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# PRESS RELEASE

**Results and financial situation of firms in 2014**
(Article published in the December 2015 Economic Review)

Over the year 2014 as a whole the total value added created by non-financial corporations grew by 0.5% at current prices. That was the lowest growth rate for more than 15 years, with the exception of 2009, and was due to the stagnation of both sales and purchases. In fact, the growth of value added has been clearly declining over the past four years.

Staff costs were down by 0.6% in 2014 after having outpaced the growth of value added in the preceding years. This reduction in the wage bill is due essentially to the sharp fall in inflation (which was largely passed on in labour costs via the indexation mechanism), the freezing of real wage increases imposed by the government, and the decline in the number of workers (-1 % in full-time equivalents in 2014). At the same time, the increase in depreciation slowed for the third consecutive year, confirming the cautious attitude towards investment that firms have been displaying now for several years.

Total operating expenses were down by 0.3% in 2014, the first reduction in more than 20 years, largely as a result of the movement in staff costs and depreciation. Combined with the modest rise in value added, this led to a slight improvement (+3.9 %) in the operating result in 2014 to € 32 billion. In the past four years the operating result has been very stable overall, remaining at a level which is still below the pre-recession peak of 2008-2009 (€ 36 billion).

In contrast to the long-term trend, the results of the manufacturing branches were more dynamic than those of the non-manufacturing branches in 2014, the main reason being a decline in costs: apart from the fall in labour costs, industry benefited from the drop in prices of commodities, particularly oil. The branches where lower costs had the most impact are metallurgy, basic chemicals and metal manufactures. Manufacturing industry itself achieved only very modest growth, as is evident from the sales figures (+0.6 % in 2014) and industrial production indices.

According to the estimate for 2014, the profitability ratios considered exhibit a small increase for all firms, regardless of size. The profitability of large firms, greatly affected by the downturn in economic activity, declined to its lowest level for ten years, or in some cases even 15 years. The cautious recovery in large firms in 2014 was due to an improvement in manufacturing industry. In recent years, SMEs' profitability has stood up better, as SMEs are not only less sensitive to the economic climate but are also less concentrated on industrial activities and international trade. Despite the lower level of net profitability of large firms in recent years, equities continue to offer a higher yield than Belgian government bonds.

Since 2011, the overall financial independence of large firms has remained fairly constant following the additional limits introduced by the government to reduce the attraction of using the notional interest deduction. Moreover, in the past two years there has been a decline in the rate of self-financing among large firms; that is no cause for concern, especially as there is no accompanying reduction in the level of their own funds. The lower rate of self-financing in 2013-2014 was due mainly to an accounting operation whereby the reserves were reduced by an amount which was added to the capital, via the application of the transitional measure in the context of the increase in the withholding tax on liquidation surpluses from 1 October 2014.


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While the cost of financing bank loans has dropped to an historically low level in recent years, the non-monetary conditions for obtaining a new bank loan are tougher for SMEs than for large firms. This is an important point for attention, especially as SMEs are heavily represented in Belgium and bank loans are often the sole means of financing their debts.

Whatever the firm's size and activity, the globalised 'times interest earned ratio' is greater than 1 during the period 2000-2014 e considered, which indicates that firms are able to pay their fixed interest charges out of the resources obtained from their operating profits and financial income. While the property sector has a permanently low coverage ratio owing to its high financial debt ratio, the pharmaceutical and metallurgical industries record a constantly high ratio, as they fund their activities without incurring substantial financial debts. In the past two years there has been a very hesitant recovery in both economic growth and operating results. That combined with a further fall in the cost of bank loans and corporate bonds explains the recovery of the globalised coverage ratio in 2014 e, for both large firms and SMEs.

For Belgian non-financial corporations, the In-house Credit Assessment System (ICAS) can estimate the risk of default during the coming year. The ICAS findings broadly confirm the results obtained by the ratio analysis mentioned above. The risk indicator shows that SMEs with a higher risk of default (within one year) saw their default risk decline in the second quarter of 2015 in most branches of activity. More recent data will confirm whether that trend is persisting.

Finally, the last part of the article describes developments concerning the payment terms of customers and suppliers according to calculations based on the annual accounts. Except in a few cases, it is evident that payment terms hardly vary according to the economic situation, which seems at odds with the sharp rise in bankruptcies in the recent period, considering that it is commonly acknowledged that payment arrears are a cause of bankruptcy. In order to verify whether these variables constitute a genuine sign of financial vulnerability, a statistical comparison was conducted between failing and non-failing companies. Among other things, this revealed non-significant differences of average between the two categories of firms, and a very marked dispersion of values for failing firms, testifying to the wide variety of situations and explanatory factors. For example, as regards the payment of suppliers, while firms in difficulty are theoretically the most likely to delay paying their trading partners, that may also apply to sound businesses which, owing to their bargaining power or reputation, are able to secure extended payment terms. Conversely, suppliers of risky firms may be inclined to require them to pay cash, and that may tend to shorten the payment periods.

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