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PRESS RELEASE

Results and financial structure of firms in 2009

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In 2009, Belgium felt the full brunt of the global economic recession. Over the full year, GDP experienced its most severe contraction since World War II. As in the euro zone as a whole, Belgian GDP growth returned to positive territory in the third quarter of 2009, but has remained relatively weak ever since. Whereas the recession phase thus ended midway through the year, the severity of the financial crisis and the broad downturn in growth took a heavy toll on households and companies. Businesses faced an unprecedented drop in demand in late 2008 and early 2009, fuelled primarily by the plunge in foreign trade. Prospects remained uncertain after that, including with respect to financing conditions. Under these circumstances, companies made large-scale adjustments. Many industrial companies suspended some or even all of their production, drastically drew down their inventories, and significantly reduced their gross fixed capital formation. Vulnerability also increased: the total number of company failures rose by 10% in 2008 and 11% in 2009.

These conditions weighed heavily on the operating performances of non-financial companies. Their total value added at current prices fell by 4% in 2009. This was the first decline in more than 15 years. The drop continued a trend that began in 2008, during which the growth in value added had already slowed compared with the previous five years. At the same time, personnel costs fell slightly, by 0.3%, due to a reduction in the number of workers employed as staff and companies' use of systems allowing a certain amount of flexibility in workforce scheduling. As for depreciation, after three years of brisk increase, this growth slowed in 2009 in the wake of a sharp downturn in investment. As a result, total operating costs, determined primarily by staff costs and depreciation, levelled off in 2009, up just 0.1%.

For the second straight year, growth in operating costs well exceeded growth in value added, resulting in yet another particularly sizeable contraction in the net operating result, by 20.8%. In the space of two years, it fell by nearly 30% – a level unheard of since companies began filing their annual accounts with the Central Balance Sheet Office. While economic conditions did take a heavy toll on companies' commercial performance, it is important to remember that operating profit had more than doubled between 2002 and 2007.

Because the production process is increasingly international and foreign markets ever more important, the collapse in world trade was felt most harshly in the manufacturing sector. In this respect, the trends in the various industrial branches of activity are largely attributable to their degree of interconnectedness with the rest of the world: the most pronounced decline in production was seen in industries with the greatest export focus.

In 2009, the globalised return on equity for large companies fell for the second year in a row, whereas SMEs managed to stabilise their ratio after, it must be said, a drop of more than 2 points in 2008. The trend in median ratios shows that the economic downturn affected the entire population: in the span of two years, median profitability fell by 3.9 points at large companies and 2.7 points at SMEs. A study of the entire distribution shows that both the most profitable and the least profitable segments of the population have been affected by the weakening of profitability. Combined with ongoing economic uncertainty, the drop in profitability has also encouraged companies to be more conservative in their earnings allocation policies. The number of large companies distributing profits and the sums distributed both shrank in 2008 and 2009, breaking with the upward trend of the past decade. The same correction was seen at SMEs, but only starting in 2009 and to a lesser extent.

Globalised and median financial independence improved yet again in 2009, building on the upward trend of the past 15 years. Since 2005, this upward trend has continued as a result of the new tax allowance for risk capital (notional interest), which has generated substantial increases in equity capital. An examination of the entire distribution, however, shows that the trend has principally benefited the most solvent segments of the population, and that a sizeable portion of SMEs has not participated in the gains.

The final section of the article highlights the links between the risk of failure and the distribution of financial ratios. It emerges that there is a highly negative relationship between financial independence and the risk of failure: the greater the financial independence, the lower the risk of failure. The same type of relationship can be derived for other ratios, including profitability and indebtedness. Statistical analysis also shows that the more imminent the failure, the worse the decline in financial situation, and in the vast majority of cases, this deterioration affects the entire distribution, from the 10^{th} to the 90^{th} percentile.

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