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PRESS RELEASE

Results and financial situation of firms in 2015

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The Belgian economy enjoyed a relatively favourable context in 2015, reflected by a 3,9 % rate of growth in value added for non-financial corporations as a whole. This increase was significantly stronger than in the previous years. According to the annual accounts of large firms, this third consecutive year of growth is mainly attributable to the decline in purchases, while sales figures have shrunk further.

The rise in staff costs remains moderate, partly as a result of the freeze on conventional wage adjustments, low inflation and the suspension of index-linking decreed by the government from 1 April 2015. Even the increase in depreciation is still well below the long-term average, which tends to confirm that companies have been treading carefully with their investment for several years now. This is partly reflected in the rate of investment in tangible fixed assets which remains at all-time low. Nevertheless, for the last two years under consideration, a small recovery in the median ratio has been observed, for SMEs as well as large corporations, which shows that most firms are once again making an effort to invest. This slight revival is possibly due to low interest rates, the size of cash reserves or the high production capacity utilization rate in the manufacturing industry.

The moderate rise in costs has led to a marked improvement in operating profit in 2015 (up 13 % to € 35 billion), after four years of virtually no change. At current prices, the operating result of non-financial corporations was almost back to the peak seen before the onset of the financial crisis (€ 35 billion in 2007). This development was particularly notable in the manufacturing industry. The recovery in this branch of activity is primarily a consequence of low prices of raw materials and energy.

In this article, particular attention is paid to the specific features of the construction industry. The overall result for this branch of activity seems to be largely influenced by civil engineering, and more specifically by dredging and waterway projects. A breakdown of value added by company size reveals that there are structural differences between large firms and SMEs in this branch.

Profitability ratios that disregard financial income from participating interests saw a small increase among large firms in 2015, especially in the manufacturing industry. In recent years, SMEs have enjoyed fairly high profitability thanks to wider margins in the business services sector, which accounts for 20 % of the total number of SMEs. SMEs are in fact less sensitive to the business cycle because they are not so frequently geared towards industrial activities and international trade.

Profitability among large firms picked up cautiously in 2015, but the globalised investment rate does not seem to have followed suit. The suggestion that constrained investment is the result of high dividend payments was examined but not confirmed. On average, 22 % of all large firms pay out a dividend, 45 % of which hand out profit shares of more than their free cash flow. Companies that pursue such a dividend policy for more than four years in a row tend to be less economically viable, less likely to replace their tangible fixed assets and take on more financial debts to be able to pay out the profit shares. However, the number of firms in such a situation remains quite small.

From 2005 onwards, large industrial enterprises have seen their globalised degree of financial independence increase more strongly than that among firms in the non-manufacturing sector, probably because several big industries have assumed additional coordinating tasks by taking on the role of financial centre for the group as a result of the tax allowance for risk capital. SMEs have also seen slow growth in financial independence through the attraction of the notional interest deduction, not least because it gives them a higher rate.

The globalised net financial indebtedness ratio for SMEs declined over the period from 2000 to 2015: this is partly because they have increased the weight of their cash equivalents and partly because they had scaled down their financial debt burden in the wake of the financial crisis. SMEs tend to have relatively more liquid assets in the short term than large enterprises. The establishment of these reserves may suggest that they are taking longer to secure new loans. Large industries have a net financial indebtedness ratio that has been falling since 2005 because they are resorting less and less to bank credit, because they have been able to attract more foreign capital from the group to Belgium as a result of the tax allowance for risk capital. Big companies do not just get their external funding from bank loans, but also from issuing corporate bonds and via intra-group loans. This latter type of external financing is very important for industrial enterprises.

Finally, the article has considered the risk of default which can be looked into by means of the In-house Credit Assessment System (ICAS). This analysis confirmed the findings that emerged from the ratio analysis, the main conclusion being that the risk of default among small and medium-sized enterprises got smaller in 2015. According to the latest data, that lower credit risk has been retained in the first three quarters of 2016.

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