

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2004 Q4 AND SUMMARY YEAR-END DATA

Introduction

Last November's Economic Bulletin published what could be considered a preliminary indicator of the 2004 end-year situation, estimated using CBSO Quarterly Survey (CBQ) data for the first three quarters of the year. The information relating to the four quarters as a whole discussed in this article confirms the results reported then, in that the performance of productive activity in the year as a whole was favourable. Thus, according to the CBQ, GVA increased by 6.1% in nominal terms in 2004, against 4.3% in the previous year. This performance, which is influenced by the growth of oil prices, still holds, albeit diminished somewhat (with growth of 4.7% in 2004, against 3.6% in 2003), when refining and fuel marketing companies are stripped out of the aggregate.

The favourable trend in activity continued to be underpinned by the growth of wholesale and retail trade and transport and communications corporations, which were the sectors that most benefited from the strength shown, yet another year, by private consumption. To this should be added the positive performance of industrial corporations, which continued the recovery commenced in 2003, driven by the rise in capital goods investment and by the stronger growth of their exports in 2004. For the aggregate total of corporations, however, the partial information available on foreign trade points to a negative net contribution in the year as a whole.

As had already been inferred from Q3 data, personnel costs in 2004 grew appreciably more slowly than in 2003 (2.9% against 3.9%). This more subdued increase was a consequence of both staff cuts and a fall in average compensation. Indeed, employment receded by 0.2%, this rate being strongly influenced by a staffing adjustment in a large telecommunications corporation, as mentioned in previous articles. If this effect is removed, the change in staff levels becomes positive, with growth of 0.8% in 2004, slightly above that in 2003 (0.6%). Moreover, the path followed during the year would have been upward, ending with employment in Q4 up 1.1% on the same period of 2003. The year 2004 also saw a slowdown in the growth of average compensation (3.1% against 3.5% in 2003), in line with the estimates available from the Quarterly National Accounts.

The performances of GVA and personnel costs taken together gave rise to an increase in gross operating profit of 8.6% in 2004, nearly twice what it grew in 2003. When it is considered that on top of this, financial costs continued to decline in relative importance, mainly as a result of falls in interest rates, and that financial revenue continued to rise, albeit more moderately than in 2003, due to the inflow of sizeable dividends from foreign subsidiaries, the reason for the strong expansion in ordinary net profit (which was up by 21.7%, eight percentage points more than in 2003) becomes clear. Notable in this respect was the positive effect exerted by the improvement in the Latin-American economies, where the investments of large Spanish corporate groups are concentrated. Nevertheless, the highly positive performance of ordinary net profit did not feed through to the growth rate of total net profit, due to the sharp fall in the item "capital gains and extraordinary revenue" (37.7%), which in 2002 and 2003 contained some unusually large amounts as a result of the capital gains generated in the sale of shares and other non-current assets. In any event, there can be no doubt that in 2004 the CBQ reporting corporations achieved significant earnings, as evidenced by the net profit for the period

1. This article is based on the data provided to 14 March 2005 by the 744 companies corporations which, on average, reported information to the CBQ survey in the period analysed. In terms of activity, this aggregate of corporations accounts for approximately 14.1% of the GVA of the sector non-financial corporations.

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

TABLE 1

	CBA STRUCTURE	CBA		CBQ (a)		
DATABASES	2003	2002	2003	02 Q1-Q4 / 01 Q1-Q4	03 Q1-Q4 / 02 Q1-Q4	04 Q1-Q4 / 03 Q1-Q4
Number of corporations		8.127	6.337	855	832	744
Total national coverage		28,9%	25,1%	15,8%	15,3%	14,1%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT	100.0	2.8	6.0	1.1	3.7	7.7
Of which:						
1. Net amount of turnover and other operating income	131.0	3.7	6.0	2.8	4.1	8.3
2. INPUTS (including taxes)	67.8	1.5	5.7	-0.6	3.3	8.6
Of which:						
1. Net purchases	39.8	-1.0	4.0	-2.9	2.5	9.7
2. Other operating costs	27.6	6.7	7.7	4.8	6.3	7.2
S.1. GROSS VALUE ADDED AT FACTOR COSTS [1 - 2]	32.2	5.5	6.5	4.0	4.3	6.1
3. Personnel costs	16.3	5.5	4.3	4.1	3.9	2.9
S.2. GROSS OPERATING PROFIT [S.1 - 3]	15.9	5.7	8.8	4.0	4.6	8.6
4. Financial revenue	2.9	-8.2	10.2	-11.5	22.9	12.6
5. Financial costs	3.1	-3.8	-0.6	-3.1	0.7	-4.0
6. Depreciation and operating provisions	7.1	4.2	4.7	1.1	1.6	-1.7
S.3. ORDINARY NET PROFIT [S.2 + 4 - 5 - 6]	8.6	5.5	17.0	3.4	14.1	21.7
7. Capital gains and extraordinary revenue	5.8	53.6	4.1	129.0	-1.0	-37.7
8. Capital losses and extraordinary expenses	3.5	35.9	-32.4	147.3	-35.1	-17.5
9. Other (net provisioning and income tax)	3.8	142.6	-60.5	118.2	-44.3	7.0
S.4. NET PROFIT [S.3 + 7 - 8 - 9 - 10]	7.1	(b)	(b)	(b)	(b)	0.2
NET PROFIT / GVA (S.4 / S.1)		-2.5	22.1	0.0	24.4	22.3
PROFIT RATIOS						
	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	7.9	7.4	8.7	7.8	8.4
R.2 Interest on borrowed funds / interest-bearing borrowing	5.1/IBB	4.4	4.0	4.6	4.2	4.0
R.3 Ordinary return on equity (before taxes)	S.3/E	11.0	10.4	12.4	11.1	12.3
R.4 ROI - cost of debt (R.1 - R.2)	R.1-R.2	3.6	3.4	4.1	3.6	4.4

SOURCE: Banco de España.

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

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

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

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

amounting to 22.3% of GVA. This percentage was similar to that in 2003, a year in which substantial capital gains and extraordinary revenue resulted in a high in the quarterly series.

The picture described above explains the rise in the rates of return of the corporations reporting to the CBQ in 2004 (which are calculated taking as a reference the ordinary net profit rather than total net profit, because of the erratic course of the latter). Accordingly, return on investment was 8.4% in 2004, against 7.8% in 2003. The ratio used to approximate the cost of borrowed funds borne by corporations again declined in 2004, standing at 4% for the year as a whole, which represented a new low in the quarterly series as a whole and raised the spread between the ROI and the cost of debt to 4.4%, which is also a record high. Finally, the ordinary return on equity in 2004 amounted to 12.3%, which is illustrative of the healthy situation of the corporations in the sample. For its part, debt, both as an end-period figure and as a percentage of GVA, decreased slightly in 2003 and stabilised in 2004 amongst the large

**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)	
	2002	2003	03 Q1 - Q4	04 Q1 - Q4	2002	2003	03 Q1 - Q4	04 Q1 - Q4	2002	2003	03 Q1 - Q4	04 Q1 - Q4	2002	2003	03 Q1 - Q4	04 Q1 - Q4
Total	5.6	6.5	4.3	6.1	1.7	1.1	0.4	-0.2	5.5	4.3	3.9	2.9	3.7	3.2	3.5	3.1
SIZE																
Small	3.9	3.7	—	—	1.3	0.0	—	—	5.3	5.0	—	—	4.0	5.0	—	—
Medium	7.4	5.6	2.8	4.2	2.2	1.5	-0.1	-0.6	6.2	6.4	4.2	4.1	3.9	4.8	4.3	4.7
Large	5.4	6.6	4.4	6.2	1.7	1.1	0.4	-0.1	5.4	4.0	3.9	2.8	3.6	2.9	3.5	2.9
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	-0.3	2.0	2.7	6.5	-3.2	-2.2	-1.7	-1.1	0.1	1.3	2.1	3.0	3.4	3.5	3.9	4.1
Industry	1.9	5.3	1.4	6.0	-0.8	-0.7	-0.9	-1.1	3.1	2.4	2.7	1.7	3.9	3.1	3.6	2.8
Wholesale and retail trade	10.9	8.6	7.9	7.7	7.0	6.3	4.2	3.9	9.1	9.3	7.5	5.8	2.0	2.8	3.2	1.8
Transport and communications	9.9	5.5	3.6	4.5	-1.9	-1.2	-0.5	-1.9	5.3	2.4	3.1	1.5	7.4	3.6	3.6	3.5

SOURCE: Banco de España.

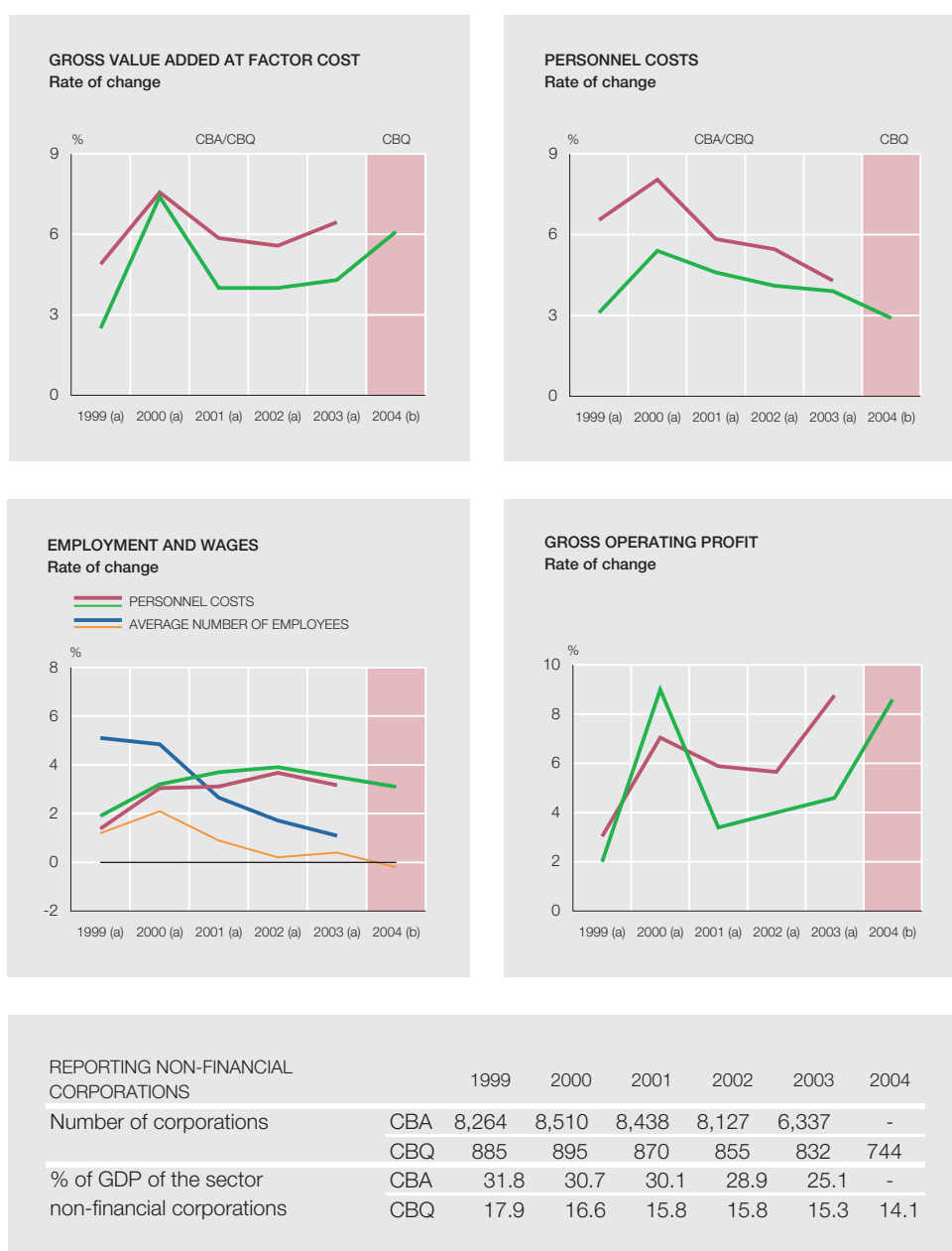
a. All the data in these columns have been calculated as the weighted average of the quarterly data.

corporations comprising the CBQ. By contrast, this change in trend was absent at the total corporations level, according to the latest information available on the financial accounts of the Spanish economy.

In short, the CBQ data for 2004 paint a picture of sustained growth in activity at rates exceeding those in 2003, thereby prolonging the path of moderate expansion in place since 2001. Also notable was the progressive recovery of employment as the year unfolded, particularly in industrial corporations, and the contained behaviour of wages. As has become customary, the positive performance of ordinary profit and of financial revenue and costs meant that rates of return held at high levels. In the future this positive scenario may be affected by fresh oil price rises and by the still uncertain situation of Spain's neighbouring foreign markets, which could halt the recovery of the industrial sector. These factors aside, the high returns achieved in 2004 enable Spain to embark on new investment projects, continue generating employment and respond to the challenge posed by the need to be competitive in an increasingly globalised market.

Activity

Business activity grew notably in 2004 and the pace was more rapid than in the previous year, as shown by the Central Balance Sheet Data Office data for this period. Thus GVA rose in the year as a whole by 6.1% in nominal terms, which was two percentage points more than in 2003 (4.3%) and constituted the largest increase in activity recorded in the annual series of the CBQ since 2000 (see Table 1 and Chart 1). In any event, as has been customary in recent years, an adjustment has to be made to eliminate the effect of oil price fluctuations on the behaviour of this variable, given the over-representation of refining corporations in the sample. Specifically, the second half of 2004 saw particularly strong increases in oil prices, which most directly affected oil refining and fuel marketing corporations. If these corporations are stripped out of the sample, the increase in GVA becomes 4.7% in 2004, against 3.6% in 2003, rates which, although marking an upward course in economic activity, are less pronounced. The main causes of this growth are, first, the sound performance of market services corporations, which, thanks to the sustained strength of private consumption, again performed very positively and, second, the greater buoyancy shown by industrial corporations. These latter corporations were strongly favoured by the recovery in capital goods investment and also by the



SOURCE: Banco de España.

a. 1999, 2000, 2001 and 2002 data are the average data of the fourth quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).
b. Average of the fourth quarters of 2004 in relation to the same period in 2003.

climate of greater international stability, which contributed to a progressive recovery in the external activity of this sector (see Table 2). The still timid recovery of the euro area countries, which account for a high percentage of non-resident customers, prevented a stronger expansion of exports. The scant data available in the Central Balance Sheet Data Office on exports and imports (see Table 3) showed that, compared with the previous year, in 2004 the exports of the total aggregate did not gain weight with respect to sales in Spain, while imports grew in relative terms with respect to purchases in the domestic market. These two effects taken together had a negative impact on GVA growth. However, information not appearing explicitly in Table 3 implies a different performance by the industrial corporations in the sample, the net



SOURCE: Banco de España.

a. 1999, 2000, 2001 and 2002 data are the average data of the fourth quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).

b. Average of the fourth quarters of 2004 in relation to the same period in 2003.

exports of which posted growth that is confirmed by alternative sources. These two results can be explained if it is taken into account that 67% of the exports recorded in the CBQ in 2004 were by industrial corporations, while only 45% of imports in that period were by corporations classified in this economic sector.

Moving to a greater level of sectoral detail, mention should be made, yet another quarter, of the increases posted in wholesale and retail trade, the economic sector with the strongest GVA growth, which at 7.7% was only 0.2 pp less than in the previous year. This confirms the continuing strength of the corporations in the sector, despite the less expansionary tone that,

Details based on changes in staff levels

	TOTAL CBQ CORPORATIONS 04 Q1 - Q4	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	744	413	331
PERSONNEL COSTS			
Initial situation 03 Q1-Q4 (€m)	23,139.8	13,248.2	9,891.6
Rate 04 Q1-Q4 / 03 Q1-Q4	2.9	6.7	-2.1
AVERAGE COMPENSATION			
Initial situation 03 Q1-Q4 (€)	38,389.3	35,805.9	42,271.8
Rate 04 Q1-Q4 / 03 Q1-Q4	3.1	2.6	4.9
NUMBER OF EMPLOYEES			
Initial situation 03 Q1-Q4 (thousands)	604	370	234
Rate 04 Q1-Q4 / 03 Q1-Q4	-0.2	4.0	-6.8
Permanent	Initial situation 03 Q1-Q4 (thousands)	508	308
	Rate 04 Q1-Q4 / 03 Q1-Q4	-0.1	3.5
Non-permanent	Initial situation 03 Q1-Q4 (thousands)	96	62
	Rate 04 Q1-Q4 / 03 Q1-Q4	-0.7	6.6

SOURCE: Banco de España.

according to other sources, has been shown by the demand for consumer goods at certain times of the year. All the other sectors boasted increases in activity in 2004 that were clearly higher than those in the previous year. In the case of industry, mentioned briefly above and analysed in greater detail in Box 1, there was a rise in GVA of 6%, considerably higher than the 1.4% in 2003. The growth rate of corporations in the transport and communications sector also quickened by nearly one percentage point (GVA rose by 4.5% in 2004, against 3.6% in the previous year), basically as a result of the surge by corporations in the telecommunications sub-sector (driven especially by the mobile telephony segment and, in the last half of the year, by the expansion of ADSL) and of the positive performance of air transport corporations following the slowdown in 2003. Lastly, energy corporations also grew more in 2004 than in the previous year, although this was a consequence of the GVA growth of refining corporations, due to the upward fluctuations in oil prices in the second half of the year, which were accompanied by an increase in margins. Thus electricity and gas sector corporations, which are also classified in the energy sector, showed a rate of change of GVA of -0.4% in 2004. This change was because the higher competition in the gas sector affected prices, and because, despite the increase in demand for electricity (according to the Spanish Electricity Network, demand for electricity attributable to economic activity rose by 3.5% in 2004), it did not offset the higher costs of electric utilities with respect to the previous year, since they were unable to use their lower-cost hydroelectric power stations to the same extent as in 2003.

Finally, Chart 2 classifies the corporations in the sample according to their GVA growth rate in the period. It shows an increase in the percentage of corporations whose GVA grew in 2004, thereby confirming the generalised growth in activity during the period.

The performance of the industrial sector, according to the information furnished by the sample of corporations analysed in the CBSO Quarterly Survey, confirms that in 2004 the GVA of Spanish industrial corporations grew by 6%, against 1.4% in 2003. The recovery in capital goods investment largely explains this performance, along with the positive net contribution of external activity, this being so despite the continued failure of the euro area countries to show clear signs of recovery. Although the improvement of industry in 2004 extended to practically all its sub-sectors, it was the glass, ceramics and metals corporations that posted the largest rises in activity (9.3%), highly favoured as they were by the growth of steel corporations. The chemicals industry and the electrical, electronic and optical equipment industry also managed to step up their GVA growth rate markedly, by 8.8% and 8.7%, respectively. Meanwhile, the growth of personnel costs moderated notably, with a rise of 1.7% in 2004, one percentage point less than in 2003. This rate was achieved basically because average compen-

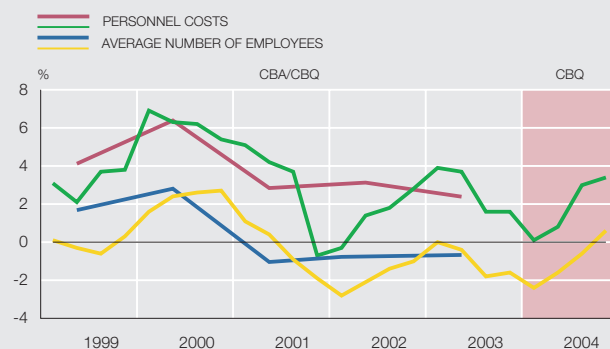
sation was more tightly contained, its growth rate slowing from 3.6% in 2003 to 2.8% in 2004, while employment again fell, this time by 1.1%, very similar to that in the previous year. However, in the case of employment, it should be noted that it followed an upward path in every quarter since the beginning of the year. Thus, while in the first quarter of 2004 the change in average employment was -2.4%, this rate improved progressively and in Q4 there was a net rise in employment of 0.6%. As a result of these changes in GVA and personnel costs, gross operating profit in 2004 rose by 11.6%, against -0.2% in 2003. This, taken together with the high growth in financial revenue, basically due to dividends from the foreign subsidiaries of Spanish corporations received by their parents, explains the high rate of change in ordinary net profit, which was up by 32.2%. Consequently, return on investment grew notably with respect to 2003, breaking a downward trend that had persisted in this aggregate of industrial corporations since 2001. Thus return on investment was 9.8% in 2004, nearly one percent-

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO (a)

GROSS VALUE ADDED AT FACTOR COST
Rate of change



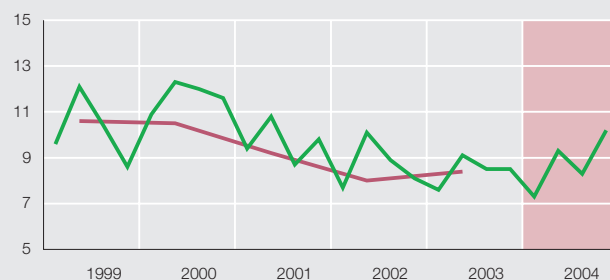
EMPLOYMENT AND WAGES
Rate of change



FINANCIAL COSTS
Rate of change



RETURN ON INVESTMENT
Ratios



REPORTING INDUSTRIAL CORPORATIONS

	1999				2000				2001				2002				2003				2004			
Number of corporations	CBA 3,038				CBQ 2,974				2,814				2,606				2,074				—			
	422	406	397	387	433	413	391	377	403	393	381	364	390	376	366	355	368	360	350	338	343	327	317	227
% of GDP of the sub-sector industrial corporations	CBA 31.2				31.4				28.2				26.5				22.6							
	28.4	29.0	27.1	27.1	26.6	26.6	25.2	25.4	22.2	21.8	20.6	21.0	21.0	21.1	20.3	19.3	20.2	20.0	18.7	18.6	20.5	20.6	18.6	15.3

SOURCE: Banco de España.

age point more than in 2003, and return on equity stood at 13.1%, against 11.2% in 2003. Meanwhile, the ratio approximating the cost of borrowed funds decreased further in 2004 to 3.8%, owing to the lower interest rates borne by corporations. This value, like that for the total sample, is the lowest in the entire quarterly series. The spread between ROI and cost of debt widened once again, standing at positive and increasing values for the fourth year running.

All the above confirmed the improvement in industry throughout 2004, both in productive activity and in the generation of surpluses and improved rates of return. Regarding employment, the data seem to show a progressive resumption of job-creation processes, although only the rate for Q4 is positive. Finally, the coming quarters will serve as a test for confirming the improvement reported here, although evidently a clear recovery in the activity of the main euro area countries would be conducive to this confirmation, which, however, is threatened by the pressure deriving from the rise in oil prices.

Employment and personnel costs

In 2004 personnel costs grew by 2.9%, a rate representing moderate growth, particularly if it is compared with the 3.9% increase in these costs in 2003. This performance was due to the discreet growth in average compensation and the slight decrease in employment by the corporations in the sample in 2004. This rate of change in employment in 2004 (-0.2%) contrasts with that in 2003 (0.4%) and is mainly due to staffing adjustment by a large corporation in the telecommunications sector. This corporation commenced a workforce reduction plan at the end of 2003 and, due to its weight in the sample, it strongly affected the 2004 aggregate data. In fact, if this corporation is eliminated from the sample, the growth of average workforces is 0.8% in 2004, slightly higher than in the previous year (0.6%). These rates, which are more in line with the overall behaviour of the sample, confirm the existence of a certain recovery in the processes of job creation, which became increasingly evident as the year unfolded and were particularly intense in the industrial sector, where, after a first quarter with a negative employment rate of -2.4%, the sector progressed positively and in 2004 Q4 posted an increase in net employment of +0.6% (see chart in Box 1). Among the other sectors, wholesale and retail trade was a once again notable for its greater momentum also in job creation, since in 2004 the corporations in this aggregate expanded their average workforces by 3.9%, a figure very similar to but slightly down on 2003 (4.2%). Regarding the transport and communications sector, as has been remarked on for the total sample, the data are distorted by the effect of the workforce reduction mentioned above. If the corporation in which it occurred is excluded, employment in this sector would reflect growth of 1.1% in 2004, against a rise of 0.1% in 2003, thereby confirming the return to a pattern of job creation, in line with the positive performance of productive activity. Lastly, the energy sector was the only one with a clearly negative rate of employment in 2004, although notably there was a slight improvement in comparison with the previous year. Behind this figure are the adjustments continually being made by electric utilities in an attempt to downsize their workforces to meet the demands of a liberalised market.

Average compensation rose by 3.1% in 2004, nearly half a percentage point less than in the previous year. Within the quarterly series, this was the lowest increase in average annual compensation since 1999. The trend towards greater wage moderation was perceived above all in the wholesale and retail trade and industrial sectors and, to a lesser extent, in transport and communications, which posted a similar growth rate to that in 2003. The data confirm that, once again, the sectors most active in job creation were those that showed most moderation in wage costs, whereas the energy sector, still in the midst of systematic workforce reductions, was the only one in which average compensation rose by more in 2004 (4%) than in 2003 (3.9%). This can also be appreciated in Table 2.B, which analyses separately the corporations that created jobs or maintained their average workforces, and those in which there was net job

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

TABLE 3

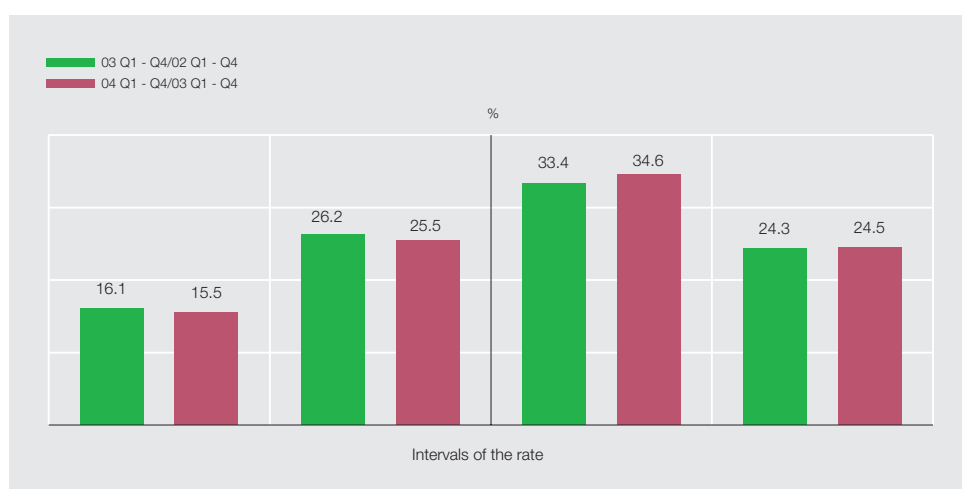
		CBA		CBQ (a)	
		2002	2003	03 Q1 - Q4	04 Q1 - Q4
Total corporations		6,337	6,337	744	744
Corporations reporting source/destination		6,337	6,337	719	719
Percentage of net purchases according to source	Spain	67.6	68.0	76.8	76.2
	Total abroad	32.4	32.0	23.2	23.8
	EU countries	19.5	19.2	17.1	17.9
	Third countries	12.9	12.7	6.1	5.8
Percentage of net purchases according to destination	Spain	82.7	82.7	87.6	87.5
	Total abroad	17.3	17.3	12.4	12.5
	EU countries	12.8	12.9	9.8	10.0
	Third countries	4.5	4.4	2.6	2.6

SOURCE: Banco de España.

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

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

CHART 2

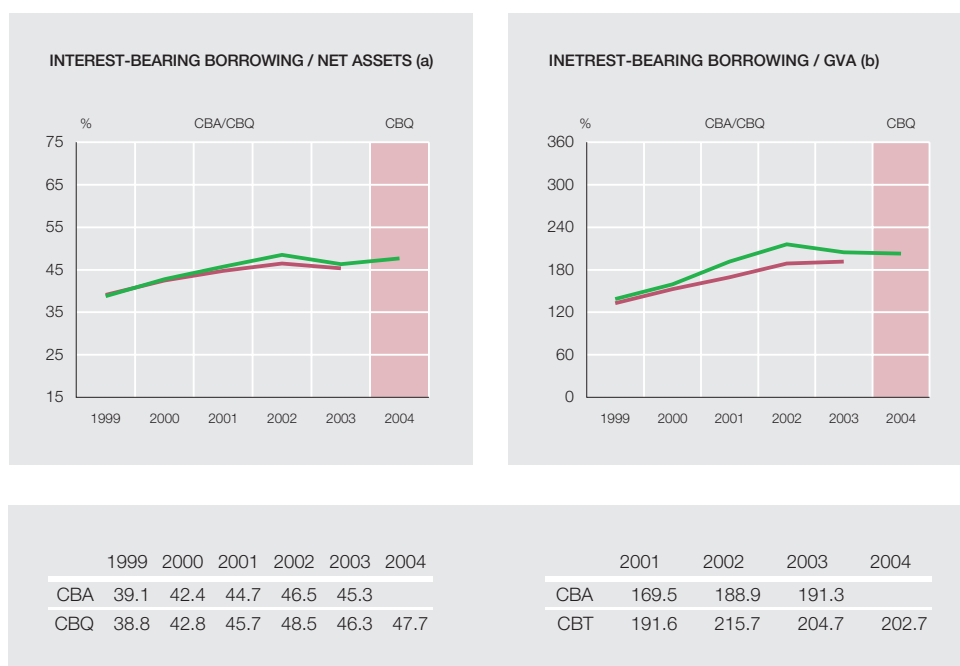


SOURCE: Banco de España.

destruction. Finally, Table 4 shows how 2004 saw a fall of nearly three percentage points in the proportion of corporations that raised average compensation by more than the rate of inflation. This seems to show a firming of the trend towards greater containment of wage costs, which could be threatened by the appearance of inflationary pressure induced by the sharp rises in oil prices since 2004.

**Profits, rates of return
and debit**

The positive trend in the activity of corporations in 2004, together with the moderate rises in personnel costs, enabled gross operating profit to grow by 8.6% in 2004, practically twice what it did in the previous year (see Table 5). This increase in gross operating profit was boosted by the inflow of dividends from foreign subsidiaries, particularly in the fourth quarter of the year, which led financial revenue to rise by 12.6% in the year as a whole. On top of this,



SOURCE: Banco de España.

- a. Ratio calculated from final balances. Net assets include current price adjustment.
 b. Ratio calculated from final balances. Interest-bearing borrowing includes an adjustment to eliminate intragroup debt (approximation of consolidated debt).

financial costs again decreased, this time by 4%, and depreciation decreased slightly as a result of certain divestments and of changes in the depreciation policies of certain large corporations. All this meant that ordinary net profit in 2004 rose by 21.7%, up more than eight percentage points on 2003. The following table details the extent to which the decrease in financial costs was due to changes in interest rates and/or in debt:

	04 Q1-Q4/03 Q1-Q4
Change in financial costs	-4.0%
A. Interest on borrowed funds (1+2)	-4.7%
1. Due to the cost (interest rate)	-4.1%
2. Due to the amount of interest-bearing debt	-0.6%
B. Commissions and cash discounts	+0.3%

As the above table shows, the decline in financial costs is largely explained by the decrease in interest rates, which lowered the cost of borrowed funds ratio (R.2 in Table 1) to the minimal levels that have now become customary, although it is possible that, given the levels reached, there is little room left for further reduction in financial costs. Meanwhile, it can be seen that, on average, the change due to indebtedness in 2004 had a limited effect on the reduction in financial costs.

The reduction in financial costs, which came about because the average debt in 2004 fell slightly with respect to the average debt in 2003, is not a measure of the level of debt between the beginning and the end of 2004. Chart 3, which was prepared to analyse the level of debt of the corporations in the sample at the end of the period from two complementary standpoints, shows, on the right, the ratio "interest-bearing borrowing/GVA", which is obtained from the final balances of the balance sheets, including in the numerator the amount of borrowed

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

TABLE 4

	CBA			CBQ (a)		
	2001	2002	2003	02 Q1 - Q4	03 Q1 - Q4	04 Q1 - Q4
Number of corporations	8,438	8,127	6,337	855	832	744
PERSONNEL COSTS	100	100	100	100	100	100
Falling	21.8	27.6	25.8	33.0	30.8	31.8
Constant or rising	78.2	72.4	74.2	67.0	69.2	68.2
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	27.9	30.7	32.1	43.0	45.1	44.5
Constant or rising	72.1	69.3	67.9	57.0	54.9	55.5
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	39.2	47.2	37.0	49.7	43.3	46.9
Higher or same growth (b)	60.8	52.8	63.0	50.3	56.7	53.1

SOURCE: Banco de España.

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

**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)	
	2002	2003	03 Q1 - Q4	04 Q1 - Q4	2002	2003	03 Q1 - Q4	04 Q1 - Q4	2002	2003	03 Q1 - Q4	04 Q1 - Q4	2002	2003	03 Q1 - Q4	04 Q1 - Q4
Total	5.7	8.8	4.6	8.6	5.6	17.0	14.1	21.7	7.9	7.4	7.8	8.4	3.6	3.4	3.6	4.4
SIZE																
Small	2.0	1.8	—	—	4.6	6.0	—	—	8.2	7.5	—	—	2.8	3.0	—	—
Medium	9.2	4.6	0.8	4.4	7.1	15.6	0.7	15.4	8.5	8.1	8.4	8.4	4.1	4.5	4.4	4.7
Large	5.5	9.4	4.8	8.8	5.5	17.4	14.7	21.9	7.9	7.4	7.8	8.4	3.5	3.4	3.6	4.4
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN SAMPLE																
Energy	-0.5	2.2	2.9	7.5	1.2	9.7	1.7	8.7	10.1	8.2	8.6	9.2	6.2	4.7	5.0	5.7
Industry	0.1	9.6	-0.2	11.6	-2.3	18.4	8.8	32.2	8.0	8.4	9.0	9.8	3.3	4.6	4.9	6.0
Wholesale and retail trade	13.4	7.7	8.5	10.3	13.3	6.0	7.1	9.4	12.6	12.0	11.1	10.4	7.8	8.2	6.9	6.4
Transport and communications	13.4	7.9	4.0	6.5	40.7	23.3	5.5	17.1	8.8	8.4	11.4	14.2	4.1	4.2	6.8	9.8

SOURCE: Banco de España.

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

funds, i.e. debt bearing explicit interest (and hence excluding trade credit), adjusted by intra-group financing transactions. This ratio provides a measure of indebtedness in relation to a corporation's ability to add value, or, what is the same, to generate income. As can be seen in the chart, following the period 1998-2002, in which the debt with which Spanish multinationals financed their foreign investments grew substantially, the ratio of this group of large corporations commenced a slight decline in 2003, due to more moderate recourse to borrowed funds and to increased GVA, although this decline seems to have stabilised in 2004. This downturn in 2003 did not, however, extend to all corporations, according to the latest available informa-

	CBQ (a)				
	RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)		
	03 Q1 - Q4	04 Q1 - Q4	03 Q1 - Q4	04 Q1 - Q4	
Number of corporations	832	744	832	744	
Percentage of corporations by R <= 0% profitability bracket	24.6	24.0	27.4	26.9	
	0% < R <= 5%	19.5	21.3	15.1	16.0
	5% < R <= 10%	15.4	15.1	11.3	10.7
	10% < R <= 15%	10.5	10.4	9.3	8.4
	15% < R	30.0	29.2	37.0	37.9
MEMORANDUM ITEM: Average return	7.8	8.4	11.1	12.3	

SOURCE: Banco de España.

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

tion on the financial accounts of the Spanish economy. The ratio given in the left panel of Chart 3 is also calculated from final balance sheet figures and compares two balance-sheet groupings, namely interest-bearing borrowings and net assets, in which the adjustments deriving from the consolidation of intra-group transactions were unable to be included². This ratio, which behaves similarly to the aforementioned one, makes it easier to analyse insolvency risk, because it compares debt with the related supporting assets. In summary, the overall analysis of the breakdown of financial costs set out above and of these two ratios shows that, for this group of large corporations comprising the CBQ, in 2004 their debt decreased very slightly or practically held steady at 2003 levels according to the three approximations considered here, namely average debt in absolute terms, year-end debt in terms of GVA and debt expressed in terms of the related supporting assets.

Owing to the increase in their ordinary profits, corporations managed to raise their average rates of return, which, in the case of return on investment (ratio R.1 in Table 1) stood at 8.4 for 2004, more than half a percentage point higher than in 2003. Most notable in this respect was the increase in return posted by transport and communications and by industry, which showed a change in trend after several years of decline. The decrease in the cost of borrowed funds ratio (ratio R.2 in Table 1) to 4.0 meant that the difference between ROI and cost of debt (ratio R.4 in Table 1) again stood at clearly positive values, above those of previous years. Finally, the analysis of extraordinary results highlighted the fall of 37.7% in the item "capital gains and extraordinary revenue", which is explained by the fact that this item included very high amounts in 2002 and 2003 as a result of the capital gains on the sale of shares and other non-current assets. This is also the reason why, despite the positive performance of ordinary profit, the final net profit only increased by 0.2%. Nevertheless, in 2004 the net profit amounted to 22% of GVA, a proportion similar to that in 2003 when this percentage reached a high in the quarterly series.

2. These adjustments would have to be made in both the numerator and the denominator, so they have less impact than in the case of the ratio interest-bearing borrowings/GVA. To be able to do this, it would be necessary to consolidate not only intra-group debt, but also share cross-holdings (adjustment of shares and interests in assets, in the parent's portfolio, and of liabilities in subsidiaries), which has been ruled out due to lack of information and the limited impact it has on analysis, except in a few specific cases as mentioned below.

In summary, the corporations in the CBQ sample ended 2004 on a path of moderate growth in activity, underpinned not only by the sound performance of private consumption, but also by the recovery in investment in capital goods. Aside from one-off operations, employment in these corporations began to show signs of clear recovery during 2004. Average compensation moved within the bounds of moderate growth. For its part, ordinary profit also increased, basically as a result of the inflow of substantial dividends received from abroad, deriving from the improved international situation, which helped to sustain and improve the high returns achieved in the previous period. Sources of risk worthy of mention in this scenario of stability are the rise in oil prices in recent months and the absence of a clear take-off by the major economies in the euro area, a situation which may affect the external activity of Spanish corporations, particularly industrial firms, which are the ones responsible for most trade exchanges with these countries. Nevertheless, the overall situation can be defined as positive and, in this setting Spanish corporations should capitalise on the advantages deriving from their present economic situation to undertake investment projects to improve their efficiency and competitiveness and thus continue on the path of growth, profitability and job creation.

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