3
3. Personnel costs	16.3	5.6	5.2	4.0	3.8	5.1
S.2. GROSS OPERATING PROFIT [S.1 - 3]	15.8	5.9	7.0	4.9	2.2	7.3
4. Financial revenue	2.9	40.8	-9.7	-8.7	0.4	10.6
5. Financial costs	3.3	19.1	-4.9	-2.8	-5.9	-1.4
6. Depreciation and operating provisions	7.2	3.5	3.5	1.2	1.6	2.4
S.3. ORDINARY NET PROFIT [S.2 + 4 - 5 - 6]	8.2	14.2	8.7	5.9	5.6	15.4
7. Capital gains and extraordinary revenue	8.8	1.6	98.1	78.4	157.1	-16.4
8. Capital losses and extraordinary expenses	5.3	5.6	44.1	85.7	72.8	-0.9
9. Other net provisioning	9.6	60.4	306.3	139.7	535.0	-93.2
10. Income tax	1.6	6.2	2.3	-4.1	2.3	12.2
S.4. NET PROFIT [S.3 + 7 - 8 - 9 - 10]	0.4	-2.1	-90.1	(b)	(b)	(b)
Memorandum item:						
FUNDS GENERATED FROM OPERATIONS [S.2 + 4 - 5 - 10]	13.8	9.3	6.6	4.8	4.0	9.5
<b>PROFIT RATIOS</b>						
R.1 Return on investment (before taxes)		7.6	7.7	8.4	7.6	7.7
R.2 Interest on borrowed funds/ interest-bearing borrowing		5.1	4.3	4.5	4.5	4.1
R.3 Ordinary return on equity (before taxes)		9.6	10.7	11.9	10.4	11.0
R.4 ROI - cost of debt (R.1-R.2)		2.5	3.4	3.9	3.1	3.6
R.5 Debt ratio		49.0	51.9	52.9	52.5	52.6

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 different sign.

Note: Internal accounting movements have been edited out of items 4, 5, 7, 8, 9 and 10.

TABLE 2.a

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

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2002	02 Q1- Q4	02 Q1- Q3	03 Q1- Q3	2002	02 Q1- Q4	02 Q1- Q3	03 Q1- Q3	2002	02 Q1- Q4	02 Q1- Q3	03 Q1- Q3	2002	02 Q1- Q4	02 Q1- Q3	03 Q1- Q3
<b>Total</b>	<b>6.1</b>	<b>4.5</b>	<b>2.9</b>	<b>6.3</b>	<b>1.6</b>	<b>0.2</b>	<b>0.1</b>	<b>0.8</b>	<b>5.2</b>	<b>4.0</b>	<b>3.8</b>	<b>5.1</b>	<b>3.6</b>	<b>3.8</b>	<b>3.7</b>	<b>4.3</b>
<b>SIZE:</b>																
Small	3.4	—	—	—	0.6	—	—	—	4.6	—	—	—	4.0	—	—	—
Medium	7.7	2.5	3.2	2.3	1.8	0.5	0.6	0.5	6.0	2.7	2.2	5.2	4.1	2.2	1.6	4.7
Large	6.0	4.6	2.9	6.6	1.6	0.2	0.1	0.8	5.2	4.1	3.9	5.1	3.5	3.9	3.8	4.3
<b>BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:</b>																
Energy	-0.8	-0.7	-5.7	9.7	-3.2	-3.2	-3.1	-1.9	0.4	0.2	-0.8	3.6	3.7	3.5	2.4	5.6
Industry	2.8	1.2	2.2	1.6	-0.8	-1.8	-2.1	-0.4	3.1	1.7	1.2	3.4	4.0	3.6	3.4	3.8
Wholesale and retail trade	11.4	10.0	9.3	10.2	6.8	4.1	4.3	4.3	8.7	6.4	6.5	7.9	1.8	2.2	2.1	3.5
Transport and communications	10.0	7.4	6.2	4.9	-2.5	-1.0	-1.1	0.3	5.4	4.4	4.0	5.1	8.1	5.5	5.2	4.8

Source: Banco de España.

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

trial activity posted moderate growth in the first nine months of 2003, with job losses of scant importance.

In overall terms, these results confirm the favourable performance of Spanish non-financial corporations as a whole during the slowdown initiated in 2000. Unlike on similar occasions in the recent past, the employment level in this period of deceleration continued to rise, even as measured by a sample as distinctive in this respect as that of the CBQ.

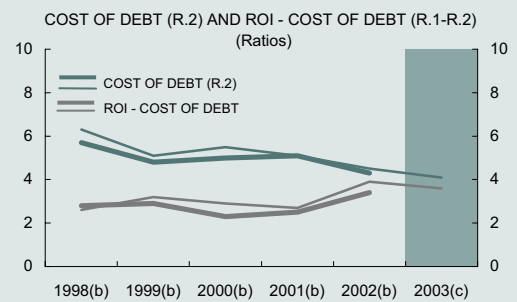
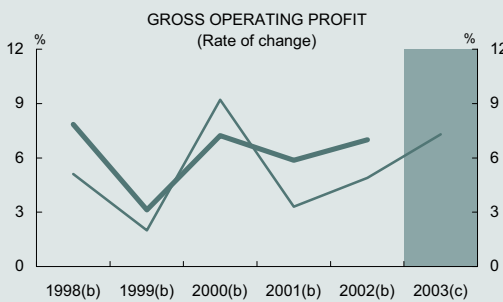
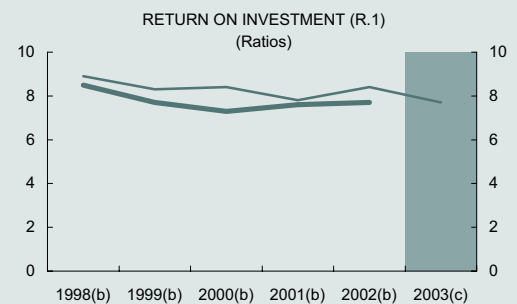
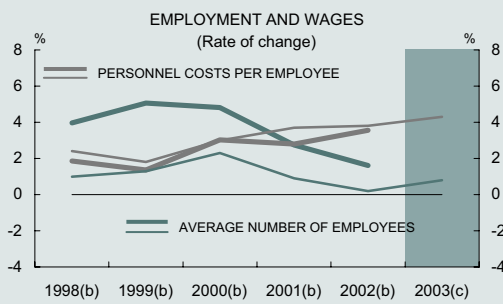
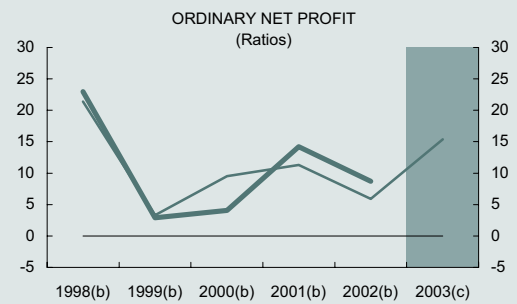
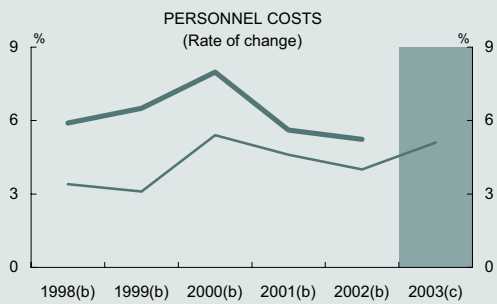
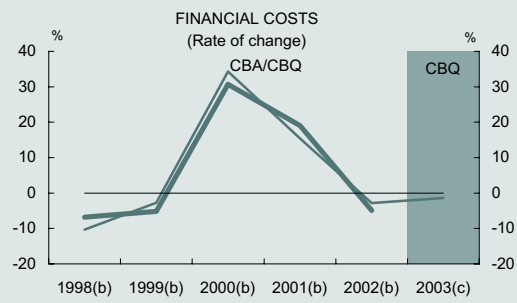
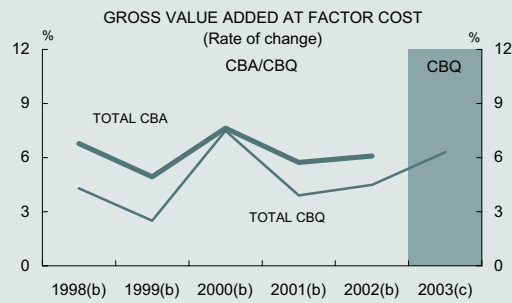
The employment data submitted by the sample corporations confirm the results already reported by other information sources. In 2002 the growth rate of employment slowed (to 1.6% from 2.7% in 2001), but there has been a slight recovery in 2003 to date with respect to the same period a year earlier (growth of 0.8% against 0.1%). Both these rates, although very low, will foreseeably increase appreciably when CBA data become available for 2003. Average compensation continued to show a certain downward stickiness, with rates of change holding at levels slightly above the price increases in 2002 (compensation per employee grew by 3.6%) and this behaviour tended to become more pronounced in the first three quarters of 2003 (with growth of 4.3%), perhaps to some extent due to

the upward movement in the price index during 2002 and its lagged pass-through to wages via indexation clauses. The recent course of inflation, which has started to turn downwards, means that more moderate rises in average compensation can be expected. The growth in employment and compensation pushed personnel costs up to rates above 5% both in 2002 and in 2003 to September. This enabled the growth rate of firms' gross operating profit to hold at around 7% in both periods, although it was slightly higher in the first three quarters of 2003 because of the more favourable behaviour of activity in that period.

Financial revenue from dividends and other income decreased in 2002 and rose at a rate of 10.6% in the first three quarters of 2003 when, unlike in 2002, significant returns were received on the foreign investments of certain Spanish holding companies. Financial costs continued to decrease both in 2002 and in 2003 to date, basically due to the favourable interest rate trend. As a result of these developments and of the moderate growth in depreciation and operating provisions in both periods, ordinary net profit (which is the variable used to calculate profitability) grew rapidly, reaching a rate of 15.4% in the first three quarters of 2003 in what was the largest increase in this caption since 1998. Ex-

CHART 1

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



NUMBER OF CORPORATIONS		1998(b)	1999(b)	2000(b)	2001(b)	2002(b)	2003(c)
CBA		8,143	8,265	8,513	8,124	6,288	
CBQ		840	891	906	871	851	750

% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS		1998(b)	1999(b)	2000(b)	2001(b)	2002(b)	2003(c)
CBA		33.6	31.8	30.8	28.6	24.9	
CBQ		18.3	17.9	16.6	15.6	15.5	13.5

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CBQ		18.3	17.9	16.6	15.6	15.5	13.5

— CBA data.

— CBQ data.

Source: Banco de España.

(a) Information available to 14 November 2003 (CBA and CBQ).

(b) The 1998, 1999, 2000 and 2001 data are based on information from the corporations included in the annual survey (CBA) and the average of the four quarters of each year in relation to the previous year (CBQ).

(c) Average of the first three quarters of 2003 relative to the same period of 2002.

traordinary items included most notably the strong impact on 2002 business results of the extraordinary provisions that large corporations with substantial foreign investments recorded to adjust the value of their securities portfolios. These were affected in some cases by the deterioration in the Latin American economic situation (already noticeable in their 2001 results), and in others by the losses on UMTS telephony investments in Europe. The generation, also in 2002, of significant gains on share sales was insufficient to prevent the deterioration of total net profit in that period, the rate being -90.1% in the CBA. In the first nine months of 2003, firms' profits returned to their customary levels, although the growth rate with respect to the same period a year earlier cannot be calculated because in the first nine months of 2002 the total net profit of the overall sample was negative for the reason mentioned above. In any event, the total net profit in 2003 to date represents 32.2% of GVA, against -0.4% in the first nine months of 2002, evidencing the magnitude of the recovery in these results in 2003.

The overall picture described for 2002 and for the first three quarters of 2003 shows signs of moderate, progressive recovery in activity after a period of more sluggish growth which, according to data of the corporations reporting to the Central Balance Sheet Data Office, commenced in 2001. This, together with the performance of financial revenue and costs, has enabled firms to record ordinary returns of 7.7% in both 2002 and the first nine months of 2003. Also, the decline in interest rates, which has been accompanied by a moderation in resort to interest-bearing debt in these periods, allowed the ratio that measures the cost of borrowed funds to dip to historical lows (4.3% in 2002 and 4.1% in the first three quarters of 2003). The combined effect of these two phenomena took the "ROI less cost of debt" ratio once again to values that are positive and growing with respect to previous periods, thereby confirming the favourable position in which Spanish non-financial corporations will face the world economic recovery once the uncertainties still persisting have abated, particularly in the euro area countries. In any event, everything seems to indicate that interest rates have bottomed out, so the continued enjoyment of high returns will depend more directly on the ability to generate value added and, therefore, employment. The low interest rates are another factor that may explain the rising indebtedness of firms in recent times, as evidenced by the behaviour of the debt ratio, although this ratio, like other alternative measures of debt, has grown somewhat more slowly in the first three quarters of 2003 in the corporations reporting to the Central Balance Sheet Data Office.

TABLE 2.b  
**Employment and personnel costs**  
**Details based on changes in staff levels**

	Total CBQ corporations 03 Q1-Q3	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
<b>Number of corporations</b>	<b>750</b>	<b>415</b>	<b>335</b>
<b>Personnel costs</b>			
Initial situation 02 Q1-Q3 (€ m)	15,407.0	7,929.2	7,477.8
Rate 03 Q1-Q3/02 Q1-Q3	5.1	8.8	1.1
<b>Average compensation</b>			
Initial situation 02 Q1-Q3 (€)	27,451	24,398	31,820
Rate 03 Q1-Q3/02 Q1-Q3	4.3	3.4	6.8
<b>Number of employees</b>			
Initial situation 02 Q1-Q3 (000s)	560	325	235
Rate 03 Q1-Q3/02 Q1-Q3	0.8	5.3	-5.4
<b>Permanent</b>			
Initial situation 02 Q1-Q3 (000s)	463	261	202
Rate 03 Q1-Q3/02 Q1-Q3	0.2	3.4	-3.9
<b>Non-permanent</b>			
Initial situation 02 Q1-Q3 (000s)	97	64	33
Rate 03 Q1-Q3/02 Q1-Q3	3.8	13.1	-14.6

Source: Banco de España.

## 2. ACTIVITY

In 2002 business activity held on a course of sustained growth at a rate similar to that in the previous year. Table 1 shows that GVA increased by 6.1% in 2002, 0.4 pp more than in 2001. This was compatible with moderate growth in output and in input, and is consistent with the consumption and investment behaviour indicated by alternative sources. In 2003 to date productive activity appears to have recovered somewhat, as shown by GVA growth of 6.3%, against 2.9% in the same period a year earlier. This increase has been underpinned once again by domestic factors, including consumption and construction investment, and by the incipient recovery of capital goods investment. The gradual dissipation of international tension, the take-off of the US economy and the greater stability in Latin America, where Spanish holding companies have substantial investments, have also favoured the progressive recovery of confidence, which may be manifesting itself in the continuation of the activity levels recorded in Spain. However, the major euro area economies, which are one of the main destinations for Spanish exports, have yet to resume growth, so there is a certain stagnation in the sales of Spanish firms to these markets. The sluggishness of the foreign market has particularly affected industry (see Table 2.a) which,

TABLE 3

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

	CBA		CBQ (a)	
	2001	2002	02 Q1-Q4 / 01	Q1-Q4 03 Q1-Q3 / 02 Q1-Q3
<b>Total corporations</b>	<b>8,124</b>	<b>6,288</b>	<b>851</b>	<b>750</b>
Corporations reporting source/destination	8,124	6,288	821	736
	%	%	%	%
<b>Net purchases</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
SOURCE OF PURCHASES:				
Spain	66.8	67.6	79.2	78.9
Total abroad	33.2	32.4	20.8	21.1
<i>EU countries</i>	19.9	19.4	15.6	16.6
<i>Third countries</i>	13.3	13.0	5.2	4.5
<b>Net turnover</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
SALES DESTINATIONS:				
Spain	81.9	83.0	87.0	87.5
Total abroad	18.1	17.0	13.0	12.5
<i>EU countries</i>	13.3	12.6	8.4	8.9
<i>Third countries</i>	4.8	4.4	4.6	3.6

Source: Banco de España.

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

after a strong spurt in 2003 Q1, returned to negative rates in the rest of the year, although its activity grew by 1.6% in the first three quarters of 2003, down slightly on the growth of 2.2% in the same period of 2002 (see Box 1 for a more detailed analysis). Table 3 shows that in the first three quarters of 2003 the percentage of sales to Spain continued to grow, which amounts to an indicator confirming the stagnation of exports.

The sectoral breakdown of activity shows that the slowdown in industry in 2003 to date is offset by the recovery of the other sectors, in all of which GVA has either risen or, as in the case of transport and communications, decreased slightly while maintaining a notable growth rate (4.9%). Meriting special mention is the energy industry, where the GVA increases in 2003 (9.7%) are strongly affected by the performance of oil refining corporations. The factors that influence the GVA of oil refining corporations (which are well represented in the sample corporations reporting to the Central Balance Sheet Data Office and thus strongly affect the total sample results) are diverse and difficult to quantify separately. Evidently one of them is the price of crude oil, which is their main input, but it cannot be inferred that crude oil prices are totally and immediately passed through to the

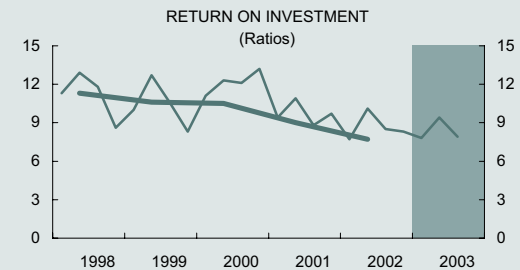
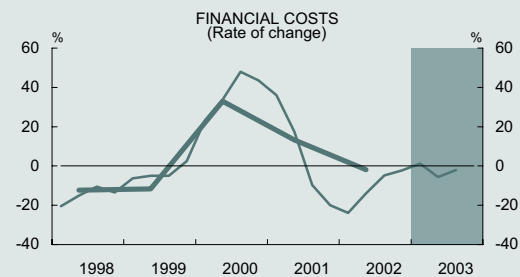
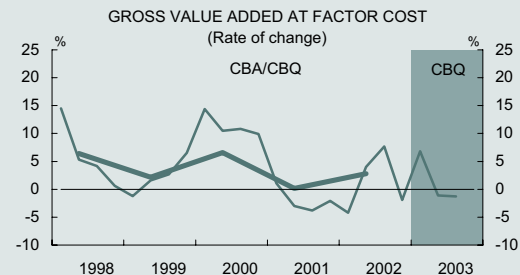
prices of the refined product that is the main output of refineries and the main input of fuel distributors; moreover, changes in international oil prices are not evident in the same way in all firms in the oil industry, since some of them receive oil supplies from foreign subsidiaries, which apparently apply a special price policy to their parent companies. These factors may explain the higher margins reported by some Spanish oil corporations and may account for these high GVA growth rates in the first three quarters of 2003, which subsequently slowed progressively during the year. If the firms most directly affected by oil price fluctuations (refining corporations and fuel distributors) are excluded from the quarterly sample, the resulting 2003 GVA growth rates are still higher than those in 2002. Indeed, in the period analysed of 2003, the GVA of the total sample without these corporations grew by 5.1%, against 4.4% in 2002. This further confirms the recovery of activity, as measured free from the bias introduced by refining corporations owing to the factors that influence their behaviour and to their over-representation in the sample.

Finally, Chart 2, which plots the percentage of firms in which GVA has increased or decreased, shows that in 2003 to date there has been a slight fall in the percentage of corpora-

## Analysis of the industrial sector

Industry is the area in Spain that has been hardest hit by the recent slowdown in worldwide activity. As shown by Table 2.a, its GVA grew in 2002 and in the first three quarters of 2003 at a subdued pace, with rates of change of 2.8% and 1.6%, respectively. The instability that has characterised the world economy and that is still apparent in the euro area has caused this sector's growth rates to moderate. On top of this is the behaviour of capital equipment investment in 2002, which performed negatively in 2002 but has shown signs, albeit insufficient, of recovery in 2003. Sectoral analysis shows that the electronic and optical material and equipment sector was responsible for the most negative GVA performance in both 2002 (-3.0%) and in the first three quarters of 2003 (-6.4%), although in this second period the transport equipment manufacturing and other manufacturing industries also recorded GVA declines. As a result of the trend in activity, this aggregate again failed to post positive employment rates in both 2002 (-0.8%) and the first three quarters of 2003 (-0.4%). In this latter period, it should be mentioned that the first quarter saw a recovery that resulted in net job creation in industry, although the progressive deterioration in activity in the following quarters brought a return to negative rates that worsened as the year proceeded. Average compensation, in line with the pattern noted for the total sample, shows growth rates of around 4% both for 2002 annual data and for 2003-to-date CBQ data. The reasons for the rise in inflation in 2002 and its pass-through to wages via indexation clauses, and the risk entailed by this downward stickiness, have been discussed in the article for the total corporations in both samples. In line with the behaviour of GVA, both gross operating profit and ordinary net profit held at very moderate rates (see Table 5), and gross operating profit even turned slightly negative in the first nine months of 2003 (-0.4%). Despite this, owing to the reduction in financial costs, the profit ratios did not deteriorate excessively, remaining at acceptable levels. Thus the return on investment (ROI) for 2002 stood at 7.7%, against 9% for 2001. Meanwhile, the industrial corporations of the CBQ posted a ROI of 8.4% for the first nine months of 2003, slightly below the 8.8% reported a year earlier. In any event, the lower cost of borrowed funds allowed the difference between these two ratios (ROI and cost of debt) to remain at positive levels very similar to those in previous periods, reflecting the fact that industrial corporations, although they have gone through a period of relative stagnation, are maintaining acceptable profitability. Although the pattern of activity does not hold out any promise of a recovery in employment in the short term, it can reasonably be expected that, given the starting conditions, when the international economic situation (and particularly that of the euro area countries) starts to recover, the activity of Spanish industrial corporations will pick up and the behaviour of employment will improve.

## Performance of the industrial corporations reporting to the CBSO (a)



		NUMBER OF CORPORATIONS				
CBA		3,244	3,038	2,974	2,728	2,137
CBQ		392	386	378	391	377
		262	252	284	295	364
		423	407	398	382	392
		27.1	27.1	27.1	27.1	27.1
		28.6	28.6	28.6	28.6	28.6
		433	413	391	378	345
		25.2	25.2	25.4	25.4	21.1
		22.2	22.2	22.2	21.8	21.2
		20.6	20.6	21.0	21.0	20.3
		21.1	21.1	21.1	21.1	18.5
		357	340	357	340	20.1
		258	258	258	258	14.4

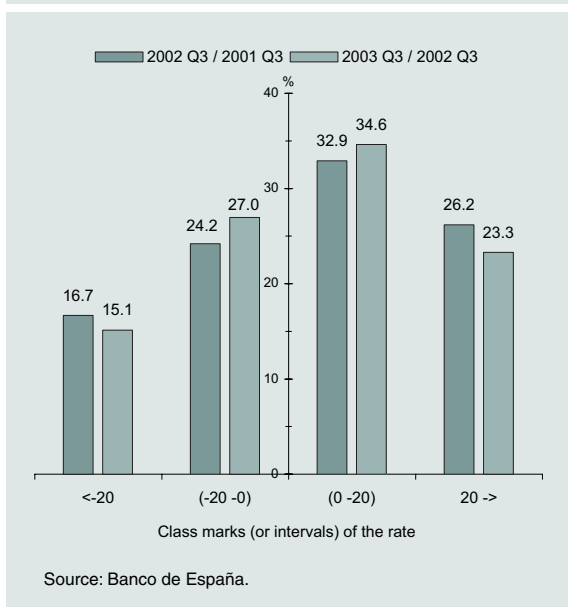
— CBA data  
— CBQ data

Source: Banco de España.

(a) Information available to 14 November 2003 (CBA and CBQ). The CBQ data are growth rates in relation to the same quarter a year earlier.

CHART 2

**Distribution of corporations by rate of change in GVA at factor cost (2002 Q3 / 2001 Q3, 2003 Q3 / 2002 Q3)**



tions whose GVA has risen. Other notable features are the shift in the first three quarters of 2003 to more moderate GVA changes and the fact that both in this period and in the same period a year earlier the firms with a rise in their GVA were in the majority. In summary, this indicator shows that, as is natural, the recovery evidenced by the results for the total sample was not equally spread across all corporations or across certain sub-sets of corporations. Information on the performance of small firms is only available up to 2002, so the situation of these firms in 2003 cannot be determined until CBA data for that year are available. Precisely regarding the CBA results for 2001 and 2002, it should be noted that growth in small firms' productive activity was below (although near) average, and that the gap did not widen much, as had occurred in past crises. Box 2 describes in greater detail the results of small non-financial firms, drawing on information provided by Spanish Mercantile Registers.

### 3. EMPLOYMENT AND PERSONNEL COSTS

Personnel costs rose by more than 5% both in 2002 (5.2%) and in the first nine months of 2003 (5.1%). Employment again posted positive, albeit moderate, growth in 2002 (1.6%) and in the first three quarters of 2003 (0.8%), although the latter rate is biased downwards because of the distinctiveness of the quarterly sample. In any event, it seems evident that the

course of employment in this period has been affected by the worldwide climate of uncertainty and instability during 2002 and by certain instances of workforce restructuring in reporting firms. Regarding type of employment, the rate of change of non-permanent personnel rose from -3.0% in the first nine months of 2002 to 3.8% in the first three quarters of 2003. However, this rate may slow in the coming months because of the possible impact of redundancy schemes announced in the telecommunications industry. Meriting mention among the other industries is wholesale and retail trade, which has continued to create jobs at a rate of 4.3% in the first three quarters of 2003. Finally, both energy and industry again recorded negative employment growth rates, although less so than in the previous year. In the first case, the main cause of this tendency was the electricity industry, since it is going through a process of liberalisation and of opening-up to competition and is thus gradually adjusting staff numbers. The pace of this adjustment, however, seems to have moderated in the last few years and particularly in 2003 to date. The rate shown by industry in the first three quarters of the year is the result of a good start in Q1, in step with the growth of activity, which however has progressively lost momentum to the point of showing a slight reduction of -0.4% in 2003 as a whole.

Average compensation in 2002 and in the first three quarters of 2003 continued its upward trend at rates of 3.6% and 4.3%, respectively, both these figures being above the inflation rate passed through to wage costs through indexation clauses. In 2003 to date, inflation has started to turn downwards, although for the time being this has not been reflected in any moderation of compensation per employee. Table 4, which classifies firms by the rise in average wage costs in comparison with the inflation rate, shows that the average wages in 57.5% of firms have grown by more than the CPI rise in 2003 to date. This is 7 pp more than in 2002, which may jeopardise the future competitiveness of Spanish corporations. Lastly, regarding the ratio of average compensation to employment level, Table 2.b shows that average compensation in firms that created jobs grew more slowly than the average (3.4%), largely due to the lower wages paid to new hires, whereas in firms that reduced staff numbers, this cost rose by 6.8%.

### 4. PROFITS, MARGINS AND RATES OF RETURN

The behaviour of activity and personnel costs enabled the gross operating profit of firms

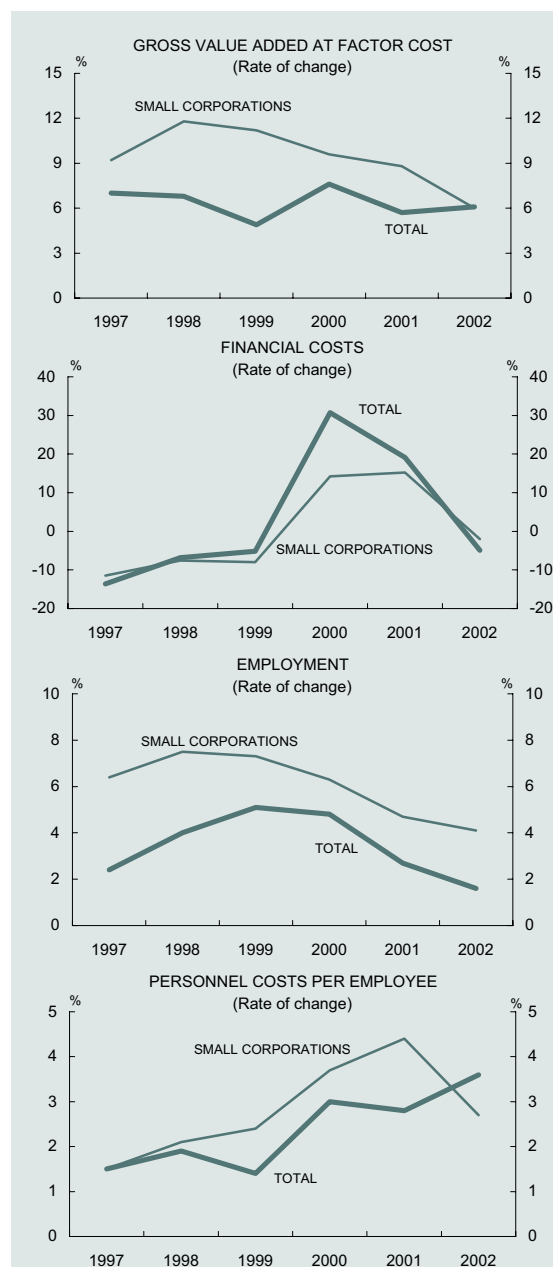


## Analysis of small and medium-sized enterprises (SMEs)

The annual monograph contains a chapter which analyses the performance of small and medium-sized enterprises (SMEs), drawing on the Central Balance Sheet Data Office's database (known as CBBE/RM or CBB) consisting of the annual accounts deposited by them with the Mercantile Registries. This database (which excludes those firms already included in the CBA and which, as indicated in the monograph, is edited and checked by the Central Balance Sheet Data Office), does not contain such detailed information as the CBA (for example, it does not facilitate analysis of investment and financing flows and does not allow certain profit ratios to be calculated). However, the CBB provides knowledge of many basic variables used to analyse the activity, employment and results of a large number of SMEs, which is a valuable supplement to the published CBA information. The CBB data (which are received with a greater lag than the CBA input) for 2001 refer to 245,897 firms representing 11% of the GVA of non-financial corporations, whereas the number of firms from which data for 2002 had been received at end-October 2003 was 47,518, which in terms of GVA coverage represents approximately 2% of the Spanish total.

Analysis of the 2002 information shows that the activity of SMEs decelerated, since their GVA grew by 6%, compared with 8.5% in 2001. No doubt the climate of uncertainty generated by the various pressures on the economy for most of 2002 and uncertain expectations had a negative impact on the activity of SMEs. The fall in activity was generally perceptible across all industries with the sole exception of real estate, the GVA of which grew faster in 2002 (7%) than in 2001 (6%). In line with the behaviour of productive activity, personnel costs also grew less in 2002 as a result of the lower increases in employment and in average compensation, the changes in which, however, are best analysed separately. Employment, although it did not match the 2001 rate of 4.6%, continued to grow by slightly more than 4%. Meanwhile, average compensation slowed notably in 2002 to a growth rate of 2.7%, which was 1.5 pp less than in 2001 and nearly 1 pp less than the rate recorded by the CBA corporations for 2002. This difference may indicate that SMEs have more flexible mechanisms for adjusting wage costs, which allow them to compensate for their higher vulnerability in other profit and loss account items.

The behaviour of GVA and personnel costs led to gross operating profit growth of 1.7% in 2002, which was substantially below the 5% recorded in 2001. Financial costs decreased by 2% in 2002, after two years of strong growth, unquestionably due to the fall in interest rates. Nevertheless, this lightening of the financial burden was insufficient to prevent ordinary net profit from posting negative rates of change for the second consecutive year, dropping to -4.8% in 2002, which was a slightly higher fall than in 2001 (-3.3%). Regarding profitability, the slowdown in activity of SMEs took the ordinary return on equity (the only profit ratio that can be calculated in the CBB) to a level of 9% in 2002, which, although down on previous years, was still high, especially for an unfavourable environment such as that of these firms in the period under analysis.



NUMBER OF CORPORATIONS (a)						
CBA	8,056	8,143	8,265	8,513	8,124	6,288
CBB (b)	223,477	238,378	211,894	231,932	245,897	47,518
% OF THE GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS						
CBA	33.6	33.6	31.8	30.8	28.6	24.9
CBB (b)	10.9	12.1	10.6	10.8	11.0	1.9

— CBA data.  
 — Banco de España Central Balance Sheet Data Office /  
 Mercantile Registry (CBBE/RM or CBB) data.

Source: Banco de España.

(a) Information available to 14 November 2003 (CBA and CBB).  
 (b) In the case of the charts on employment and personnel costs per employee, the data relate to the sub-set of companies with consistent employment data (50% of the CBB total).

TABLE 4

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

	CBA		CBQ			
	2001	2002	01 Q1-Q4 (a)	02 Q1-Q4 (a)	02 Q1-Q3 (a)	03 Q1-Q3 (a)
<b>Number of corporations</b>	<b>8,124</b>	<b>6,288</b>	<b>871</b>	<b>851</b>	<b>867</b>	<b>750</b>
<b>Personnel costs</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Falling	21.8	28.0	28.4	33.3	33.2	29.0
Constant or rising	78.2	72.0	71.6	66.7	66.8	71.0
<b>Average number of employees</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Falling	27.8	31.1	40.3	43.4	43.7	45.0
Constant or rising	72.2	68.9	59.7	56.6	56.3	55.0
<b>Average compensation (relative to inflation) (b)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Lower growth	39.0	48.0	46.9	49.5	49.9	42.5
Higher or same growth	61.0	52.0	53.1	50.5	50.1	57.5

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

to grow at a notable rate in both 2002 (7%) and the first three months of 2003 (7.3%). Financial costs continued to fall in 2002, as they did in 2003 to date. The reasons for these continual decreases in financial costs are:

	2002/ 2001	03 Q1-Q3/ 02 Q1-Q3
<b>Change in financial costs</b>	<b>-4.9%</b>	<b>-1.4%</b>
<i>A. Interest on borrowed funds (1 + 2)</i>	<i>-5.5%</i>	<i>-2.0%</i>
1. Due to the cost (interest rate)	-15.7%	-8.9%
2. Due to the amount of interest-bearing debt	+10.2%	+6.9%
<i>B. Commissions and cash discounts</i>	<i>+0.6%</i>	<i>+0.6%</i>

The table shows that, as usual, the reductions in interest rates led to a fall in financial costs, despite the continued resort to fresh borrowing by firms encouraged by the low rates. The decline in financial costs brought additional growth in ordinary net profit (ONP). This caption, which measures firms' ability to earn profits from ordinary operations and income generation (net financial revenue), after deducting depreciation and operating provisions, is the profit item used by the Central Balance Sheet Data Office to calculate profitability ratios. The growth rate of ONP was 8.7% in 2002, while in 2003 it was 15.4%. The ONP rate for the first three quarters of 2003 has been particularly influenced by the performance of financial revenue

in that period (growth of 10.6%, against a decline of 9.7% in the previous year), which reflects significant returns on the foreign investments of Spanish multinationals. The sectoral analysis of this variable revealed notable behaviour in industry and in transport and communications, which did not follow the general pattern of high ONP growth in 2003 to date. In industry this was because activity slowed during the period; in transport and communications, the ONP of which grew notably (by 8.5%), it was because of the high growth in 2002, due to the returns generated by the expanding mobile telephony business in that period.

Total net profit deteriorated sharply in 2002, the decrease amounting to -90.1% according to CBA data. This sizeable fall is explained by the weight in certain firms' profit and loss accounts of the provisions for potential losses on certain financial investments (those concentrated in Latin America and those in European third-generation telephony firms). However, the quarterly data show that in 2003, now that these extraordinary events have been left behind, the firms have recovered their former level of profit generation. The rate of change of this variable cannot be calculated in the CBQ in either of the last two periods observed, because the negative overall result in the initial quarters of 2002 means that the rate of change cannot be calculated for that period or for the first three quarters of 2003. In any event, the profit gen-

TABLE 5

**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)**

	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)		
	2002	02 Q1- Q4	02 Q1- Q3	03 Q1- Q3	2002	02 Q1- Q4	02 Q1- Q3	03 Q1- Q3	2002	02 Q1- Q4	02 Q1- Q3	03 Q1- Q3	2002	02 Q1- Q4	02 Q1- Q3	03 Q1- Q3
<b>Total</b>	<b>7.0</b>	<b>4.9</b>	<b>2.2</b>	<b>7.3</b>	<b>8.7</b>	<b>5.9</b>	<b>5.6</b>	<b>15.4</b>	<b>7.7</b>	<b>8.4</b>	<b>7.6</b>	<b>7.7</b>	<b>3.4</b>	<b>3.9</b>	<b>3.1</b>	<b>3.6</b>
<b>SIZE:</b>																
Small	1.5	—	—	—	3.9	—	—	—	8.1	—	—	—	2.8	—	—	—
Medium	10.1	2.3	4.7	-1.5	10.9	-2.0	2.1	-0.5	8.6	9.2	9.4	8.9	4.2	4.3	4.7	5.0
Large	6.9	5.0	2.1	7.8	8.6	6.3	5.7	16.3	7.7	8.4	7.6	7.7	3.4	3.9	3.1	3.6
<b>BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:</b>																
Energy	-1.2	-1.0	-7.1	11.7	-1.1	5.0	-4.2	9.1	9.4	10.5	8.4	7.6	5.5	6.1	4.0	4.1
Industry	2.3	0.6	3.4	-0.4	0.8	1.2	4.5	0.6	7.7	8.7	8.8	8.4	3.0	4.1	4.2	4.3
Wholesale and retail trade	15.4	14.7	13.1	13.1	17.9	12.8	13.0	17.2	12.5	11.3	11.1	11.5	7.8	6.7	6.6	7.4
Transport and communications	13.4	9.6	7.7	4.8	40.8	21.8	17.9	8.5	8.9	10.5	10.3	13.1	4.3	5.7	5.5	8.5

Source: Banco de España.

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

erated in 2003 to date practically equals that earned in all 2001 according to the total annual database, and it represents 32.2% of GVA, compared with -0.4% of GVA in the first nine months of 2002.

The profitability analysis based on firms' ordinary activities (using ONP and financial costs) shows that the ordinary returns posted by the sample corporations as a whole held at high and similar levels in 2002 and in the first three months of 2003 (Table 5). This, together with the decline in the ratio that measures the cost of debt (as a result of the lower interest rates), explains why the difference between the two ratios has widened to 3.6 for the first three quarters of 2003, slightly higher than the figure of 3.1 recorded in the same period a year earlier. This figure confirms the comfortable position of most Spanish firms, which are maintaining an acceptable pace of activity and turning in very favourable results despite the uncertainties prevailing in the international environment. The doubts about the performance of foreign activity have affected industry, which saw the growth rates of its GVA decelerate during 2003. Nonetheless, the profitability of most Spanish firms enables them to look forward confidently to a firming of the signs of recovery that are beginning to appear in the international sphere.

## 5. FINANCING AND INVESTMENT FLOWS

The CBA provides a more complete and detailed view than the CBQ of the various factors that affect and explain the performance of the firms reporting to the Central Balance Sheet Data Office. One of its advantages is that the CBA enables an approximation of the financing and investment flows that cannot be analysed using the more limited information compiled by the CBQ, which is intended for analysing profit and loss accounts and for calculating profitability. The information referred to here is taken from Chapter III of the annual monograph setting forth the results of the Central Balance Sheet Data Office in national accounts terms.

Table 7 summarises the capital and financial flows recorded in the period 2000-2002 for the firms reporting to the CBA, expressed as a percentage of GVA. It would be meaningless to express the figures in absolute terms because they refer to the sample (reporting) corporations which, moreover, are not always the same from one period to the next. Obviously these flows are affected by the composition of the CBSO sample, which is biased towards large corporations and industrial firms and which in practice does not take into account the effect of small and newly created firms. The table shows that in

TABLE 6

## Structure of reporting corporations' return on investment and ordinary return on equity

	CBQ			
	Return on investment (R. 1)		Ordinary return on equity (R. 3)	
	02 Q1-Q3	03 Q1-Q3	02 Q1-Q3	03 Q1-Q3
<b>Total corporations</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
R ≤ 0 %	22.3	23.6	25.5	26.3
0 % < R ≤ 5 %	18.9	20.4	14.3	16.0
5 % < R ≤ 10 %	17.0	15.1	13.5	11.4
10 % < R ≤ 15 %	11.8	11.5	9.8	9.9
15 % < R	30.0	29.4	36.9	36.4
<b>Number of corporations</b>	<b>867</b>	<b>750</b>	<b>867</b>	<b>750</b>
	02 Q1-Q3	03 Q1-Q3	02 Q1-Q3	03 Q1-Q3
MEMORANDUM ITEM:				
Average return	7.6	7.7	10.4	11.0

Source: Banco de España.

2002 the capital resources of the firms reporting to the CBA exceeded their capital uses by a very small amount (0.4% of GVA), which means that the sample corporations did not, in net terms, have to resort to the financial markets to finance their investments, but rather that they had a small remnant of loanable funds. Regarding gross fixed capital formation, which is the most important of the capital uses, the measured nominal growth rate for 2002 with respect to 2001 is -3.2% which, given the composition of the sample, can be attributed to investment in capital goods. Although gross capital goods formation in the Spanish national accounts fell by precisely 3.2% in nominal terms in that period, the changes in investment for the total non-financial corporations sector cannot be inferred from Central Balance Sheet Data Office information. The results for the non-financial corporations sector, both for the various capital account captions and for the other non-financial operations, can be found in the Spanish national accounts compiled by the INE.

For the same reasons, the financial variables of the sector can be consulted in *Financial Accounts of the Spanish Economy*, compiled by the Banco de España. The financial account included in Table 7 for the CBA corporations shows that they continued to increase their investments in shares, as in previous years, via operations that were basically financed by the issuance of shares and by loans from financial institutions and other resident sectors (mainly group companies). While the low interest rates

have obviously brought an increase in indebtedness in recent years, the table shows that the net liabilities of these firms have decreased. It also shows that for the third consecutive year there was a significant decrease in internal pension funds, i.e. in firms' obligations in this respect to their employees. This decrease has come about through the externalisation of pension commitments by shifting them to the technical reserves (liabilities) of insurance corporations, the asset-side balancing entry of which consists of the instruments in which these employees' rights are materialised. Under Legislative Royal Decree 1588/1999 and Law 14/2000, the externalisation should have been completed by mid-November 2002. However, Law 44/2002 granted an additional time extension until 31 December 2004 for some of these commitments, which apparently explains why firms' balance sheets still include pension funds that have not yet been externalised. Also worthy of mention are the changes in the indebtedness of the CBA corporations in the period under study. The memorandum item in Table 7 includes the amount of debt at year-end defined as the interest-bearing borrowings of the sample corporations, expressed as a percentage of GVA (2). This

(2) Interest-bearing borrowed funds are defined as securities other than shares and loans from credit institutions and from the rest of the world. Interest-bearing borrowed funds are taken to exclude loans from other resident sectors, which in practice are extended by group companies, whether or not they bear interest.

**Profit and loss account (structure)**

The information compiled by the CBQ allows overall analysis of the situation of firms with a lag of approximately three months with respect to the date of the latest quarterly data. The CBA makes more detailed analysis possible, but has a lag of nearly eleven months with respect to the date to which the latest annual information refers. The differences in the detail of certain captions in these two databases hinder compilation of a homogeneous profit and loss account compatible with both sources (see Table 1 of this article). The problem is that certain CBQ items are not identical to those of the CBA, so approximations have to be used to construct a brief time series from the data in the two databases. The following table (which reproduces the structure of the first column of Table 1) shows that these approximations entail little loss of information and therefore do not substantially affect the analysis or reduce the ability of the CBQ to anticipate trends in the results which, with an additional lag of several months, are released by the CBA. The profit and loss account in this box includes all the CBA items; the items not available in the CBQ are expressly indicated. It can be seen that these captions have a low weight in the total expenses and income that make up the profit and loss account in Table 1.

Databases	CBA 2002
Number of corporations / Total national coverage	6,288 / 24.9%
1. VALUE OF OUTPUT (including subsidies)	100.0
Of which:	
1. Net amount of turnover and other operating income	132.3
2. (-) Consumption (wholesale and retail trade and real estate sectors)	-34.4
a. Other items (not available in CBQ)	2.1
2. INPUTS (including taxes)	67.9
Of which:	
1. Net purchases	40.4
2. Other operating costs	27.3
b. Other items (not available in CBQ)	0.2
S.1. GROSS VALUE ADDED AT FACTOR COST (1 - 2)	32.1
3. Personnel costs	16.3
S.2. GROSS OPERATING PROFIT (S.1 - 3)	15.8
4. Financial revenue	2.9
5. Financial costs	3.3
6. Depreciation and provisions	7.2
S.3. ORDINARY NET PROFIT (S.2 + 4 - 5 - 6)	8.2
7. Capital gains and extraordinary income	8.8
8. Capital losses and extraordinary expenses	5.3
9. Other net provisioning	9.6
10. Corporate income tax	1.6
S.4. NET PROFIT (S.3 + 7 - 8 - 9 - 10)	0.4
Memorandum item:	
FUNDS GENERATED FROM OPERATIONS	13.8
Source: Banco de España.	

TABLE 7

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

Databases	% of GVA at basic prices		
	2000	2001	2002
Number of corporations / Total national coverage	8,513 / 30.8%	8,124 / 28.6%	6,288 / 24.9%
Year	2000	2001	2002
<b>CAPITAL ACCOUNT:</b>			
1. <u>Capital resources</u>	<u>29.5</u>	<u>28.5</u>	<u>30.5</u>
1. Gross saving	28.9	29.3	33.0
2. Net capital transfers	0.6	-0.8	-2.4
2. <u>Uses of capital</u>	<u>33.9</u>	<u>32.5</u>	<u>30.1</u>
1. Gross capital formation	32.9	30.9	28.5
2. Other uses of capital	0.9	1.6	1.6
3. <i>Net lending (+), net borrowing (-) (1 - 2.1 - 2.2 = 6)</i>	-4.4	-4.0	0.4
<b>FINANCIAL ACCOUNT:</b>			
4. <u>Net financial assets acquired</u>	<u>52.5</u>	<u>40.6</u>	<u>19.8</u>
1. Cash and deposits	-0.9	0.2	-0.4
2. Securities other than equity	0.3	-0.3	0.2
3. Shares and other equity	53.1	40.6	20.0
5. <u>Net financial operations plus net liabilities incurred (6 + 7)</u>	<u>52.5</u>	<u>40.6</u>	<u>19.8</u>
6. <i>Net financial operations (4 - 7 = 3)</i>	-4.4	-4.0	0.4
7. <u>Net liabilities incurred</u>	<u>56.9</u>	<u>44.6</u>	<u>19.4</u>
1. Securities other than equity	-2.2	-0.4	-4.1
2. Loans	22.1	14.7	14.7
2.1. From financial institutions	12.0	7.3	7.1
2.2. From the rest of the world	14.6	-0.1	-10.0
2.3. From other resident sectors (net)	-4.4	7.5	17.6
3. Shares and other equity	42.8	31.4	6.8
4. Pension funds	-2.0	-2.3	-1.9
5. Trade credit and other accounts payable (net)	-3.9	1.2	3.9

## MEMORANDUM ITEM:

**Debt (a) / Gross value added**

Ratio at end of previous year	113.8	135.4	140.5
Change due to period operations (7.1 + 7.2.1 + 7.2.2)	24.3	6.8	-7.0
Adjustments (a)	-2.7	-1.7	0.5
Ratio at end of year n	135.4	140.5	134.0

Source: Banco de España.  
(a) See text.

ratio reveals a rapid increase in the sample corporations' year-end debt in the most recent period, which has halted in 2002 (CBA data) and in 2003 to date according to partial CBQ information. The reconciliation between the increase in debt and the increase in liabilities that is included in the table takes into account, as mentioned above, that debt includes only interest-bearing liabilities, and also the existence of certain adjustments (3).

Finally, to supplement these considerations on the financing of the sample corporations, this article includes a reference to the average peri-

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(3) Basically for revaluations and for double counting in that corporations with two different bases are compared and because the linkage between the debt in two consecutive periods refers to two different GVAs.

ods (number of days) that the CBA corporations take to collect from customers and to pay suppliers. Tables II.B.2.9 and II.B.2.10 of the annual monograph show that recently the average time taken by these corporations to pay suppliers has been 15 days longer than the average time taken to collect from customers and that services corporations (wholesale and retail trade, transport and communications) took 20 days longer in 2002. These trade practices have a bearing on corporate financing, as evidenced by the balance-sheet time series included in Table III.A.3.a of the monograph, in which the "Trade credit and other accounts payable" caption on the liability side is always higher than the "Trade credit and other accounts receivable" caption on the asset side.

21.11.2003.