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PRESS RELEASE

Company financing in Belgium: Analysis using supply and use tables
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By using the aggregate level of the supply and use table developed by the Central Balance Sheet Office for individual companies, this study has been able to identify certain trends affecting the population of companies in need of financing, the causes of the financing need, and the external sources used to meet it.

An analysis of the trend in companies' financing balance shows that it is dependent upon economic conditions. The periods when companies' financing need was the highest (2008 and 2011) came on the heels of economic slowdowns. This situation appears to be attributable to the decline in available internal resources and the fact that the execution of investment projects lags behind the economic cycle. Distinguishing between companies according to size shows that the financing balance and its components fluctuate more for large companies than for SMEs, owing to the influence of deals by some large companies.

A more detailed analysis at the sector level shows that some sectors were more likely than others to regularly find themselves with a surplus or a financing need. Among SMEs, real estate has regularly posted a surplus since 2005 because its available internal resources often exceed its net investments. Furthermore, it has proportionally much fewer companies in need of financing than do other sectors. Conversely, wholesale and retail trade, the manufacturing industry and construction generally exhibit a financing need. Among large companies, the manufacturing industry habitually generates a financing surplus, unlike the information and communication sector.

The regional breakdown of trends in companies' financing balance shows us that from 2008, Flanders exhibited a financing need in every sector of activity, which was not the case until 2009 in Brussels and Wallonia. In Flanders and Wallonia, these trends were mainly driven by the manufacturing industry, especially the chemicals and pharmaceuticals industry and, particularly in Flanders, by the metal manufactures sector. In Brussels, it was the service-oriented sectors that had the biggest influence on the financing balance because of the region's demographics as a metropolitan area where the majority of companies are in services sectors.

By making a distinction between companies with a financial surplus and those in need of financing, we were able to discern some of the latter group's characteristics. They generally have inferior available internal resources, make more tangible and intangible investments, and are experiencing growth in their net operating assets whereas companies with a surplus are seeing a decline. This is particularly striking among SMEs, where we see an increasingly pronounced decrease in net operating assets among the companies that posted a financing surplus between 2000 and 2011, while their financing surplus increased.

An analysis of companies' financing sources highlighted a significant increase in equity financing in 2006, likely attributable to the adoption of the notional interest tax deduction. Equity financing continued to gain ground thereafter, particularly among SMEs with a financing need, for which we clearly saw a growing increase in the change in capital and a decrease in new long-term financial commitments. We also noted that, following the crisis, the attribution of bank credit slowed and there was an acceleration in non-bank lending (principally intragroup loans), especially for long-term credits, among both large companies and SMEs. Thus, we saw a relative decline in companies' bank financing.

These trends were influenced by prevailing credit market conditions, which according to qualitative surveys of banks and business leaders have deteriorated since 2007. The tension in the bank lending market was also evident in the figures compiled by the Central Corporate Credit Register, which showed an increase in authorised credit utilisation rates from 2007 onward for both SMEs and large companies, indicating difficulty in obtaining new credit. Two other surveys of SMEs' access to financing, conducted respectively by the BeCeFi and the SPF Economy, reinforced this observation, indicating an increase in the loan application rejection rate following the onset of the crisis.

Lastly, sector-based analysis of authorised credit utilisation rates reveals that sectors posting the highest increase in these rates are also those in which SMEs with a financing need posted the fastest acceleration in financing by capital increase. This tends to confirm the hypothesis that SMEs' increased use of equity financing is partly the result of restricted or more costly access to bank credit following the financial crisis.