
Results of non-financial firms in the first quarter of 1999 (1)

1. INTRODUCTION

The Central Balance Sheet Office Quarterly Survey (CBQ) data for the first quarter of 1999 confirm the slowdown in the rate of growth of activity of the reporting firms observed in the final quarter of 1997. Despite this, the profitability ratios did not fall from the high levels recorded since the current recovery firmed.

Specifically, despite the positive performance of domestic consumption, as reflected in the distributive trade, the impact of the international financial crisis on exports moderated the nominal growth of the sample firms' GVA. This was basically due to the performance of manufacturing industry, which had already been anticipated by the industrial production and producer price indices for this period. In any event, business activity continued to exhibit positive nominal growth, although at rates well off those achieved in the first quarter of 1998. Against this background, personnel costs grew at a nominal rate of 1.5 %. Most of the sample firms recorded significant increases in employment, extending the trend that began in 1998. However, these increases in employment are not sufficiently reflected in the total aggregate, because the workforce adjustments in certain major firms in sectors undergoing liberalisation, reorganisation or privatisation has not been completed, a subject referred to on numerous occasions in previous editions of this article. Evidence of the importance of this fact is that the rate of change of employment, which in the first quarter of 1999 was -0.9 % for the sample as a whole, would be above 2 % if four major firms affected by the above-mentioned processes were excluded. Average compensation rose by several tenths of a percentage point more than inflation during the period. This growth – albeit contained – is basically explained by new hiring at generally lower levels of compensation (2). With regard to sectors, it is notable that the fall in the activity of manufacturing industry coincided with growth in its average compensation at a higher rate than the average for all the firms.

As a direct consequence of the developments in business activity and personnel costs, the gross operating result grew at a clearly pos-

(1) The information in this article relates to 705 firms that have reported their quarterly data to the Central Balance Sheet Office (the CBQ survey) to June 15th 1999. These firms account for 16.5% of total activity – as measured by gross value added (GVA) at factor cost – in the sector of non-financial firms.

(2) This average compensation does not fully reflect the costs for firms arising from restructuring, because a large part of the necessary cost for reducing the workforce had been provisioned for in (i.e. attributed to) previous years.

TABLE 1

Profit and loss account. Year-on-year performance
(Growth rates of the same firms on the same period a year earlier/
% of GVA at factor cost in the case of the net result)

Data Bases	CBA		CBQ		
	1996	1997	98 Q1-Q4/ 97 Q1-Q4 (a)	98 Q1/97 Q1	99 Q1/98 Q1
Numbers of firms / Total national coverage	7939/37.8 %	7175/35.7 %	801/18.8 %	854/19.6 %	705/16.5 %
1. VALUE OF OUTPUT (including subsidies)	5.5	9.9	2.7	6.5	2.5
Of which:					
1. Net amount of turnover and other operating income	6.5	9.6	3.1	7.7	4.4
2. INPUTS (including taxes)	7.2	11.4	1.7	5.1	2.1
Of which:					
1. Net purchases	6.1	11.5	0.2	5.6	-1.1
2. Other operating costs	8.6	10.6	6.6	5.2	10.2
S.1. GROSS VALUE ADDED AT FACTOR COST	2.5	7.0	4.3	8.8	3.1
3. Personnel costs	3.9	3.6	3.3	3.8	1.5
S.2. GROSS OPERATING RESULT	0.9	11.2	5.1	13.1	4.3
4. Financial revenue	4.8	15.4	16.2	9.8	25.2
5. Financial costs	-13.1	-14.1	-8.3	-10.3	-8.1
6. Corporate income tax	9.4	23.7	16.1	32.0	13.9
S.3. FUNDS GENERATED FROM OPERATIONS	5.1	17.6	8.3	15.9	7.9
7. Depreciation and provisions (b)	-3.4	16.1	-4.6	0.3	13.5
S.4. TOTAL NET RESULT (% of GVA at factor cost)	10.9	15.9	22.4	21.3	26.3
PROFITABILITY RATIOS					
R.1. Return on net assets (before taxes) (b)	8.6	10.7	11.8	11.6	11.2
R.2. Interest on borrowed funds/ interest-bearing borrowing	8.1	6.8	6.2	6.4	4.8
R.3. Return on equity (before taxes) (b)	8.9	13.3	15.3	14.9	15.1
R.4. Debt ratio	42.5	40.3	38.8	38.6	38.5
R.5. Financial leverage (before taxes) (R.1 - R.2) (b)	0.5	3.8	5.6	5.3	6.3

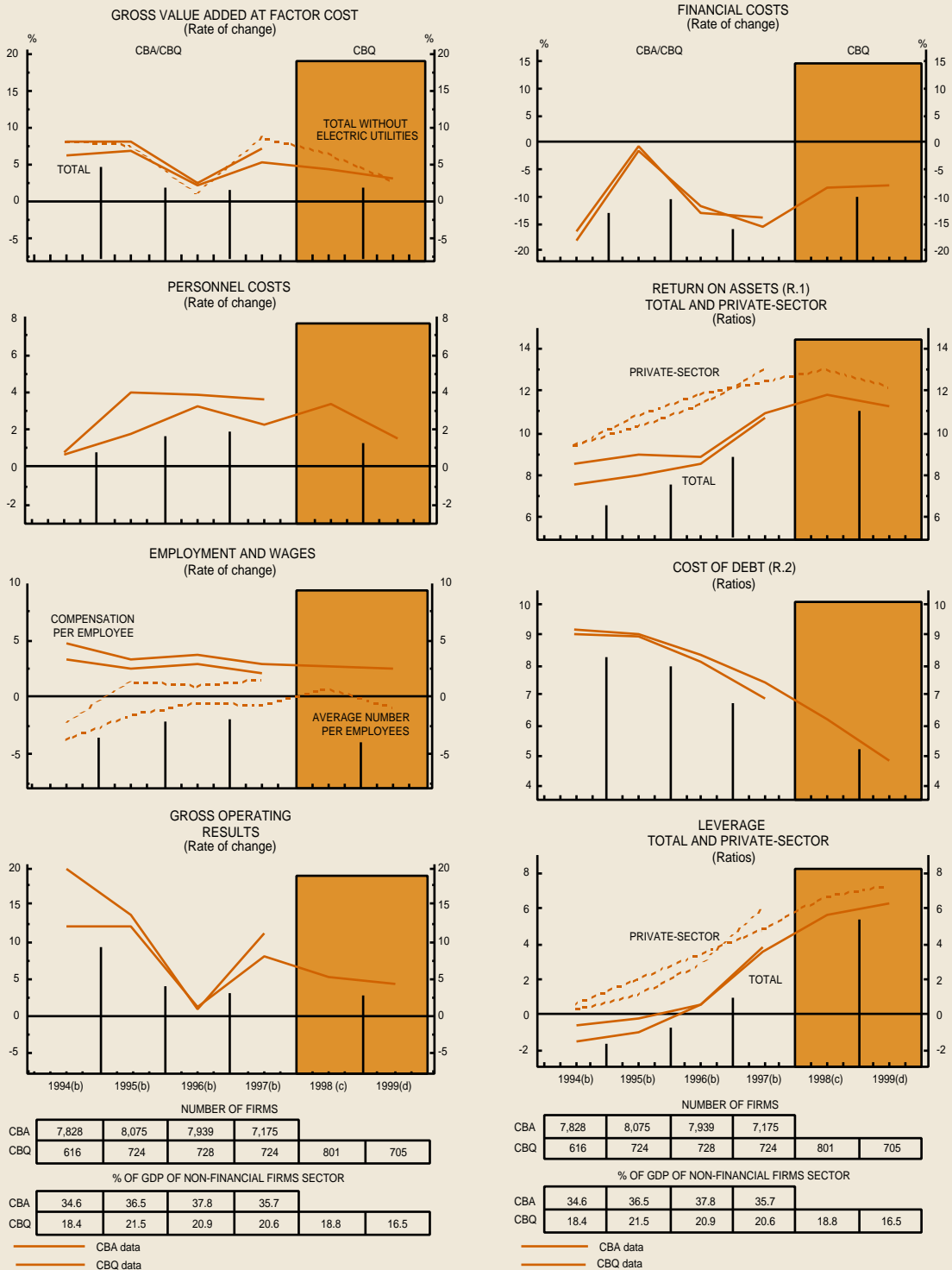
Source: Banco de España.

(a) All the data in this column have been calculated as the arithmetic mean of the quarterly data.

(b) When calculating these items the effect of balance-sheet restatement under Royal Legislative Decree 7/1996 has been removed to homogenise the series.

CHART 1

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



Source: Banco de España.

- (a) Information available to June 15th 1999 (CBA and CBQ).
- (b) The 1994, 1995, 1996 and 1997 data are based on information from the firms 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 four quarters of 1998 in relation to the same period in 1997.
- (d) First quarter of 1999 on first quarter of 1998.

itive rate in the first quarter of 1999, albeit well below the rate of the first quarter of 1998. Any analysis of profitability in the reference period should also take into account the following two facts: first, financial costs continued the decline that began in 1995, as a consequence of the feeding through to the cost of financing of the interest-rate reductions of previous periods (the cost of financing ratio reached a new record low); and second, financial revenue (basically dividends) trended very positively.

The overall effect of these factors enabled the firms to obtain a return on net assets in the first quarter of 1999 only slightly below that of the first quarter of 1998. This, together with the reduction in the cost of borrowing, enabled the financial leverage to continue its tendency to grow, which in itself summarised the generally favourable situation enjoyed by non-financial firms. Further evidence of this situation is the fact that the return on equity (before taxes) in the first quarter of 1999 was 15.1 % (see the profitability ratios in Table 1), in line with that obtained in 1998 as a whole. In any event, the diverse circumstances of the various sectors of activity, with their varying exposure abroad and the very different impact of liberalisation, reorganisation and/or privatisation, prevent any general conclusion being drawn for the sample as a whole, which is one reason for the more detailed analysis in the following sections.

2. ACTIVITY

According to the CBQ, in the first quarter of 1999 there was an increase in the nominal activity of non-financial firms – as measured by the rate of change of their gross value added (GVA) – of 3.1 % (see Table and Chart 1). This rate is well below that of the first quarter of 1998 (8.8 %), when the cycle which began in 1996 was at its peak. The clear moderation in the rate of growth of output in the first quarter of 1999 had been anticipated by the data collected in the second half of 1998, in which the consequences of the international financial crisis, basically reflected in the fall in exports, began to be discerned. Nonetheless, it was those firms whose output satisfies final consumption that contributed most to output growth. By sector (see Table 2.a), the distributive trade, as in the final quarter of 1998, posted GVA growth of 10 %, reflecting the recent path of disposable income and greater consumer confidence. By contrast, the GVA of manufacturing fell by –2.3 %, in nominal terms, this being one of the sectors most directly affected by foreign trade. In the production and distribution of electricity and in transport, storage and communications average GVA growth was 4.5 % and 2.4 %, re-

spectively, in the first quarter of 1999. The strong increases in the demand for electricity (exceeding 6 %, according to Red Eléctrica de España data) offset the effects of the reductions in tariffs and the lower generation of hydro-electric energy (which entails higher input consumption). The growth in transport, storage and communications was considerably more moderate than in 1998 (7.9 %), due to the price reductions resulting from greater competition and the large expansion of recent years. The firms exhibiting this moderation in the rate of growth of productive activity most strongly were large private-sector firms (in terms of GVA, the weight of public-sector firms in the sample analysed has fallen from 48 % in 1995 to only 14 % in the first quarter of 1999). Meanwhile, as shown in Table 3, sales within Spain continued to gain in importance, to the detriment of exports, especially those to countries outside the European Union.

Finally, it can be seen in Chart 2, which shows the distribution of firms according to the rate of change of their GVA, without any account being taken of their size, that there was a shift of 9 % of firms from the group of those with increases in GVA of more than 20 % to groups with lower growth. Nonetheless, what is really notable is that in the first quarter of 1999 a majority of the sample firms (65 %) still had a higher GVA than a year earlier.

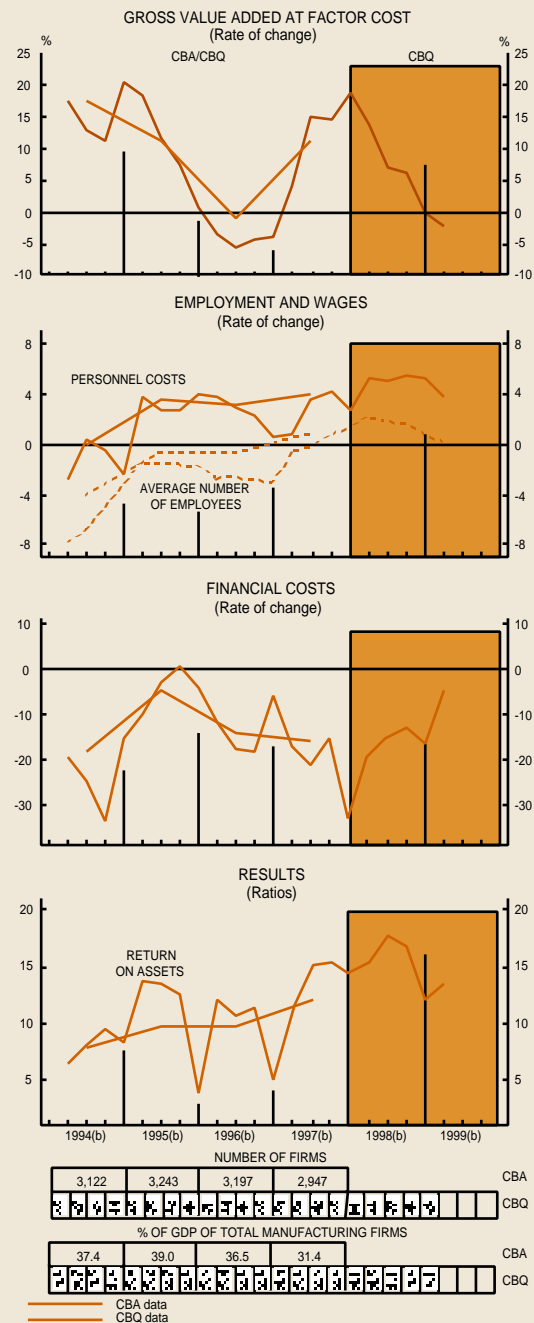
3. EMPLOYMENT AND PERSONNEL COSTS

The personnel costs of the CBQ firms grew by 1.5 % in the first quarter of 1999, as against 3.8 % in the same period of 1998. Employment, which had progressively expanded during 1998, reflecting increasingly positive rates of growth, stabilised in the first quarter of 1999, with the reappearance of negative rates (–0.9 % with respect to the same quarter of 1998), due to downsizing. The latter may be considered exceptional, both as regards the amount (one single firm reduced its workforce by more than 10,000 between the first quarter of 1998 and the first quarter 1999) and its causes (restructuring and adjustment to technological change and competition). The production and distribution of electricity, which is currently being liberalised, has seen average staff cuts of 9 % between the first quarter of 1999 and the same period of 1998. Table 2.a shows the main components, for the total aggregate, both including and excluding electricity, in which employment stabilised. If the four firms in the electricity, transport, storage and communications sectors most affected by the staff restructuring are excluded, then employment was created by the

Analysis of the manufacturing sector

As is customary, the manufacturing sector, owing to its weight and representativeness in the sample, as well as its importance in the non-financial firm sector as a whole, is analysed in somewhat greater detail. In the first three months of 1999, the productive activity of the manufacturing firms in the CBQ sample (as measured by the nominal rate of change of GVA) fell by -2.3% . This fall was a consequence of the impact of the international economic situation on the exports of these firms, but also of the lowering of the selling prices applied by certain sub-sectors. "Oil refining" and the "electrical, electronic and optical material and equipment industry" suffered particularly sharp nominal falls in their value-added. As a direct consequence, the employment creation that had been a constant feature among these firms during 1998 came to a halt. However, this was not accompanied by a containment of personnel costs, which grew by 3.6% , as the stabilisation of employment (it grew by 0.1%) was accompanied by an increase in average compensation of 3.5% . This growth affected all manufacturing sectors equally. The conjunction of these two countervailing factors (falling activity and rising personnel costs) prompted a fall in the gross operating result of manufacturing firms in the first three months of 1999, of -9.4% , and also in the funds generated by the firms (-10.6%), despite the fact that financial costs continued to fall (by 4.6% in the period considered). This shows, as anticipated in previous articles, that as the weight of financial costs in firms' total costs has gradually declined, so additional reductions have had a more limited effect on their results. The reduction in depreciation and provisions, basically in the latter, enabled the return on net assets to hold at an excellent level – only two percentage points below the first quarter of 1998 – of 13.5% . By sector, it was again "oil refining" which suffered the largest fall in profitability, compared with the first quarter of the previous year. The fall in the cost of debt, by somewhat more than one percentage point, meant that financial leverage hardly changed, remaining at very high levels (9.1). This must be considered one of the more positive factors of the first quarter of the year, explaining the optimism with regard to the immediate outlook reported by industrial firms in other surveys.

Performance of the manufacturing firms which report to the Central Balance Sheet Office (a)



Source: Banco de España.

- (a) Information available to June 15th 1999 (CBA and CBQ).
 (b) The CBQ data are growth rates on the same quarter of the previous year.

TABLE 2.a

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

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBA		CBQ		CBA		CBQ		CBA		CBQ		CBA		CBQ	
	1997	98 Q1-Q4 (a)	98 Q1	99 Q1	1997	98 Q1-Q4 (a)	98 Q1	99 Q1	1997	98 Q1-Q4 (a)	98 Q1	99 Q1	1997	98 Q1-Q4 (a)	98 Q1	99 Q1
Total	7.0	4.3	8.8	3.1	1.5	0.7	0.8	-0.9	3.6	3.3	3.8	1.5	2.0	2.6	3.0	2.4
Total, except electricity sector	9.2	6.4	10.3	2.7	1.7	1.3	1.2	-0.1	3.9	4.0	4.3	2.4	2.1	2.6	3.0	2.4
SIZE:																
Small	8.4	—	—	—	3.8	—	—	—	6.6	—	—	—	2.7	—	—	—
Medium	10.1	8.8	11.2	10.7	3.9	3.8	3.4	5.1	6.8	7.0	6.9	8.1	2.8	3.1	3.4	2.9
Large	6.6	4.0	8.6	2.6	1.0	0.4	0.5	-1.5	2.9	3.0	3.5	0.9	1.9	2.6	3.0	2.5
STATUS:																
Public-sector	0.4	4.3	7.8	4.2	-2.9	1.0	-0.5	2.3	-0.3	3.4	3.3	6.3	2.6	2.4	3.8	3.9
Private-sector	8.9	4.2	8.9	3.0	2.9	0.6	1.2	-2.0	4.8	3.3	4.0	0.0	1.9	2.7	2.8	2.0
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing industries	10.9	6.7	13.9	-2.3	0.8	1.6	2.2	0.1	3.9	5.1	5.1	3.6	3.1	3.5	2.8	3.5
Production and distribution of electricity, gas and water	-4.5	-3.1	3.9	4.5	-1.7	-5.4	-3.5	-9.0	-0.6	-1.6	0.5	-4.7	1.1	4.0	4.1	4.7
Distributive trade	9.2	11.9	9.9	10.0	2.8	3.6	2.2	4.6	4.7	6.0	4.4	8.9	1.9	2.3	2.2	4.1
Transport, storage and communications	8.6	4.1	7.9	2.4	-1.1	-1.6	-2.0	-5.4	2.0	1.1	2.2	-2.7	3.1	2.8	4.3	2.8

Source: Banco de España.

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

TABLE 2.b

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

	Total CBQ firms 1999 Q1	Firms increasing (or not changing) staff levels	Firms reducing staff levels
Number of firms	705	419	286
Personnel costs			
Initial situation 1998 Q1 (EUR millions)	4,218.8	1,794.6	2,424.3
Rate 99 Q1 / 98 Q1	1.5	10.0	-5.1
Average compensation			
Initial situation 1998 Q1 (EUR)	8,830.1	7,943.7	9,625.1
Rate 99 Q1 / 98 Q1	2.4	2.2	4.2
Number of employees			
Initial situation 1998 Q1 (thousands)	478	226	252
Rate 99 Q1 / 98 Q1	-0.9	7.6	-8.9
Permanent			
Initial situation 1998 Q1 (thousands)	420	182	238
Rate 99 Q1 / 98 Q1	-1.4	6.8	-8.0
Non-permanent			
Initial situation 1998 Q1 (thousands)	57	44	14
Rate 99 Q1 / 98 Q1	3.1	11.2	-25.5

Source: Banco de España.

aggregate of firms at a rate of 2.3 %, which gives an idea of their importance in the determination of the aggregate rate. At the other extreme is the distributive trade which, in line with its activity, continues to show the most positive performance, with a rate of increase of employment of 4.6 % in the first quarter of the year. Finally, employment growth in manufacturing also came to a halt in line with activity in the first quarter of the year, running at a rate of 0.1 %.

Compensation per employee which, as mentioned above, does not include certain exceptional items (3), grew by 2.4 %. It should be taken into account that this figure is for all sectors, including manufacturing, which was not affected

(3) Such as the application of the provision for staff restructuring, which normally appears in the profit and loss account of the firm in the year in which it is set aside and not in the year in which it is applied, with a counterpart entry in the reduction of the provision itself. In exceptional cases, compensation is paid out of reserves, and therefore does not appear in the profit and loss account (it is not recorded as wages).

TABLE 3

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

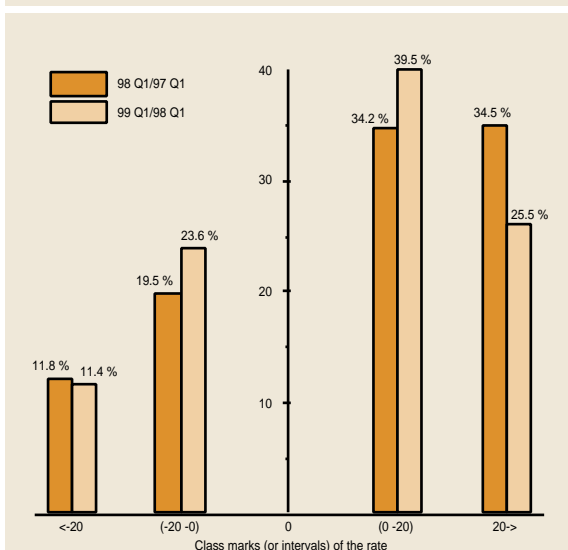
	CBA	CBQ	
	1997	98 Q1-Q4/97 Q1-Q4 (a)	99 Q1/98 Q1
Total firms	7,175	801	705
Firms reporting source/destination	7,175	749	663
	%	%	%
Net purchases	100.0	100.0	100.0
SOURCE OF PURCHASES:			
Spain	65.2	68.3	71.9
Total abroad	34.8	31.7	28.1
<i>EU countries</i>	22.7	23.4	16.6
<i>Third countries</i>	12.1	8.2	11.5
Net turnover	100.0	100.0	100.0
SALES DESTINATIONS:			
Spain	80.4	85.6	87.9
Total abroad	19.6	14.4	12.1
<i>EU countries</i>	14.7	10.6	8.3
<i>Third countries</i>	4.9	3.7	3.8

Source: Banco de España

(a) All the data in this column have been calculated as the arithmetic mean of the relevant quarters, including the figure for the total number of firms.

CHART 2

**Distribution of firms by rate of change
in GVA at factor cost (99 Q1/98 Q1, 98 Q1/97 Q1)
(CBQ)**



Source: Banco de España.

by restructuring. In the different groupings of manufacturing firms, the fall in activity in the first quarter of 1999 was accompanied by an increase in average compensation of around 3 %, with the average value of this variable for all manufacturing firms being 3.5 %. Table 2.b, in which the firms are divided into two clearly contrasting groups (those creating employment and those shedding staff), shows that average compensation rose more moderately (at a rate of 2.2 %, with staff increases of 7.6 %) in firms which created employment (419 firms, or almost 60 % of the sample). By contrast, the firms which shed staff reduced their work forces by 8.9 % (this percentage involves a fall of 8 % in permanent employment and 25.5 % in non-permanent employment) and increased their average compensation by 4.2 %. That rate, as indicated above, does not include the effect on average compensation of the main exceptional costs connected with staff cuts. Finally, Table 4 shows that more than half of the firms (54.8 %) still had increases in their average compensation equal to or above the rate of inflation for the period, this percentage having fallen from the same quarter a year earlier.

TABLE 4

**Personnel costs, employees and average compensation
% of firms in specific situations**

	CBA		CBQ			
	1996	1997	97 Q1-Q4 (a)	98 Q1-Q4 (a)	98 Q1	99 Q1
Number of firms	7,939	7,175	724	801	854	705
Personnel costs	100.0	100.0	100.0	100.0	100.0	100.0
Falling	26.4	24.0	31.7	27.6	25.4	27.7
Constant or rising	73.6	76.0	68.3	72.4	74.6	72.3
Average number of employees	100.0	100.0	100.0	100.0	100.0	100.0
Falling	32.8	28.0	50.3	39.9	39.1	40.6
Constant or rising	67.2	72.0	49.7	60.1	60.9	59.4
Average compensation (relative to inflation) (b)	100.0	100.0	100.0	100.0	100.0	100.0
Lower growth	48.3	43.9	40.8	41.4	39.1	45.2
Higher or same growth	51.7	56.1	59.2	58.6	60.9	54.8

Source: Banco de España.

(a) Arithmetic mean of the four quarters.

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

4. RESULTS, MARGINS AND PROFITABILITY

Consistent with the comments already made regarding the moderation in the rate of growth of productive activity, the gross operating result or surplus grew by 4.3 %, a lower rate than in the first quarter of 1998 (13.1 %). The breakdown by sector of activity shows the existence of a turning point in the operating results of manufacturing firms, which fell by -9.4 %, with reductions in their level of activity being accompanied by increases in their average compensation and, their employment having stabilised, in their personnel costs. Box 1 analyses these developments in greater detail on the basis of the profile of the quarterly series analysed (Chart 1 shows the cumulative growth in the year on the same period a year earlier). The other sectors saw significant increases in their gross operating result, with the exception of electricity. In 1999, the increase in GVA in that sector was accompanied by a significant reduction in personnel costs (due to staff adjustment, the relevant severance payments having been provisioned in previous years), so that this variable rose by 7.1 %, as against 4.9 % in the same quarter of the previous year. As regards firm size, the slowdown in the growth of the surplus was most apparent in large firms, in which the gross operating result grew by 3.9 %, as against 12.9 % in the first quarter of 1998.

Financial costs continued to fall in the first quarter of 1999, basically as a result of the fall in the cost of finance, since the level of debt rose strongly, as can be seen below:

	99 Q1/98 Q1
Change in financial costs	-8.1 %
A Interest on borrowed funds (1+2)	-10.4 %
A.1. Due to the cost (interest rate)	-24.8 %
A.2. Due to the amount of interest-bearing debt	14.4 %
B. Commissions and cash discounts	2.3 %

Thus, in the period considered, interest-rate cuts made in prior quarters continued to be passed through to non-financial firms. Their contribution, in absolute terms, to the improvement in the firms' accounts, in step with the reduction in the weight of interest in the profit and loss account (interest on borrowed funds fell from 5.7 % of turnover in 1995 to 2.8 % in the first quarter of 1999), is beginning to be less significant. At the same time, business buoyancy and the investment alternatives in other markets, in a context of low interest rates, is leading firms to increase their resort to foreign sources of financing. This fall in financial costs was accompanied by an increase in financial revenue, mainly dividends received, and has taken the rate of growth of funds generated in the first

TABLE 5

**Gross operating result, funds generated, return on assets and leverage
Breakdown by size, ownership status and main activity of firms
(Growth rates of the same firms on the same period a year earlier)**

	Gross operating result				Funds generated				Return on assets (R.1) (a)				Leverage (a)			
	CBA		CBQ		CBA		CBQ		CBA		CBQ		CBA		CBQ	
	1997	98 Q1-Q4 (b)	98 Q1	99 Q1	1997	98 Q1-Q4 (b)	98 Q1	99 Q1	1997	98 Q1-Q4 (b)	98 Q1	99 Q1	1997	98 Q1-Q4 (b)	98 Q1	99 Q1
Total	11.2	5.1	13.1	4.3	17.6	8.3	15.9	7.9	10.7	11.8	11.6	11.2	3.8	5.6	5.3	6.3
Total, except electricity sector	17.5	9.1	17.5	3.0	23.4	12.1	19.3	11.7	10.8	11.6	10.6	9.9	3.7	5.2	4.1	5.1
SIZE:																
Small	11.5	—	—	—	18.6	—	—	—	13.2	—	—	—	4.4	—	—	—
Medium	15.6	11.4	17.4	14.1	17.2	12.7	21.0	14.8	13.1	13.3	14.0	14.8	5.9	7.4	8.1	10.4
Large	10.8	4.8	12.9	3.9	17.6	8.1	15.6	7.6	10.3	11.7	11.5	11.0	3.6	5.5	5.1	6.1
STATUS:																
Public-sector	1.6	7.2	24.1	-1.5	12.0	30.2	31.3	-3.5	5.7	5.2	2.9	7.1	-0.8	-0.2	-2.0	2.7
Private-sector	13.5	4.9	12.5	4.7	18.6	7.1	15.0	9.1	13.0	13.0	13.3	12.1	6.0	6.7	6.7	7.3
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing industries	22.0	9.0	27.1	-9.4	27.1	8.6	28.0	-10.6	12.1	15.5	15.4	13.5	5.4	9.8	9.6	9.1
Production and distribution of electricity, gas and water	-5.7	-3.6	4.9	7.1	0.3	-0.6	9.2	-0.7	10.1	12.1	13.8	14.1	4.2	6.3	7.6	9.3
Distributive trade	16.4	20.4	16.9	11.2	16.3	21.5	18.7	13.4	14.5	13.8	15.3	17.8	7.7	7.7	8.6	13.0
Transport, storage and communications	15.1	6.2	12.3	5.9	22.1	13.6	14.2	8.6	8.2	10.0	7.4	6.0	0.4	2.9	0.2	0.9

Source: Banco de España.

(a) When calculating the data in these columns the effect of the balance-sheet restatement under Royal Legislative Decree 7/1996 has been removed in order to homogenise the series.

(b) The data in these columns have been calculated as the arithmetic mean of the quarterly data.

quarter of 1999 to 7.9 %. Admittedly this is well below the rate in the same period of the previous year (15.9 %), but it is an indication of the favourable situation of corporate results. By sector, manufacturing continues to be notable for its negative performance, with a fall of -10.6 % in funds generated, in line with the fall detected in its activity. Funds generated in the electricity sector fell by -0.7 %, due to the strong increase in its net financial costs. In other sectors funds generated performed more positively, albeit with more moderate growth than in the previous year.

As regards profitability, both the return on net assets and the return on equity held at notably high levels (see Table 5), exceeding, in the latter case, the level of the same quarter a year earlier. This higher return was not observed in the case of manufacturing firms, due to the developments in the sector referred to

above, although the fall in its level of profitability was lessened (the return on net assets fell by two percentage points from the first quarter of 1998, to 13.5 %) by the effect of lower transfers to provisions. The return on equity in the other sectors equalled or exceeded the 1998 level. This, combined with the reduction in the cost of borrowing (for the sample as a whole it fell by 1.6 percentage points), enabled both the total aggregate of firms and all the sectors specified to continue recording positive leverage levels, above those of the first quarter of 1998. Table 6 shows that in the first quarter of 1999 there was an increase in the number of firms posting more moderate levels of profitability. Thus, while in the first three months of 1998, 49.3 % of firms had returns on equity above 15 %, in the same period of 1999 the percentage had fallen to 47.9 %, i.e. by 1.4 percentage points.

TABLE 6

**Structure of reporting firms' returns
on net assets and on equity**

	CBQ			
	Return on net assets (R.1)		Return on equity (R.3)	
	98 Q1	99 Q1	98 Q1	99 Q1
Total firms	100.0	100.0	100.0	100.0
R 0 %	18.8	18.9	22.8	21.4
0 % < R 5 %	13.6	15.6	8.8	11.1
5 % < R 10 %	15.4	16.2	9.6	9.1
10 % < R 15 %	13.5	12.2	9.5	10.5
15 % < R	38.7	37.2	49.3	47.9
Number of firms	854	705	854	705
MEMORANDUM ITEM:				
Average return	11.6	11.2	14.9	15.1

Source: Banco de España.

Finally, to sum up, the impact of the international financial crisis, mainly on the industrial sector, led to a slowdown in the growth of activity of the individual firms reporting to the CBQ in the first quarter of 1999. However, despite this, the good performance of the firms engaged in other activities and the positive trend in financial results (financial revenue less costs) made for an increase in the surplus and overall profitability of the sample. The improvements in own sources of financing, as a consequence of the increase in profits, and the favourable conditions on which external financing is available,

are enabling firms to strengthen their productive structures and to make headway in the restructuring of their businesses in the face of the challenge posed by the opening up of markets prompted by monetary union. This, moreover, is the base for employment creation, a process which is somewhat obscured in the analysis of the CBQ firms by the high weight in the sample of a small number of very large firms still undergoing restructuring.

22.6.1999.