Results and financial situation of firms in 2015

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Introduction

Each year, in the December issue of the Economic Review, the National Bank describes the developments reflected in the annual accounts of non-financial corporations. By the autumn, the Central Balance Sheet Office already has a representative sample of annual accounts for the previous year. The conclusions based on that sample can therefore be fairly reliably extrapolated to the population as a whole.

This article is divided into three parts. The first one briefly describes the method used and the population studied. The second part presents an extrapolation of the main items in the operating account for the 2015 financial year, focusing mainly on value added, staff costs, depreciation and the operating result. The extrapolations are presented by company size and according to the main branches of activity, this year with a special analysis of the construction sector. A regional perspective is also put forward, through an analysis of sectoral contributions to growth in value added in each of the country's three Regions.

The third and final part assesses the financial position of companies in terms of profitability and financial structure. This analysis provides both a macroeconomic view (with globalised figures) and a microeconomic picture (medians and other distribution measures). It uses a range of tools for measuring profitability (including the financial leverage effect) and solvency. Among the aspects examined in this part are corporate dividend policy, companies' net financial indebtedness ratio and credit risk (calculated on the basis of the Bank's in-house credit assessment system (ICAS)).

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1. Method and description of the population studied

1.1 Method

Since the end of the 1970s, the Central Balance Sheet Office has collected the accounts of non-financial corporations. To that end, firms are required to file their annual accounts in a standardised form no later than seven months after the end of the financial year. The data are then checked and corrected if necessary in order to meet the required quality standards, following which an initial analysis is possible from September onwards.

However, every year, there are always some annual accounts for the latest year considered – in this case 2015 – that are not yet available by then. That is because a significant number of accounts are filed late or fail the arithmetical and logical checks conducted by the Central Balance Sheet Office. That is why the data for 2015 are estimated on the basis of a constant sample. The sample comprises firms which have filed annual accounts covering a 12-month financial year for both the 2014 and 2015 financial years. The method involves extrapolating the 2015 results according to developments observed in the sample, which are presumed to be representative of changes affecting

the population as a whole. As verified in previous editions of this yearly article, that assumption has broadly proved to be correct: in the majority of cases, the extrapolations give a good indication of the direction and scale of the real movements.

This year's sample was drawn on 9 September 2016. It comprises 262 526 sets of annual accounts, or 75.2 % of the total number filed for the 2014 financial year. In terms of value added, its representativeness is much higher, at 86.7 %. As pointed out on previous occasions, the sample has become significantly more representative over the years, due to technical progress that has been made at the Central Balance Sheet Office, and to the introduction of surcharges in the event of late filing. For the record, in 2005, representativeness of the sample was 52.6 % of the number of companies, and 82.4 % of value added.

1.2 Description of the population studied

The population studied corresponds to all non-financial corporations as defined by the Central Balance Sheet Office. However, the "head office activities" branch (NACE-BEL 70 100) is excluded from this population because it comprises companies which generally provide internal banking or cash management services for corporate groups, and are therefore comparable to financial corporations.

Annex 1 itemises the NACE-BEL codes for the branches of activity covered. The sectoral groupings are based on the NACE-BEL 2008 nomenclature. For presentation and interpretation purposes, the structure used here differs slightly from the official structure of the nomenclature.

The article also distinguishes between companies according to their size, on the basis of criteria set out by the Company Code. These criteria were amended by the Law of 18 December 2015 transposing into Belgian law Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings. The new criteria apply to annual accounts relating to financial years beginning on or after 1 January 2016.

As this article only covers financial years prior to 2016, it is the old criteria that will be used here, and for the last time, to distinguish between companies according to their size. As a reminder, these criteria make a distinction between just two categories of firms: large and small. A company is deemed to be small if it has not exceeded more than one of the following limits in the last two financial years:

- annual average number of employees: 50;
- turnover (excluding VAT): € 7 300 000;
- balance sheet total: € 3 650 000;

unless the number of employees is above an average of 100 units per annum [1].

In all other cases the company is regarded as large.

Under this principle, the Company Code authorises small unlisted firms to file their annual accounts using an abridged format, while companies listed on the stock exchange, both large and small, are required to file full-format accounts. It is for this reason that companies disclosing full-format accounts are defined as large firms for the purposes of this study, as in previous editions, while other companies filing abbreviated accounts are deemed to be SMEs.

The new size criteria will be used in the next edition of this article and their statistical impact discussed. Noteworthy among the main changes that have been made is that a sub-category for "microfirms" has been created in the small firms category. The thresholds themselves, as well as how they should be interpreted, have also been adapted. For instance, the criteria will no longer be calculated on a consolidated basis, except for parent companies.

Table 1 presents a brief summary of changes in the population under study over the last few years. Data relating to 2015 are given as a token entry because, as mentioned above, they were not complete when this article went to press. SMEs are still largely in the majority (348 769 companies in 2014, or 94 % of the total). In terms of value added and employment, on the other hand, large firms are predominant (€ 135 billion worth of value added and 1.3 million jobs in 2014, which is respectively 74 and 70 % of the total).

It should be stressed that the type of format used for the annual accounts is just one criterion among others enabling a distinction between companies according to their size. In the statistical analyses, other criteria are frequently used, and in particular turnover and employment. However, the turnover criterion cannot be applied to annual accounts, because the item is optional in the abbreviated formats. In 2014, out of

(1) If the financial year covers either more or less than 12 months, the turnover criterion is calculated on a pro rata basis. If the enterprise is affiliated to one or more companies, the criterion for the annual average workforce is calculated by adding up the average annual number of workers employed by all the enterprises concerned, and the turnover and balance sheet total criteria are calculated on a consolidated basis. For more details, see the advisory opinion CNC 2010-5 of the Belgian Accounting Standards Commission (www.cnc-cbn.be).

TABLE 1 POPULATION STUDIED, BY ACCOUNTING YEAR

(situation as at 10 September 2016)

	2010	2011	2012	2013	2014	*p.m. 2015*
Total number of firms	**318 008**	**336 684**	**342 428**	**346 574**	**348 769**	***271 768***
of which:						
Large firms	19 268	20 091	20 539	20 887	21 412	*17 466*
SMEs	298 740	316 593	321 889	325 687	327 357	*254 302*
Manufacturing industry	22 001	21 848	22 000	21 642	22 308	*22 198*
Non-manufacturing branches	270 998	279 178	291 457	296 366	314 376	*320 230*
Value added (in € million)	**167 797**	**173 907**	**176 361**	**179 014**	**181 537**	***164 768***
of which:						
Large firms	126 412	128 874	130 850	133 355	135 233	*128 947*
SMEs	41 385	45 033	45 511	45 659	46 304	*35 821*
Manufacturing industry	46 820	46 602	46 809	47 442	48 647	*46 358*
Non-manufacturing branches	120 978	127 305	129 552	131 572	132 890	*118 409*
Employment(1)	**1 816 637**	**1 880 090**	**1 878 294**	**1 870 700**	**1 877 138**	***1 592 606***
of which:						
Large firms	1 268 985	1 302 404	1 304 675	1 303 497	1 314 258	*1 192 406*
SMEs	547 652	577 687	573 619	567 203	562 880	*400 200*
Manufacturing industry	457 515	460 096	454 466	445 541	436 168	*382 634*
Non-manufacturing branches	1 359 122	1 419 994	1 423 827	1 425 159	1 440 971	*1 209 972*

Source: NBB.

(1) Average staff numbers, in full-time equivalents.

the 327 357 abbreviated format accounts filed, only 10 % mentioned turnover. Moreover, this proportion has shrunk continuously over time: at the beginning of the 2000s, it was still as high as 37 %.

Unlike turnover, there is some indication of employment in all the annual accounts filed. By way of example, table 2 gives a breakdown of companies on the basis of item 9087 in the annual accounts, which is the average number of workers listed in the staff register, in full-time equivalents. Note that 27 % of large firms and 63 % of SMEs do not declare any staff members in their annual accounts. While these kinds of firms can be found in virtually all fields of activity, they are particularly common in services, notably in management consultancy, real estate, IT activities and business services. This plethora of very small business units is inextricably linked to Belgian legal provisions, which require almost all businesses operating as a company to file annual accounts. Conversely, firms reporting more than 250 workers are very much in the minority, as they only account for 0.2 % of the total, or 827 entities. Nevertheless, these firms still have a major macroeconomic impact: they alone make up more than 40 % of value added and employment among non-financial corporations. Lastly, it can be seen that 57 firms mention more than 2 000 employees, while 23 firms declare more than 5 000 employees.

It should be stressed that employment as reported in the annual accounts is not always representative of the actual size of a company. In fact, it only concerns people linked to a company by an employment or traineeship contract: temp agency workers, seconded workers, people working for the company under self-employed status and those employed in foreign establishments are not included as staff members. Moreover, the relevance of the criteria is prone to being blurred by a whole host of economic phenomena, including sub-contracting, intensive automation and the proliferation of companies within the same group.

The population studied can also be characterised on the basis of age. For a given set of annual accounts, the

TABLE 2 BREAKDOWN OF FIRMS BY EMPLOYMENT[1]

(2014 accounting year, number of annual accounts)

	Large firms	SMEs	Total
Employment = 0	5 753	205 095	210 848
0 < Employment < 10	4 914	108 218	113 132
10 ≤ Employment < 50	6 566	13 724	20 290
50 ≤ Employment < 250	3 352	320	3 672
250 ≤ Employment < 500	459		459
Employment ≥ 500	368		368
Total	**21 412**	**327 357**	**348 769**

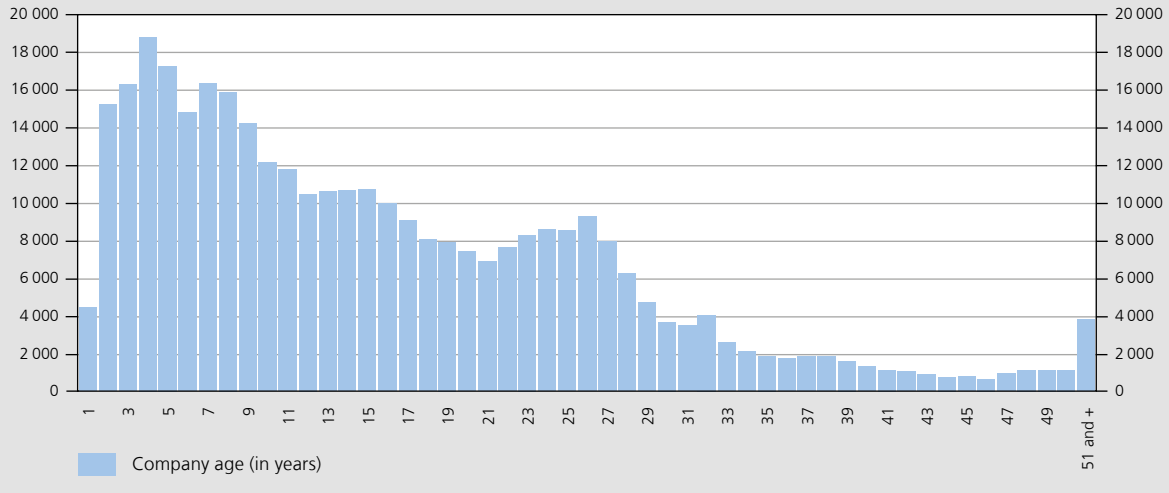
Source: NBB.
(1) Average number of workers recorded in the staff register, in full-time equivalents.

company's age is defined as the difference between the date of creation of the company and the closing date of the accounts. This difference expressed in number of years is rounded up to the nearest unit. Under this definition, one can see that 42 % of the companies studied are less than ten years old, while 69 % of them are less than 20 years old. The full distribution of the population is presented in chart 1. It should also be noted that the large firms surveyed are structurally older, with an average age of 24 years and a median age of 22, compared with respectively 15 and 13 years for SMEs. Moreover, just as in the case of company size, the distribution by age is spread widely across the spectrum: there are in fact 3 800 companies that were founded more than 50 years ago, and even 154 companies established over 100 years ago.

On this subject, for information, table 3 lists the ten companies whose establishment dates back the furthest. The oldest of all the firms studied is Immobel (founded in 1863 under the name Compagnie immobilière de Belgique), ahead of Solvay (1863) and SCR-Sibelco (1872). It goes without saying that most of the firms featuring on the list have metamorphosed since their establishment, in terms of business activities as well as structure and shareholdership.

CHART 1 DISTRIBUTION OF COMPANIES ACCORDING TO THEIR AGE

(number of annual accounts, financial year 2014)



Source: NBB.

TABLE 3 OVERVIEW OF THE OLDEST NON-FINANCIAL CORPORATIONS FILING ANNUAL ACCOUNTS WITH THE CENTRAL BALANCE SHEET OFFICE

Current name	Date of incorporation	Location of head office	Activity
Immobel	9 July 1863	Brussels	Real estate promotion
Solvay	26 December 1863	Brussels	Chemicals
SCR – Sibelco	4 April 1872	Antwerp	Extractive industries
Compagnie internationale des wagons-lits et du tourisme	4 December 1876	Brussels	Travel and catering
Compagnie d'entreprises CFE	27 June 1880	Auderghem	General construction
Vooruit Nr 1	21 September 1886	Ghent	Retail pharmacies
Molenbergnatie	24 February 1888	Antwerp	Logistics
Carrières du Hainaut	28 May 1888	Soignies	Extractive industries
Saint-Gobain Innovative Materials	16 September 1889	Wavre	Glass industry
Group Sopex	23 April 1894	Antwerp	Wholesale trade

Source: Crossroads Bank for Enterprises.

For some of them, that has also led to changes of name. For instance, Compagnie d'entreprises CFE was founded as the Compagnie Générale de Chemins de Fer Secondaires, while Saint-Gobain Innovative Materials has been called Glaceries Saint-Roch for more than 100 years.

2. Trend in components of the operating account

2.1 Economic climate in 2015

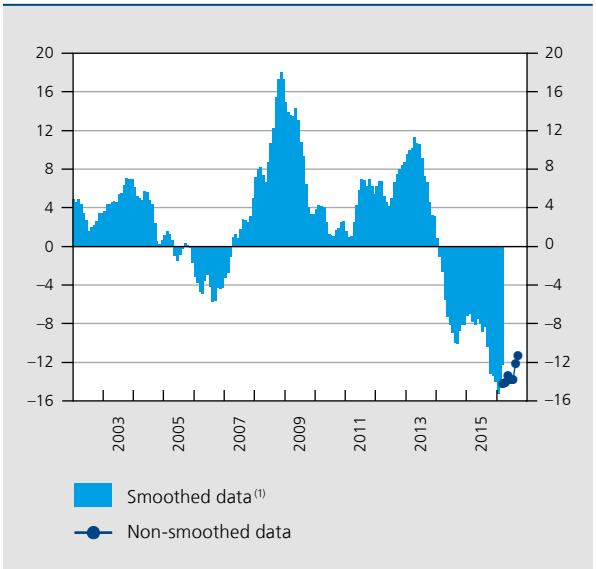
In Belgium, just as in the rest of the euro area, the moderate pace of economic expansion, observed since the second quarter of 2013, continued in 2015, although it slowed down a little towards the end of the year. As an annual average, Belgium's GDP was up by 1.5 % in 2015, reflecting a similar rate of growth to that recorded in 2014 (+1.7 %), and well above the sluggish growth rates seen in 2013 (0.1 %) and 2012 (+0.2 %).

Overall, the Belgian economy enjoyed the same relatively favourable context as its euro area partners. First of all, owing to the accommodating monetary policy, borrowing conditions have once again been conducive to investment by businesses and households. Secondly, the depreciation of the euro against the dollar, and particularly between mid-2014 and the beginning of 2015, strengthened firms' position vis-à-vis their competitors from outside the euro area. Lastly, commodity prices, and especially oil prices, have continued to fall, which has eased producers' costs and boosted private individuals' purchasing power.

Among the main categories of expenditure, it was private consumption that was the main driver of economic

CHART 2 NUMBER OF BUSINESS BANKRUPTCIES IN BELGIUM

(percentage change in the number of bankruptcies compared to the corresponding month of the previous year)



Sources: FPS Economy, SMEs, Self-employed and Energy, own calculations.
(1) Data smoothed by a twelve-month centred moving average.

growth in 2015: it was up by 1.1 %, the highest rate of growth since 2010. Household consumption has benefited from boosts like gains in purchasing power from the sharp drop in oil prices and the renewed confidence generated by a brighter assessment of the labour market.

The relative benign economic environment of the last few years has had positive repercussions on business vulnerability, as can be seen from figures on bankruptcies declared by the commercial courts to the Crossroads Bank for Enterprises (see chart 2 and table 4): while it had recorded an unprecedented rise from the year 2007 and the onset of the financial crisis, the number of bankruptcies actually contracted in both 2014 and 2015, by respectively 8.6 and 9.1 %. Over 2015 as a whole, Belgium registered 9 762 bankruptcies, compared with 10 736 in 2014 and 11 740 in 2013. It is worth pointing out that this reverse tide was widespread: all branches of activity, legal types and Regions without exception posted declines in bankruptcy numbers of similar proportions in both 2014 and 2015. The downward trend continued during the first half of 2016, with a contraction of 14 % compared with the first half of 2015.

This decline in the number of bankruptcies for more than two years now stands in contrast to the often very big increases recorded in previous years. However, it should not hide the fact that bankruptcy figures remain high, and well above the levels observed before the financial crisis: in the first half of 2016, the number of bankruptcies actually reached 4 798 units, compared with 4 020 in the first half of 2007. Furthermore, the demise of many risky businesses in the post-recession years undoubtedly contributed to an automatic drop in the figures over the recent period.

The issue of companies facing difficulties can also be broached through debt moratoriums (payment deferrals) granted by the commercial courts under the Law on Continuity of Enterprises (LCE). To recap, this piece of legislation, which came into force on 1 April 2009, replaced the pre-bankruptcy regime (concordat

TABLE 4 BREAKDOWN OF NUMBER OF BANKRUPTCIES BY BRANCH OF ACTIVITY, BY LEGAL STRUCTURE AND BY REGION

	2007	2008	2009	2010	2011	2012	2013	2014	2015
By branch of activity									
Manufacturing industry	410	449	544	541	563	611	619	585	482
Construction	1 102	1 249	1 442	1 560	1 693	1 802	2 065	1 977	1 777
Trade	2 239	2 456	2 603	2 649	2 691	2 744	2 993	2 766	2 499
Hotels, restaurants and catering	1 453	1 592	1 798	1 788	1 987	2 062	2 261	2 011	1 843
Transport and communications	663	760	851	858	907	942	948	859	751
Business and real estate services	954	1 034	1 147	1 396	1 573	1 507	1 786	1 658	1 648
Other	859	936	1 035	778	810	919	1 068	880	762
By legal structure									
Self-employed	1 677	1 677	1 915	1 833	1 771	1 918	2 003	1 990	1 767
Public limited companies	1 129	1 154	1 194	1 388	1 368	1 589	1 733	1 605	1 475
Private limited liability companies	4 468	5 228	5 850	5 915	6 481	6 636	7 525	6 723	6 151
Cooperatives	370	379	422	327	385	358	392	355	324
Other	36	38	39	107	219	86	87	63	45
By Region									
Brussels	1 485	1 813	1 788	1 915	2 348	2 263	2 652	2 203	2 142
Flanders	3 994	4 273	4 983	4 918	4 908	5 356	5 742	5 285	4 769
Wallonia	2 201	2 390	2 649	2 737	2 968	2 968	3 346	3 248	2 851
Total	**7 680**	**8 476**	**9 420**	**9 570**	**10 224**	**10 587**	**11 740**	**10 736**	**9 762**
p.m. Debt moratoriums granted under the LCE	–	–	*633*	*1 253*	*1 389*	*1 538*	*1 460*	*1 117*	*877*

Sources: FPS Economy, SMEs, Self-employed and Energy, own calculations, Graydon.

judiciaire) with new judicial reorganisation procedures putting the emphases more on prevention. As soon as it was launched, it was used by a large number of enterprises. For instance, while scarcely 78 firms had benefited from a debt restructuring moratorium in 2008, no fewer than 1 886 requests for payment deferrals under the terms of the new law were lodged between April 2009 and December 2010 (see last line of table 4). The success of the new law in numbers was confirmed up until August 2013, when conditions for access and application were tightened up, notably to clamp down on misuse of the scheme [1]. A fee of € 1 000 for procedural costs was also intoduced from 1 January 2015, to be paid up by companies at the start of the procedure. After these restrictions were imposed, the number of payment deferrals granted plummeted by 43 %. According to Graydon, the underlying financial situation of the applicant companies has not improved, nor has their survival rate on completion of the procedure.

2.2 Global trends in the operating account

Over 2015 as a whole, the total value added generated by non-financial corporations, i.e. the difference between sales revenues and the cost of goods and services supplied by third parties, increased by 3.9 % at current prices (see table 5), a significantly stronger increase than that observed in the three previous years. According to the annual accounts of large firms, which enable a breakdown of value added, this third consecutive year of growth is mainly attributable to the decline in purchases, while sales figures have shrunk further.

The value added generated by a company enables it to cover its operating expenses and to record any excess as its net operating profit. Staff costs usually make up the major part of the operating expenses. In 2015, they once again rose at a moderate pace (+1.9 %) and, for the first time since 2011, their growth rate was well below that for value added. The increase in staff costs was mainly a reflection of the 1.5 % rise in the number of workers in 2015 (to reach 1.9 million jobs in full-time equivalents): there was actually no increase in hourly wage costs in 2015 (see table 6). This stagnation in labour costs, well below the average of the ten previous years (+2.5 %), is largely a reflection of the freeze on conventional wage adjustments, the low level of inflation and the suspension of the indexation mechanism by the government from 1 April 2015.

After staff costs, the biggest operating expenses comprise item 630 in the annual accounts, namely depreciation and write-downs on tangible fixed assets, intangible fixed assets and start-up costs. In 2015, their growth rate remained relatively low, at 2.4 %, which is well below the average for the past ten years (+4.1 %), reflecting an investment policy that has become a lot more cautious over the last few years.

(1) For more information on the amendments to the Law on Continuity of Enterprises, see for example Graydon (2016), *La LCE après 7 ans : la situation sur le plan statistique* (www.graydon.be), and Zenner A. (2013), *Difficultés d'application de la loi sur la continuité des entreprises et projet de loi d'ajustement* (www.oeccbb.be).

TABLE 5 TRENDS IN THE MAIN COMPONENTS OF THE OPERATING ACCOUNT

(current prices)

	Percentage changes compared to the previous year					In € million	In % of value added
	2011	2012	2013	2014	2015 e	2015 e	2015 e
Value added	**3.6**	**1.4**	**1.5**	**1.4**	**3.9**	**188 597**	**100.0**
Staff costs (–)	5.3	3.0	1.7	1.5	1.9	107 066	56.8
Depreciation and write-downs [1] (–)	4.1	3.4	2.6	3.1	2.4	35 731	18.9
Other operating expenses (–)	4.7	2.6	–0.4	–3.8	1.4	10 723	5.7
Total operating expenses	*5.0*	*3.1*	*1.7*	*1.5*	*2.0*	*153 520*	*81.4*
Net operating result	**–1.7**	**–5.8**	**0.7**	**1.0**	**13.2**	**35 077**	**18.6**

Source: NBB.
(1) On tangible and intangible fixed assets and start-up costs (item 630).

TABLE 6 LABOUR COSTS IN THE PRIVATE SECTOR

(calendar adjusted data; percentage change on the previous year)

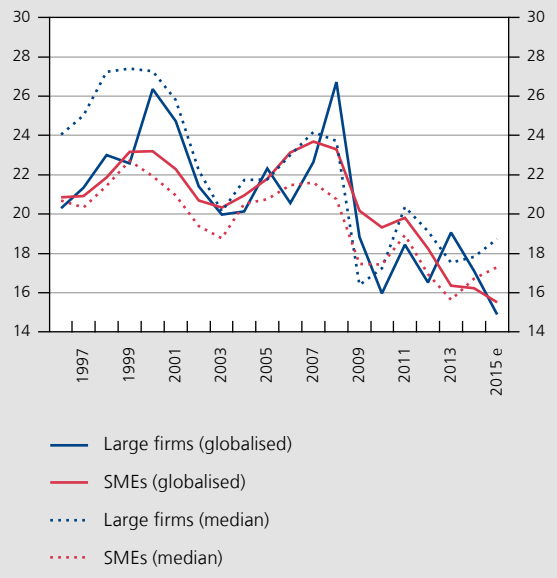
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Hourly labour costs	3.6	3.9	2.7	1.2	2.1	3.1	2.5	1.1	0.0

Sources: NAI, FPS Employment, Labour and Social Dialogue, NBB.

In the annual accounts, this trend is especially clear from the ratio of new tangible fixed assets, which divides acquisitions of tangible fixed assets during the year by the stock of tangible fixed assets at the end of the previous year. Whatever the yardstick used, the ratio contracted very sharply in the wake of the 2008-2009 recession, and has since remained at levels well below those prevailing before the financial crisis (see chart 3). This downward trend has affected almost all branches of the Belgian economy. For the last two years under review, while the globalised ratios have continued to drop, a slight recovery in the median ratios has been observed, which suggests that a majority of firms are once again making an effort to invest. This could have been induced by several factors, such as the low interest rates, the size of cash reserves or the high production capacity utilisation rate in the manufacturing industry. In this respect, it should be pointed out that the globalised ratio has been picking up slightly in industry for two years now and the continued recovery is thus exclusively due to the non-manufacturing branches. Sectoral trends in the globalised ratio are given in Annex 2.

CHART 3 RATIO OF NEW TANGIBLE FIXED ASSETS

(in %)



Source: NBB.

Total operating expenses, determined largely by staff costs and depreciation, grew by 2.0 % in 2015. Combined with the stronger rise in value added, this modest increase in costs led to a net expansion of the operating result (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).

The analysis by size shows that it was mainly large firms that contributed to the expansion of the operating account in 2015: during the course of the year, they recorded a 4.4 % increase in value added and a 17.8 % rise in the operating result, compared to 2.5 % and 4.4 % respectively in the case of SMEs. This more favourable situation for large firms is largely due to them being more closely geared towards activities that make intensive use of raw materials and oil products, such as basic chemicals, petrochemicals and metallurgy, branches that have again benefited form the drop in commodity prices (see below).

2.3 Developments per branch of activity

Table 7 describes the movements in the operating account for each branch of activity over the past two years under review. Over the last two years, and contrary to the long-term trend, the manufacturing industry has recorded the most rapid rise in profits, especially as regards the operating result. Over the years 2014 and 2015 as a whole, these branches actually posted increases of 6.1 % in value added and 44.7 % in operating result,

compared with respectively 5.0 and 4.5 % in the non-manufacturing branches.

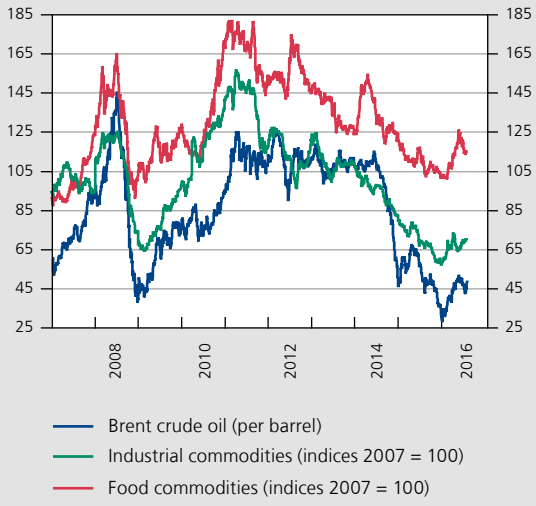
2.3.1 Manufacturing industry

As annex 3 shows, in its detailed breakdown of the operating account for a selection of branches of activity, industrial concerns have managed to recover despite the decline in sales figures (–2.8 % over the whole of 2014 and 2015), as purchases have contracted more sharply (–7.9 %). The fall in supplies to industry was largely induced by the widespread drop in prices of raw materials (see chart 4), in a context of economic activity running out of steam again in the emerging nations and especially in China. For example, the price of Brent crude oil expressed in euros slumped 36 % in 2015, after it had already dropped back by 10 % in 2014. The fall in costs was partially reflected in manufacturing firms' sales prices : while, on the one hand, sales figures were down, on the other hand, the industrial output index, as calculated by FPS Economy, rose over the whole of 2014 and 2015 : it effectively increased from 106.2 in December 2013 to 107.6 in December 2014, and then moved up to 108.3 in December 2015. Logically speaking, the manufacturing branches posting the most significant increases in profits for the last two years are the most intensive in raw materials, namely chemicals, metallurgy, petrochemicals and refining.

By contrast, the agri-food industry posted weaker performance in 2015, mainly because of difficulties faced by sugar producers, who have been hit by the global slump in sugar prices and by the anticipations surrounding the end of the EU sugar quota regime, scheduled for 2017. Lastly, figures in the pharmaceuticals industry were once again distorted by one-off operations in a number of firms, such as intra-group rebilling of research costs or changes made to a licence write-down plan. But it should be borne in mind that, however mixed the results may have been recently, both pharmaceuticals and agri-food have fared a lot better than most industrial branches since the 2008-2009 recession : overall, the pharmaceuticals industry has capitalised on its innovative character, as reflected *inter alia* by a much higher rate of value added and investment in R&D than in the other industrial branches. For its part, the agri-food industry has been largely spared from international fluctuations thanks to its clear orientation towards the domestic market.

CHART 4 COMMODITY PRICES

(daily data in US dollars)



Source : HWWI.

2.3.2 Non-manufacturing branches

While the effect of falling commodity prices has also been felt in the main non-manufacturing branches, the impact there has been a lot weaker owing to their much smaller share in these sectors' purchases, which mainly consist of consumables, goods and services Moreover, non-manufacturing dynamics have been more varied and dependent on specific sectoral features.

For instance, trends in the operating result in the wholesale trade have turned out to be quite similar to those observed in industry, namely a reduction in sales figures at the same time as a more substantial drop in purchases. These similar trends may be explained by the close links between the two branches, and because some wholesalers are partly involved in industrial or ancillary activities, particularly in petrochemicals and pharmaceuticals.

Trade in motor vehicles and related equipment has also benefited from the fall in commodity prices (notably in the tyre-making sector), as well as from a more favourable economic environment, with households being more inclined to buy consumer durables. The number of new vehicle registrations in Belgium thus soared to 632 358 in 2015, compared with 600 102 in 2014 and 592 055 in 2013 [(1)].

In the retail trade sector, while sales have continued to expand along with the pick-up in private consumption, value added has only risen very slightly : margins have remained squeezed in an environment that is still highly

(1) Source : Febiac.

TABLE 7 VALUE ADDED AND OPERATING RESULT PER BRANCH OF ACTIVITY

(percentage changes compared to the previous year)

	Value added		Net operating result		*p.m. Branch's share in % of total value added in 2015 e*
	2014	2015 e	2014	2015 e	
Manufacturing industry	**2.5**	**3.5**	**17.0**	**23.7**	***26.7***
of which:					
Agri-food industries	5.3	–0.3	5.9	–9.1	*4.2*
Textiles, clothing and footwear	8.4	6.4	54.9	13.3	*0.9*
Wood, paper and printing	0.3	0.4	31.9	4.0	*1.6*
Chemicals industry	8.5	8.8	41.9	55.9	*4.3*
Pharmaceuticals industry	1.9	–0.6	–27.5	43.7	*3.1*
Metallurgy and metalworking	1.2	3.6	133.9	26.3	*3.6*
Metal manufactures	0.6	1.0	6.4	7.3	*4.9*
Non-manufacturing branches	**1.0**	**4.0**	**–4.2**	**9.1**	***73.3***
of which:					
Trade in motor vehicles	7.0	6.9	26.1	26.2	*2.6*
Wholesale trade (1)	0.4	5.8	17.8	21.5	*12.6*
Retail trade (1)	1.1	1.5	–3.6	–6.9	*6.4*
Accommodation and food service activities	5.5	5.1	36.1	11.4	*2.1*
Information and communication	0.7	2.8	1.3	7.5	*6.7*
Real estate activities	5.2	4.6	4.0	1.8	*3.2*
Business services	6.1	2.9	–9.4	0.0	*15.6*
Energy, water and waste	–5.5	5.7	8.7	–7.2	*4.7*
Construction	–0.5	2.4	–3.1	7.8	*7.6*
Total	**1.4**	**3.9**	**1.0**	**13.2**	***100.0***

Source: NBB.

(1) Excluding trade in motor vehicles.

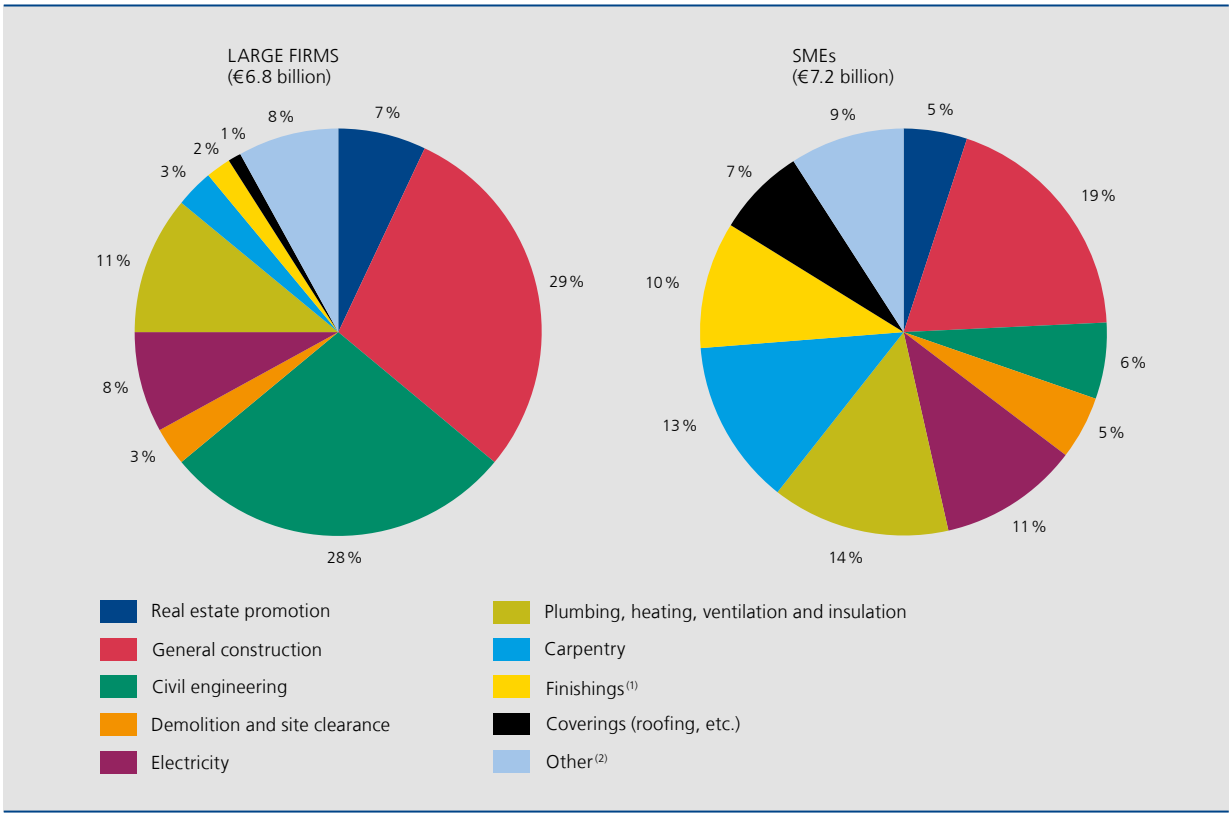
competitive. The last two years have also been marked by major restructuring efforts at one of the main distribution chains, which has been reflected in a contraction in the operating result because of the provisions set aside for this restructuring.

2.3.3 Construction

The overall results in construction have again been largely influenced by civil engineering, and more particularly by dredging and maritime construction projects, which mainly tend to be carried out by (very) large enterprises. Chart 5 gives a breakdown by company size of value added in construction between its main sub-sectors. It points up the structural differences that exist between large firms and SMEs in the construction industry. 28 % of the value added of large firms comes from civil engineering (with more than half of them operating in the field of dredging and maritime construction), compared with just 6 % in the case of SMEs. Big companies are more involved in general construction work too, with a share of 29 %, compared with 19 % for SMEs. Conversely, SMEs are a lot more active in installation (such as electricity, plumbing, heating, ventilation and insulation) and finishing work (like carpentry, floor and wall coverings, painting and glazing), which take up a 49 % share of value added generated, against 24 % for large enterprises.

These differences between the two categories of company have heavy repercussions on movements in their profit and loss accounts, as market conditions vary considerably

CHART 5 BREAKDOWN OF VALUE ADDED IN THE CONSTRUCTION SUB-SECTORS, BY COMPANY SIZE (2015)



Source: NBB.
(1) Mainly including plastering, wall and floor covering work, painting and glazing.
(2) Mainly including damp-proofing, repointing, facade renovation, restoration and sub-flooring work.

from one sub-sector to another: civil engineering firms are partly reliant on the international environment and on obtaining specific public procurement contracts; moreover, as in general construction, they generally tend to outsource a large part of their contracts. By contrast, SMEs carrying out installation and finishing work rely much more heavily on domestic demand, and regularly operate as subcontractors.

Total value added generated by the construction industry rose from € 13.3 billion in 2011 to € 14.3 billion in 2015, a growth rate of 7 %. As can be seen from table 8, it is principally big civil engineering concerns behind this increase, with total value added up from € 1.6 to 2.2 billion over the same period, and most of the difference being due to above-mentioned dredging and maritime construction activities. Large enterprises also posted significant increases in other sub-branches, such as real estate promotion, plumbing and ancillary activities, electricity and general construction. Conversely, total value added of SMEs has been eroded somewhat over the same period, coming down from € 7.4 to 7.2 billion. This decline is largely attributable to civil engineering and general construction, while the other sub-branches either stagnated or recorded only modest increases.

The trends set out in table 8 should be interpreted with caution, not least because of transfers of value added relating to subcontracting and secondment of foreign workers. On this latter point, it should be noted that the number of foreign workers seconded to Belgium rose from 90 000 in 2007 to 216 000 in 2014, according to NSSO figures compiled from Limosa declarations (1), with almost 60 % of them employed by construction firms (2). Both subcontracting and secondment of foreign workers imply an increase in intermediate consumption for the companies using these options and thus an automatic drop in value added. Moreover,

(1) Prior and compulsory declaration on employment of seconded workers in Belgium.
(2) On the subject of workers posted from abroad in the construction industry, see for example box 4 of the Bank's Annual Report 2015 (Seconded workers in construction).

TABLE 8 TRENDS IN VALUE ADDED IN THE CONSTRUCTION SUB-SECTORS
(in € million)

	2011	2012	2013	2014	2015 e	Difference 2015-2011
Large firms						
Real estate promotion	376	465	571	470	488	+112
General construction	1 890	2 008	1 937	2 002	2 011	+120
Civil engineering	1 598	1 889	2 106	1 936	2 156	+558
Demolition and site clearance	177	178	187	177	178	+1
Electricity	435	474	505	525	529	+94
Plumbing, heating, ventilation and insulation	598	651	694	737	742	+143
Carpentry	179	198	196	197	202	+23
Finishings (1)	153	125	131	149	149	–4
Roofing works	78	77	71	78	72	–6
Other (2)	427	487	499	525	609	+182
Total	**5 911**	**6 552**	**6 897**	**6 796**	**7 136**	**+1 223**
SMEs						
Real estate promotion	395	428	405	389	385	–10
General construction	1 397	1 355	1 294	1 326	1 308	–89
Civil engineering	524	483	451	430	421	–103
Demolition and site clearance	397	401	401	389	397	+1
Electricity	852	896	817	796	820	–32
Plumbing, heating, ventilation and insulation	1 003	1 012	1 023	1 015	1 037	+34
Carpentry	952	943	942	961	972	+21
Finishings (1)	795	765	747	749	764	–31
Roofing works	477	474	461	487	478	+2
Other (2)	607	596	574	609	626	+19
Total	**7 397**	**7 353**	**7 116**	**7 150**	**7 208**	**–189**
Grand total	**13 308**	**13 905**	**14 013**	**13 946**	**14 344**	**+1 036**

Source : NBB.
(1) Mainly including plastering, wall and floor covering work, painting and glazing.
(2) Mainly including damp-proofing, repointing, facade renovation, restoration and sub-flooring work.

secondment of foreign workers weighs heavily on the volume of domestic firms' activity, especially when working conditions for the former are less restrictive and their pay lower.

2.4 Regional perspective

This section puts the findings into a regional perspective. This analysis is compiled from a breakdown of annual accounts by the Region in which the companies are located, on the basis of data from the National Accounts Institute. The main focus is on sectoral contributions to growth in value added in each of Belgium's Regions since the 2008-2009 recession.

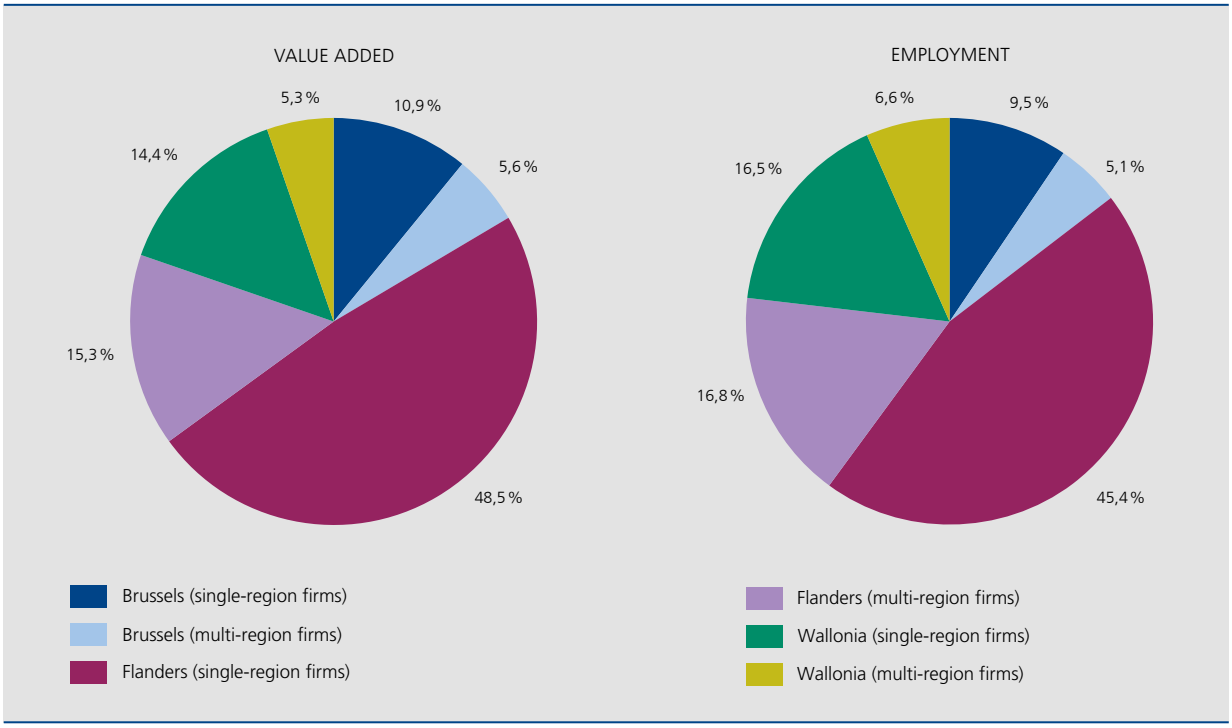
2.4.1 Regional breakdown

Single-region firms, i.e. firms whose headquarters and operating establishment(s) are located in one and the same Region, are assigned immediately to a Region. In 2014, there were 346 915 single-region firms, that is, 99.5 % of the firms studied. They are mainly (very) small entities : 60 % of them do not declare workers to the staff register, and their average value added figure is just below € 400 000.

In 2014, there were 1 854 multi-region firms, i.e. firms located in more than one Region, and 445 of them operated in all three Belgian Regions. Most of them are very large : their average value added is over € 26 million.

CHART 6 REGIONAL BREAKDOWN OF VALUE ADDED AND EMPLOYMENT IN 2015

(in %)



Source : NBB.

For these firms, the items completed in the annual accounts are broken down in proportion to the number of jobs in each Region, which is tantamount to assuming that employment is proportionate to the accounting items. Since multi-region firms account for just over one-quarter of the total value added and employment, the bulk of the regional breakdown is not affected by this assumption. It should be noted that the National Accounts Institute also uses a proportional method for compiling the regional accounts.

Chart 6 shows the regional breakdown of value added and employment obtained on the basis of these procedures. In 2015, Brussels-based companies made up 16.4 % of total value added, 10.9 % of which came from single-region firms and 5.6 % from multi-region firms. Flanders could claim 63.8 % of the total (48.5 % + 15.3 %), and Wallonia 19.7 % (14.4 % + 5.3 %). Owing to their numbers, and despite their relatively small size, single-region firms thus account for about two-thirds or more of total value added in each of the Regions. While the regional breakdown by employment gives similar results to those obtained from value added, there are still a few differences that emerge : among them, it can be seen that Wallonia's share is growing, mainly to the detriment of the Brussels-Capital Region's share, specially because of the bigger contribution of employment-intensive branches to the economy in the south of the country like retail trade and construction. Last but not least, it is worth noting that these regional shares have remained highly stable over the last ten years.

The sectoral breakdown of value added reveal some specific regional characteristics (see table 9). Owing to its metropolitan region status, Brussels is characterised by strong specialisation in the non-manufacturing branches (91 % of the regional value added), particularly in business services (including consulting, legal and accounting, IT and research services), telecommunications, real estate, and food and accommodation activities. It is also worth noting that, since many head offices are established in the capital city, part of the value added attributed to the Brussels Region is related to support activities, which may not be directly operational but are no less a contributor to the formation of companies' value added.

On the whole, Flanders' and Wallonia's sectoral structures are more similar, being marked by a much stronger manufacturing share, of around 30 %. The two Regions are nevertheless quite different in many ways. Flanders, for instance, is relatively more highly specialised in basic chemicals, (port)

TABLE 9 REGIONAL STRUCTURE OF VALUE ADDED IN 2015
(in % of the total, unless otherwise stated)

	Brussels	Flanders	Wallonia	Belgium
Manufacturing industry	**8.9**	**30.1**	**30.6**	**26.7**
of which:				
Agri-food industries	1.6	4.9	4.3	4.2
Textiles, clothing and footwear	0.1	1.2	0.3	0.9
Wood, paper and printing	0.3	1.8	1.8	1.6
Chemicals industry	2.2	5.1	3.1	4.3
Pharmaceuticals industry	0.7	2.7	6.3	3.1
Metallurgy and metalworking	0.7	4.0	4.6	3.6
Metal manufactures	2.6	5.3	5.7	4.9
Non-manufacturing branches	**91.1**	**69.9**	**69.4**	**73.3**
of which:				
Trade in motor vehicles	1.5	2.8	3.1	2.6
Wholesale trade	14.4	13.2	9.2	12.6
Retail trade	4.9	6.0	9.3	6.4
Transport and storage	10.0	8.2	5.0	7.9
Accommodation and food service activities	3.6	1.7	2.0	2.1
Information and communication	14.2	5.3	5.0	6.7
Real estate activities	5.7	2.8	2.5	3.2
Other business services	21.8	15.0	12.4	15.6
Energy. water and waste	5.9	3.9	6.2	4.7
Construction	4.2	8.2	8.3	7.6
Total	**100.0**	**100.0**	**100.0**	**100.0**
p.m. Value added total in 2015 e	*31 011*	*120 368*	*37 219*	*188 597*

Source: NBB.

logistics, industrial and raw materials wholesale trade, the automobile industry, leasing services, dredging and maritime construction. For its part, Wallonia is geared more towards pharmaceuticals and aeronautics, the glass and cement industries, as well as financial data transmission.

2.4.2 Sectoral contributions since 2007

2.4.2.1 Manufacturing industry

It is in Brussels that manufacturing value added has posted by far the highest growth since 2007 (+14.6 %). This increase is mainly related to the presence of the head office of a large chemicals concern in the capital city and, to a lesser extent, to the strong performance of a major motor vehicle manufacturer (classified under metal manufactures). The impact on the Brussels Region's economy as a whole has nevertheless remained fairly small as it is not closely geared towards industrial activity.

In Flanders and Wallonia, manufacturing value added has expanded in much more modest proportions, by respectively 5.0 and 2.7 %. In the north of the country, the most significant contribution has been made by the agri-food industry, where numerous sub-branches have posted positive results since 2007, such as fruit and vegetable processing and preserving, industrial bakeries and patisseries, breweries, the dairy industry and manufacturing of sugar and confectionery products. Flemish manufacturing activity has also been buoyed up by the chemicals (and especially basic chemicals) and pharmaceuticals industries. By contrast, the other manufacturing

TABLE 10 SECTORAL CONTRIBUTIONS TO GROWTH IN VALUE ADDED IN THE MANUFACTURING INDUSTRY, BETWEEN 2007 AND 2015

(contributions in percentage points to the total change, unless otherwise stated)

	Brussels		Flanders		Wallonia	
	Contribution	Rank	Contribution	Rank	Contribution	Rank
Agri-food industries	+2.1	3	+4.1	1	+1.9	3
Textiles, clothing and footwear	–3.5	8	–0.4	4	–0.1	6
Wood, paper and printing	–2.7	7	–0.8	6	–1.4	7
Chemicals industry	+11.1	1	+2.8	3	+0.4	4
Pharmaceuticals industry	+1.4	4	+3.3	2	+7.0	1
Metallurgy and metalworking	+0.8	6	–1.9	8	–7.8	8
Metal manufactures	+4.5	2	–1.4	7	+2.9	2
Other manufacturing branches	+0.9	5	–0.6	5	0.0	5
Total[1]	**+14.6**		**+5.0**		**+2.7**	
p.m. Manufacturing industry's share of regional value added in 2015 e, percentages	*8.9*		*30.1*		*30.6*	

Source: NBB.
(1) Percentage changes between 2007 and 2015, at current prices.

branches have made a negative contribution to growth, under the impact of factory closures or production cuts, notably in the steel sector and automobile assembly (classified under metal manufactures).

In line with the long-term trend, the pharmaceuticals industry is still by far the biggest driving force behind manufacturing sector growth in Wallonia, following a new increase in economic activity and despite a slight erosion of profit margins. The other main positive contribution in Wallonia has been provided by certain high-tech industries specialised notably in aerospace activities, but also in the production of medical devices (metal manufactures branch). Conversely, the metallurgy sector in the south of the country has been hit badly by the fallout from the 2008-2009 recession, which has in part resulted in major restructuring efforts in the steel industry.

2.4.2.2 Non-manufacturing branches

To start with, it is worth recalling that, over the long run and in all three Regions, growth in the services branches has been boosted by a tendancy among firms to outsource tasks that they regard as secondary. While the business services category has been the most affected by this phenomen, it has also become quite evident in other services too, such as logistics and distribution.

In Brussels, the expansion of non-manufacturing activities has thus been largely driven by business services, including consulting, legal, engineering, R&D, cleaning services, etc. With the exception of real estate, most of the other non-manufacturing branches have made only very minor, or even negative, contributions to the Brussels-Capital Region's growth in value added.

In Flanders and in Wallonia, business services have also been the leading contributors to non-manufacturing growth, under the impetus of the principal activities making up this branch. In comparison to Brussels, the two other Regions have nevertheless shown rather more diversified profiles, with almost all the non-manufacturing branches making a positive contribution. Moreover, Flanders and Wallonia have some of their own specific features. Flanders, for instance, still stands out for its much bigger contribution from wholesale trade, in particular in industrial and food products, as well as in machinery. The transport branch has made a more ambiguous contribution to Flemish growth, mainly because of less favourable results in maritime freight transport (within an international context of lower growth for several years now), which has been partly offset by good performance in the fields of storage and warehousing (notably liquids). Wallonia's key feature is the relatively high contribution from 'other non-manufacturing branches', which can be mainly explained

TABEL 11 SECTORAL CONTRIBUTIONS TO GROWTH IN VALUE ADDED IN THE NON-MANUFACTURING BRANCHES, BETWEEN 2007 AND 2015 (1)

(contributions in percentage points to the total change, unless otherwise stated)

	Brussels		Flanders		Wallonia	
	Contribution	Rank	Contribution	Rank	Contribution	Rank
Trade in motor vehicles	–0.3	7	+1.0	10	+1.0	7
Wholesale trade	–0.4	8	+2.6	3	+0.3	10
Retail trade	+1.2	3	+2.4	4	+3.0	3
Transport and storage	+0.1	6	+1.1	9	–1.0	11
Hotels, restaurants and catering	+0.6	5	+1.0	11	+1.2	6
Information and communication	–1.8	11	+2.3	5	+0.7	9
Real estate activities	+2.0	2	+1.9	6	+1.3	5
Business services	+10.2	1	+8.5	1	+6.8	1
Energy, water and waste	–1.1	10	+1.5	8	+0.9	8
Construction	+0.7	4	+3.3	2	+2.1	4
Other non-manufacturing branches (1)	–0.8	9	+1.9	7	+5.2	2
Total (2)	**+10.4**		**+27.4**		**+21.5**	
p.m. Non-manufacturing branches' share of regional value added in 2015 e, percentages	*91.1*		*69.9*		*69.4*	

Source: NBB.

(1) With respect to value added, the "Other non-manufacturing branches" category's principal component is auxiliary financial and insurance services (40 % of the total). The rest of the category is made up notably of cultural and artistic activities, sports and recreational activities, gambling and betting activities, and personal services such as hairdressing, beauty care and funeral services.

(2) Percentage changes between 2007 and 2015, at current prices.

by the growth of companies offering auxilliary financial services, such as international payments systems and the transmission of financial data.

3. Trends in the financial situation of firms

The financial analysis which follows is based on the theory of interpretation of the annual accounts, from which several ratios have been borrowed. They are defined in detail in Annex 4. The financial ratios are presented in the form of global figures and medians. The globalised ratios are obtained by taking the sum of the numerators of all companies and dividing it by the sum of their denominators. The globalised ratio is therefore the weighted average of each ratio at the level of each firm, whose weight represents each firm's share in the total value of the ratio's denominator. Thus, the globalised average represents the situation of the firms having the largest value in the denominator. The median is the central value in an ordered distribution where 50 % of firms have a ratio above the median and 50 % have a ratio below the median. These two measures are used in order to permit a complementary analysis. Since the averages, and hence the globalised ratio, are influenced by extreme values (outliers), the median value is important to neutralise those extremes. Also, the globalised average presents the situation from the macro- and meso-economic angle, while the median reflects the microeconomic situation.

3.1 Profitability

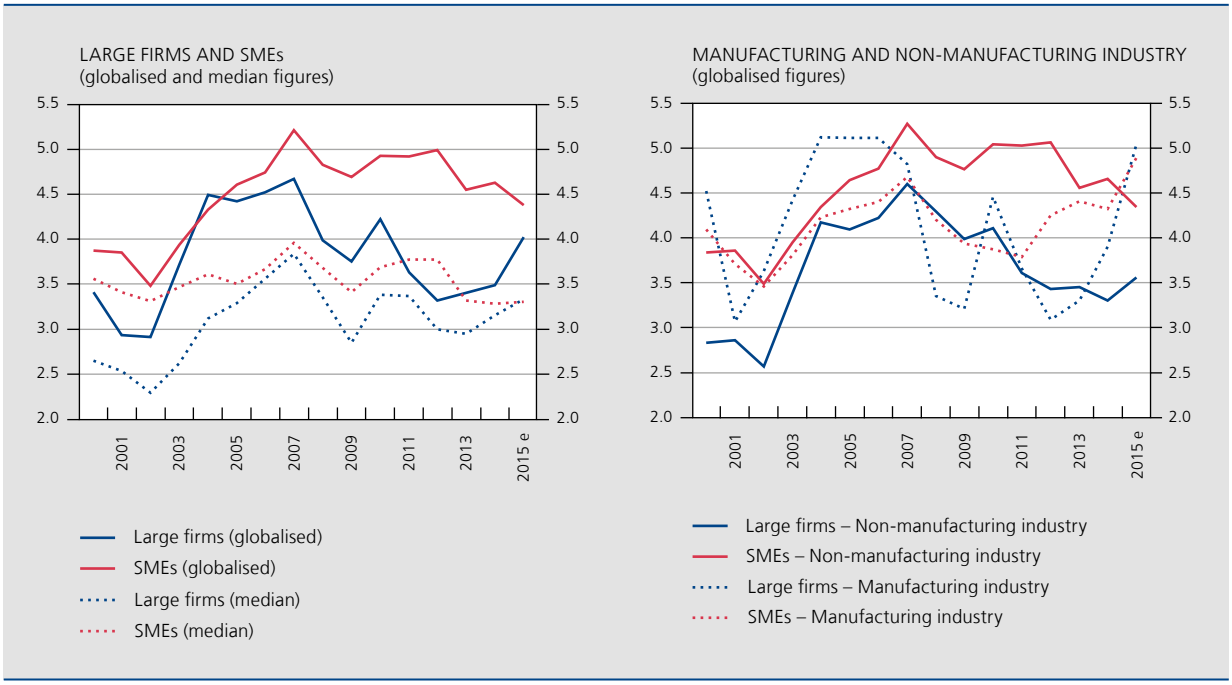
This section analyses a company's profitability in relation to sales, equity capital and the balance sheet total, as well as operating assets. It then goes on to examine the impact of the dividend policy.

3.1.1 Net margin on sales

The profitability of sales can be measured by the net margin on sales, which is equal to the ratio between

CHART 7 NET MARGIN ON SALES

(in %)



Source: NBB.

the net operating result and sales. The net margin on sales gives an idea of the firm's relative efficiency after deduction of all operating expenses including depreciation, write-downs and provisions. It gives an indication of the firm's ability to achieve a positive operating result from the proceeds of sales after deduction of all operating costs (excluding financial and exceptional items and taxes).

The net margin on sales achieved by SMEs exceeded that of large firms for almost the whole of the period, which means that SMEs get a bigger operating profit per € 100 of sales. However, the analysis only takes account of SMEs for which a net margin on sales can be calculated, that is, small and medium-sized firms whose turnover is disclosed in their annual accounts. As this item is optional in the abridged formats, fewer and fewer small firms now declare their sales revenue, which can skew the results of the analysis.

The difference between the globalised net margin on sales of SMEs and that of large firms has nevertheless narrowed over the last two years under review (2014-2015e). There are various possible reasons for this trend. The biggest industrial concerns have seen a drop in their production costs thanks to the fall in commodity prices and the depreciation of the euro against the US dollar, which marked the period running from mid-2014 to the beginning of 2015 and enabled them to improve their sales margins. By contrast, the effect of this drop in the price of raw materials has been much smaller on SMEs, which are more likely to be active in the services market. Moreover, large firms generally tend to provide more jobs, implying a relatively larger weight of the staff costs, an expense item which has risen more slowly than value added (see table 5) over the last two years (2014-2015 e). As mentioned above, the rate of growth in hourly labour costs in the total economy slowed down considerably to just 1.1 % in 2014 and 0.0 % in 2015, a result of the freeze on real conventional wage adjustments in the private sector for the third consecutive year and the suspension of index-linking [1] introduced by the government from 1 April 2015. For large firms, this relatively lower wage cost burden in 2014 and 2015 is reflected in a slight improvement in their net sales margins.

Between 2002 and 2014, non-manufacturing SMEs recorded a higher globalised net margin on sales than

(1) The index suspension or 'jump' was introduced by the government with effect from 1 April 2015. This measure consists of a freeze in the index-linking of wages in both the private sector and the public sector.

those active in the manufacturing industry. The better returns posted by non-manufacturing firms can be largely explained by much wider margins in the business services branch, where 20 % of all small and medium-sized enterprises operate. Business services encompass legal and accounting activities, management consultancy, office cleaning and security services, office administration services, architecture and engineering, travel agency activities, advertising and market research, research and development and other specialised, scientific and technological activities. The high degree of specialisation has clearly enabled this branch to obtain a higher level of profitability.

Up until the end of 2007, large firms in the manufacturing industry had posted a higher net margin on sales than those in other branches, under the impetus of chemicals, pharmaceuticals, wood, paper, metallurgy and metalworking. But as it turns out, these big industrial enterprises' net margin on sales have suffered more acutely from the downturn in the wake of the financial crisis since 2008. Sharper reductions have been registered in the branches of activity that had driven the upturn before, in view of the fact that they are particularly sensitive to cyclical fluctuations and the international environment.

According to estimates for 2015, a pick-up in the globalised net margin on sales in the manufacturing industry can be observed in large enterprises (5 %) as well as among SMEs (4.9 %). This recovery is mainly evident in refining, chemicals, pharmaceuticals, owing to the fall in commodity prices and labour cost moderation. In 2015, SMEs active in the non-manufacturing branches saw a limited decline in their globalised net margin on sales (4.3 %) under the impact of shrinking margins in business services and construction branches, even though the median firm had earned a net margin on sales in 2015 that was almost identical (3.4 %) to that recorded in 2014 (3.2 %).

3.1.2 Economic and financial profitability

In the analysis of profitability in relation to the equity capital and the balance sheet total, it is possible to distinguish between a company's economic profitability and its financial profitability. Economic profitability is measured by the ratio between the net result before tax and interest charges and total assets. In that connection, exceptional results were deliberately excluded because they are non-recurring and the analysis only concerns the net result of normal business activities. The ratio is an indicator of the firm's economic health, regardless of how it finances its business. In contrast, financial profitability takes account of the funding method and is estimated in this study by the net return on equity, which is the pre-tax profit divided by the total equity capital. This ratio therefore gives an indication of the return that shareholders receive on the firm's current activities, once again excluding exceptional results and taxes. These two profitability ratios are calculated before deduction of taxes in order to permit comparison.

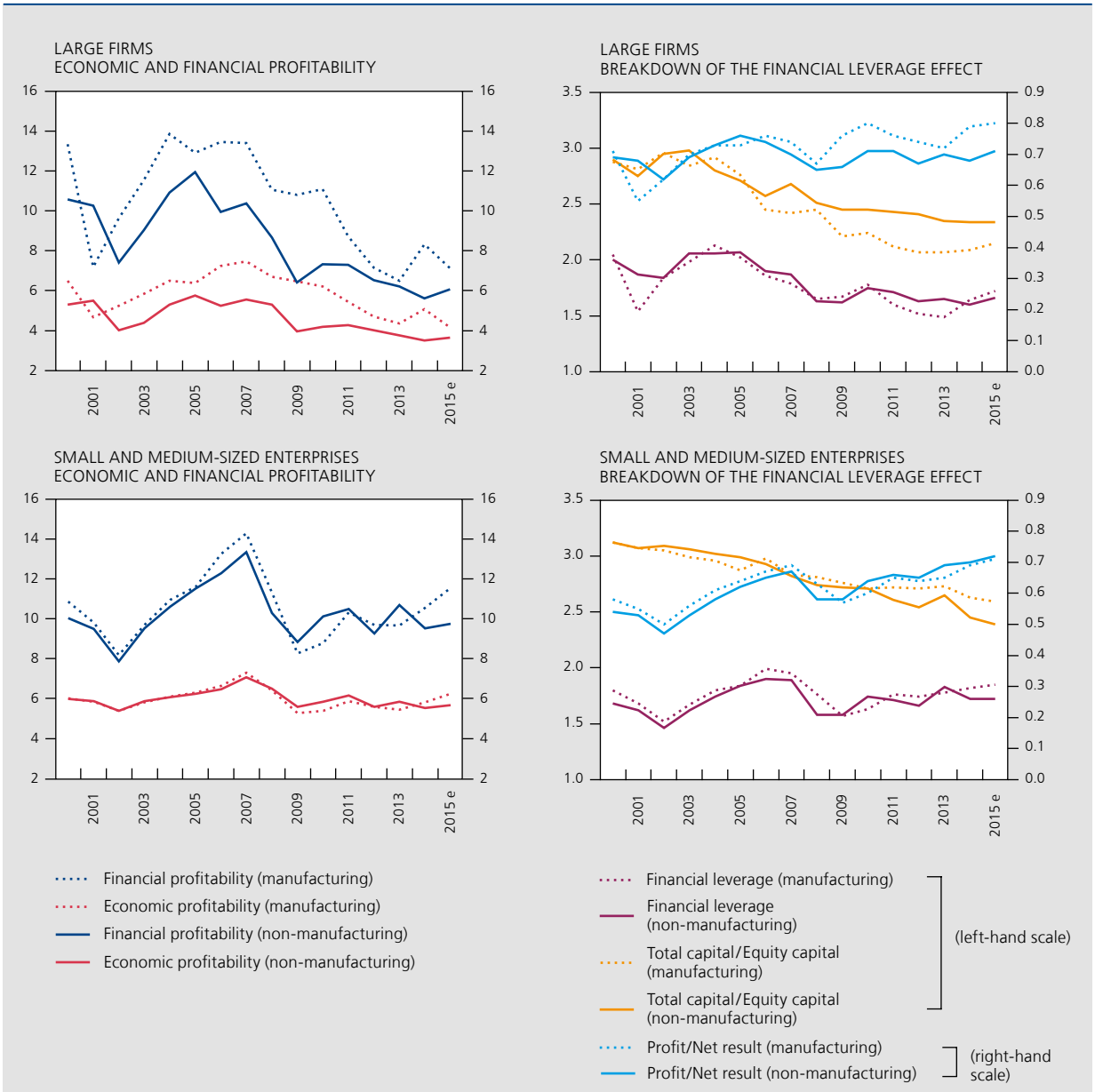
The differences between a company's economic and financial profitability can be explained by the financial leverage effect. If a firm can borrow funds at a rate lower than its economic profitability, it can boost its financial profitability. So, its financial leverage ratio is higher than 1. In other words, the company's financial profitability is therefore determined by its economic profitability multiplied by its financial leverage effect, which is influenced by the degree to which the firm is funded by borrowings, and by the associated interest rates. This concerns not only the interest charges on bank loans and bonds, but also costs associated with debts contracted from other companies in the same group and any discount charges borne by the firm from debt origination in the event of factoring.

The **globalised economic profitability** among large firms and SMEs alike has been on a downward trend since 2007. Although the biggest fall in globalised economic profitability among small firms was at the height of the financial crisis, in the years 2008-2009, it still managed to hold up well in the following years (5.7 % in 2015e). SMEs are more closely geared towards services activities, and more particularly business services, which tends to make them less sensitive to downturns in the economic cycle.

Large non-manufacturing firms have followed a similar trend, i.e. a net decline in **globalised economic profitability** over the 2008-2009 period, followed by a small dip over the next few years, principally in the energy and business services branches. This decline in energy companies' globalised economic profitability is very probably due to further liberalisation of the energy market and the introduction of energy price monitoring. The greater transparency gives residential and industrial customers alike the chance to carefully compare prices charged by different suppliers. Energy users are also turning to the many intermediaries and group-buying schemes now available. Moreover, the year 2014 was marked by a sharp drop in sales of gas owing to record high average temperatures. The deterioration of the globalised economic profitability in the field of business services is mainly evident in 2014 and 2015. In the case of 2014, the decline is largely due to one big firm that stopped lending to intra-group companies, triggering a drop in related interest income. The decline for the year 2015 is mainly due to one large firm falling under the biotechnology research and development branch

CHART 8 GLOBALISED ECONOMIC AND FINANCIAL PROFITABILITY, AND FINANCIAL LEVERAGE BY FIRM SIZE AND ACTIVITY

(in %)



Source : NBB.

that recorded a sharp increase in its R&D expenses and write-downs on licences.

Under the influence of the adverse economic climate, globalised economic profitability of **large industrial enterprises** has been on a very clear downard path post-2007. All the manufacturing industry branches lost ground between 2007 and 2013, with the biggest declines recorded in metallurgy. The impact of the lesss favourable international context has brought temporary shut-downs and even closures of production units. The agricultural and chemicals industries also posted a major drop in their economic profitability. The contraction in the chemicals industry was mainly due to volatile commodity prices and profit margins being squeezed. The return to economic growth in 2014 has led to a slight recovery of economic profitability among almost all industrial branches. However, according to estimates for 2015, globalised economic profitability is falling again for the majority of industrial branches, while the

median value is rising, the reason being that several large industries saw a big drop in their financial income from participating interests.

Chart 8 shows that **globalised financial profitability** exceeded globalised economic profitability over the whole period considered, indicating that firms – regardless of size – are able to contract debts at a rate below their economic profitability. The globalised financial profitability of SMEs recovered after 2008 thanks to a relatively constant economic profitability rate and greater financial leverage, in the manufacturing industry as in non-manufacturing. The rise in the leverage effect (up from 1.57 % in 2009 to 1.85 % in 2015 for industrial SMEs and from 1.58 % in 2009 to 1.72 % in 2015 for non-manufacturing industry SMEs) can be explained by the fact that, over the period 2009-2015e, small and medium-sized enterprises have had a very great advantage with the cost of new borrowings coming down dramatically after 2008 (right-hand part of chart 14).

The globalised financial profitability rate among **large firms** has continued to fall year-on-year in the aftermath of the financial crisis. Large industrial concerns hit their lowest point for 16 years (6.3 %) in 2013, while those in non-manufacturing reached a trough (5.7 %) in 2014. This falling profitability is attributable, on the one hand, to economic profitability running out of steam and, on the other hand, to a drop in the financial leverage effect just after the financial crisis. From 2009, the financial leverage effect has continued to fluctuate between 1.6 and 1.7 %.

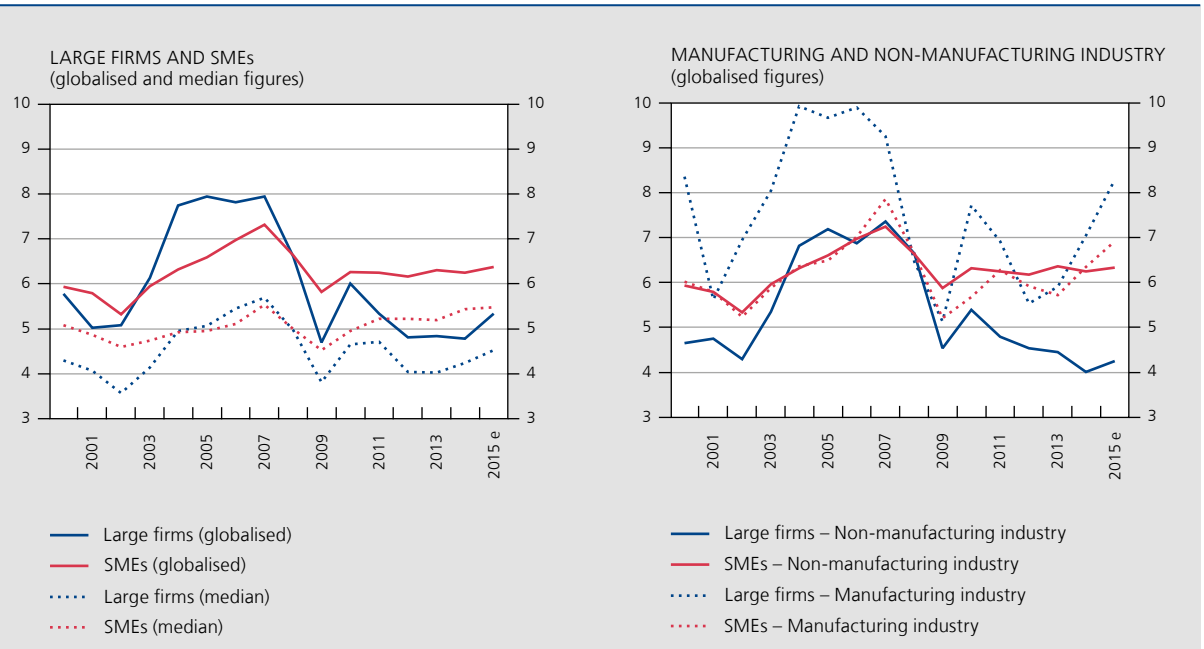
The lower level of the leverage multiplier among large industrial enterprises compared with those in non-manufacturing branches – especially from 2010 to 2014 – stems mainly from a difference in method of funding their respective activities. While large industrial concerns have tended to use their own equity, funding for non-industrial activities has come more from borrowed capital.

3.1.3 Net return on operating assets

While the estimates for net margins on sales of large industrial firms point to a further increase in globalised terms in 2015 (see chart 7), the same could not be said for globalised economic profitability (see chart 8). The fact that these two profitability indicators followed divergent trends in 2015 is mainly due to the decline in financial income earned from 'shares in associate companies'. Besides their core activities, large industrial concerns also manage stakeholdings in companies of the same group, from which they earn 'financial income from participating interests'. In 2015, this revenue fell back for large industrial firms, pushing down their estimated globalised economic profitability.

CHART 9 NET RETURN ON OPERATING ASSETS

(in %)



Source : NBB.

In order to exclude the financial impact of stakeholdings of entities in the same group and the resultant income, it is worth looking at the trend in an additional profitability ratio, namely the net return on operating assets. This is the ratio of net operating result to operating assets – defined as the sum of non-financial fixed assets, inventories, receivables at less than one year and adjustment accounts. The items on the assets side of the balance sheet that have not yet been mentioned (financial fixed assets, amounts receivable after one year, cash and cash equivalents) are not recorded in the ratio's denominator as they are regarded as a type of financial asset. This profitability ratio therefore expresses the company's commercial performance relative to the balance sheet items that are directly influenced by its day-to-day operations.

The globalised net return on operating assets of large firms recovered in 2015e, especially among large industrial firms operating in the chemicals sector, in metallurgy and metalworking, as well as in refining. The main explanation is the falling cost of raw materials purchases (natural gas and oil, naptha, iron ore, coking coal, pellets, etc.), which helped cut production costs considerably and boost operating results.

Globalised economic profitability and globalised net returns on operating assets follow almost identical trends, regardless of the size and activity of the firms. There are still some divergences to point up, especially as regards large enterprises operating in the manufacturing industry. The fact that these two profitability ratios are on divergent trajectories is notably because of trends in financial income from "stakeholdings in subsidiaries or in associate companies".

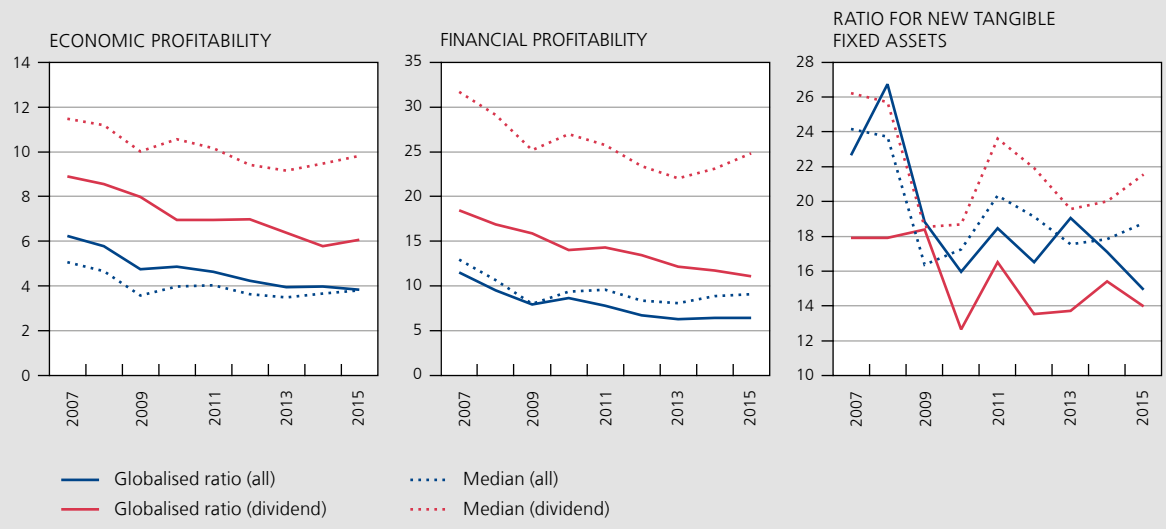
3.1.4 Dividend policy

Estimates suggest that the profitability of Belgian companies improved marginally in 2015, but the globalised investment rate (see chart 3) does not seem to have kept pace. Yet, investment is an important factor for potential growth of companies and for the Belgian economy to get back on track to a sustainable recovery in the long term. The combination of weak investment and strong balance sheets can help firms to free up the necessary margin to be able to continue paying out substantial dividends, when it is precisely extra investment that is needed to secure the future. This argument is examined below.

Out of the population analysed before, only large enterprises that filed annual accounts for a twelve-month accounting period over the period running from 2007 to 2015 and paid out a dividend during the course of the financial year in question are taken into consideration. In this section, figures for the 2015 financial year are not estimated on the basis of a constant sample, as is the case in the rest of the study. For 2015, only annual accounts covering a twelve-month accounting period that

CHART 10 GLOBALISED AND MEDIAN RATIOS FOR ALL LARGE FIRMS AND FOR ALL LARGE DIVIDEND-PAYING FIRMS

(in %)



Source : NBB.

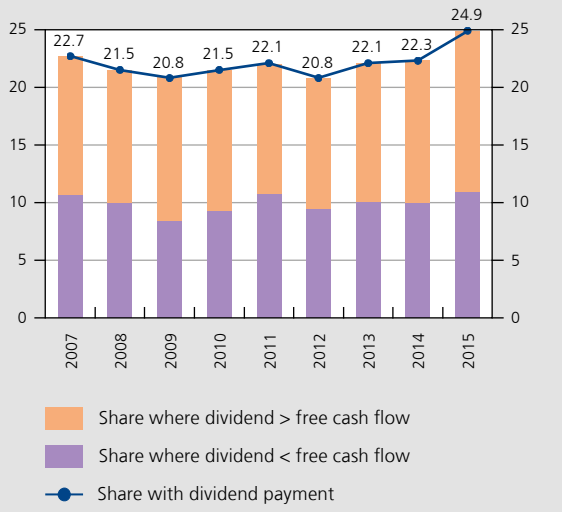
were available from the Central Balance Sheet Office as at 10 September 2016 are taken into account. This methodology can skew the figures a bit since it is largely the best-performing firms that file annual accounts on time. In other words, it is possible that profitable firms are over-represented in the research sample for the year 2015.

On average, 22 % of all large firms pay out a dividend. It seems to be the big energy companies that offer profit shares the most frequently. In addition, big enterprises operating in the motor vehicle trade, the food industry and metal manufactures distribute a dividend on a regular basis. The share of the big dividend-paying companies only dropped back very marginally during the financial crisis (see chart 11). This proportion has meanwhile recovered and increased. It seems that large firms that issue profit shares tend to show a relatively better economic and financial profitability rate, in both globalised and median rates (see chart 10). This means that it is above all firms that are in an economically sound position that pay out dividends. Moreover, the big dividend-paying enterprises generally tend to have a weaker globalised investment rate, under the influence of the big energy companies. In fact, not only do these energy companies pay out a dividend more frequently, but they also account for a larger share in the globalised investment rate owing to the important size of their tangible fixed assets, while these companies renew their tangible fixed assets less rapidly (see Annex 2). When the energy companies are left out of the calculation of the globalised investment rate, this ratio appears to be higher for the 'dividend-paying enterprises' group. The investment rates of median firms confirm that many of the dividend-paying enterprises have a higher investment rate.

More than one-fifth of all large firms offer profit shares, but it remains to be seen to what extent their financial situation can afford to do so. The amount of available free cash flow is of importance here. This refers to the financial resources remaining once the company has paid all operational costs and its investments, or in other words, the margin that a company may have to pay interest due on its debts, to repay loans, to release extra cash or to make dividend payments, for example. When a company pays out more in dividends than its available cash flow, this means it is having to dip into its liquid assets or borrow to be able to do so. This kind of situation is nevertheless not sustainable in the long term. Between 2007 and 2015, on average 45 % of dividend-paying firms granted each year a profit share of more than their available free cash flow (see chart 11). Can it be inferred from this that these companies prefer to honour their commitments towards their shareholders rather than following a stable forward investment policy?

CHART 11 BREAKDOWN OF THE SHARE OF DIVIDEND-PAYING FIRMS

(in %)



Source: NBB.

Medians are calculated because outliers tend to skew the globalised averages and it is not easy to interpret aggregate cash flow figures[1]. Referring to the population of large dividend-paying firms[2], chart 12 gives the medians for different categories of cash flow in annual figures over the period from 2007-2015. These medians make up a fictitious median company, known as firm 1. The same calculations have been made for the sub-population of "firms paying out dividends higher than available free cash flow", giving median firm 2 that can be seen in the right-hand part of chart 12. It should be pointed out that the medians for the cash-flow variables within the fictitious median entities cannot be inferred from one another. In other words, unlike the situation at firm level, the median for available cash flow does not tally perfectly with the difference between the median for operating cash flow and that for investment cash flow. The figures for both median firms are shown in Annex 5. Judging by their balance sheet total, they are both comparable in size.

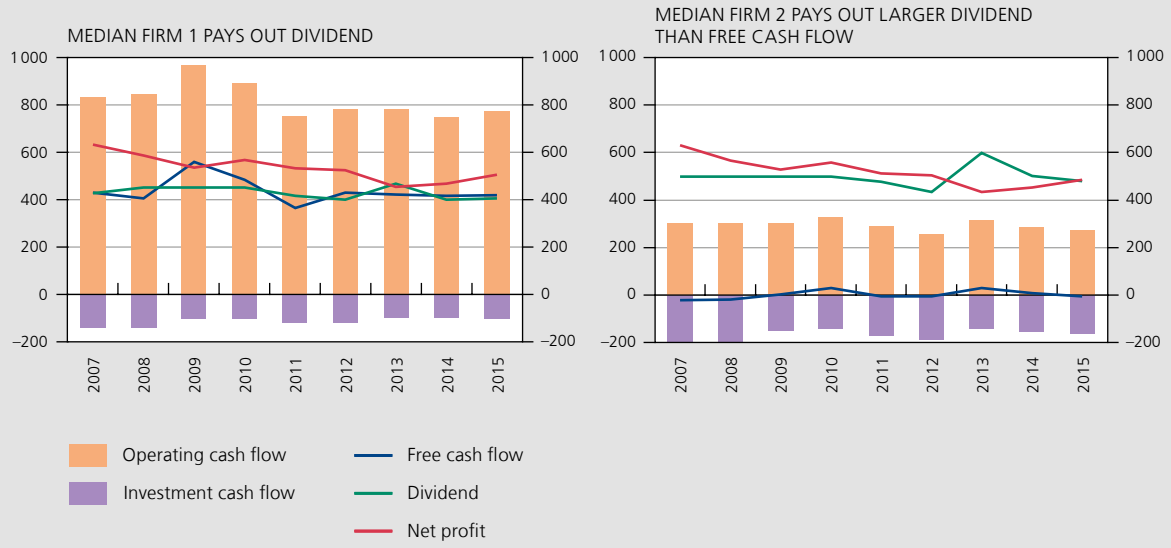
A company's operating cash flow represents incomings and outgoing relating to its normal business activity. It corresponds to the net profit adjusted for non-cash expenses and changes in working capital. For example, working

(1) Companies' working capital fluctuates greatly from one accounting year to another because of changes in their inventories, trade receivables, trade payables and provisions. It is therefore not advisable to add up all these cash flows owing to the risk of seeing the positive values qualified by negative values and vice versa, which complicates interpretation of the data.

(2) This refers to all large firms that pay out dividends, regardless of the amount.

CHART 12 CHANGES IN CASH FLOW, DIVIDENDS AND NET PROFIT OF THE MEDIAN DIVIDEND-PAYING FIRM AND THE MEDIAN FIRM WHOSE DIVIDENDS EXCEED THE FREE CASH FLOW

(in € thousand)



Source: NBB.

capital changes when the total amount of trade receivables increases at the end of the accounting year, which means that the company's customers are its debtors. The company has not actually received these funds but they are included in the net profits via the turnover figures and therefore have to be deducted from the operating cash flow.

Chart 12 shows that median firm 2 – which distributes dividends worth more than its available free cash flow – has a lower operating cash flow, even though it made a net profit similar to that earned by median firm 1. This can be explained by sharp changes in its working capital. The investment cash flow – essentially outgoing cash flows together with investment made during the accounting year – is similar in the two median firms, or even slightly higher in the case of median firm 2. This suggests that the two firms spend similar sums on buying new machinery or on other investment for the company.

The free cash flow is equal to the difference between the operating and investment cash flow. It represents the financial resources that are left after the firm has incurred all operating expenses and investment. Since median firm 2's operating cash flow is less than median firm 1's for identical investment expenditure, median firm 2 had a smaller available free cash flow. However, this firm decides to pay out exactly the same amount in dividends because its profit is the same. The figures (see Annex 5) make it possible to deduce that, in order to do so, median firm 2 will have to dip into part of its cash assets. A problem could of course arise if that were to happen year after year.

Among the population of large firms that paid out dividends in 2014 (4 778 entities), 44.6 % (2 131 entities) distributed a profit share exceeding the available free cash flow. 562 of them did so in 2013, too. 191 firms allocated a profit share exceeding the available free cash flow for three consecutive years (from 2012 to 2014). 87 enterprises pursued such a dividend policy for four years in a row, 34 of them for five consecutive years, 16 for 6 years running and 10 did so for seven years. In the cases of all these sub-populations, median values have been calculated for certain categories of cash flow, economic profitability, the investment rate and the balance sheet total (see table 12). Companies that pay out more in dividends than their available free cash flow for up to four consecutive years tend to be those that enjoy good economic profitability (i.e. exceeding the median value of 4 % of all large enterprises active in 2014) and have a sufficiently high investment rate (exceeding the median value of 18 % of all large firms active in 2014). Yet, it may still prove necessary to assume financial debts to cover part of their dividends. Companies that pursue such a dividend distribution policy for more than four years in a row tend to be less economically viable, less likely to replace their tangible fixed assets and are more likely to resort to taking

TABLE 12 MEDIAN VALUES FOR SUB-POPULATIONS DISTRIBUTING DIVIDENDS EXCEEDING THE FREE CASH FLOW FOR ONE OR MORE CONSECUTIVE YEARS

	1 year	2 year	3 year	4 year	5 year	6 year	7 year
Number of firms concerned	2 131	562	191	87	34	16	10
Median values (in %)							
Economic profitability	8.56	8.14	6.31	4.78	4.06	2.30	2.30
Investment rate for new tangible fixed assets	26.34	31.02	22.69	21.28	12.61	12.81	12.13
Median values in euros							
Balance sheet total	8 189 067	10 023 145	17 015 715	36 104 333	118 025 481	202 710 706	346 756 865
Net profit	453 635	558 650	713 972	986 406	1 378 260	3 197 467	5 125 449
Operating cash flow	285 629	448 614	809 289	1 828 997	3 564 816	6 506 576	16 112 182
Investment cash flow	–151 876	–248 461	–782 263	–1.824 367	–5 639 411	–12 566 390	–19 480 799
Free cash flow	9 660	25 380	–24 155	–335 829	–1 763 005	–6 059 291	–6 059 291
Dividends	550 000	530 418	753 137	1 000 500	1 025 250	998 544	490 532
Change in cash equivalents	–50 681	–34 144	–5 258	–89	–11 380	–11 375	–858 504
Change in financial debts	0	0	76 666	606 199	2 785 388	9 736 018	9 736 018

Source : NBB.

on financial debts to be able to pay out their dividends. The number of firms in such a situation is very small.

Companies seem to be able to remunerate their shareholders without hurting their economc profitability or their investment rate unless they pay out dividends exceeding their available free cash flow and this for more than four years in a row.

3.2 Solvency

The main aim of the solvency ratios is to see the extent to which the firm can meet its financial liabilities, i.e. its interest charges and debt repayments. These ratios play a crucial role in the In-house Credit Assessment System (ICAS)[1], which the NBB has officially applied since 2013 to firms reporting under the international financial reporting standards (IFRS), and since 2015 to BE GAAP entities. The ratios play also an important role in the financial health model included in the Central Balance Sheet Office company file.

3.2.1 Degree of financial independence

The main measurement of solvency is the firm's degree of financial independence, which is the ratio between the equity and the total assets. The greater the financial independence, the lower the firm's debt ratio and the larger the buffer – comprising equity capital – for repaying the creditors. The degree of financial independence measures the robustness of the firm's capital structure.

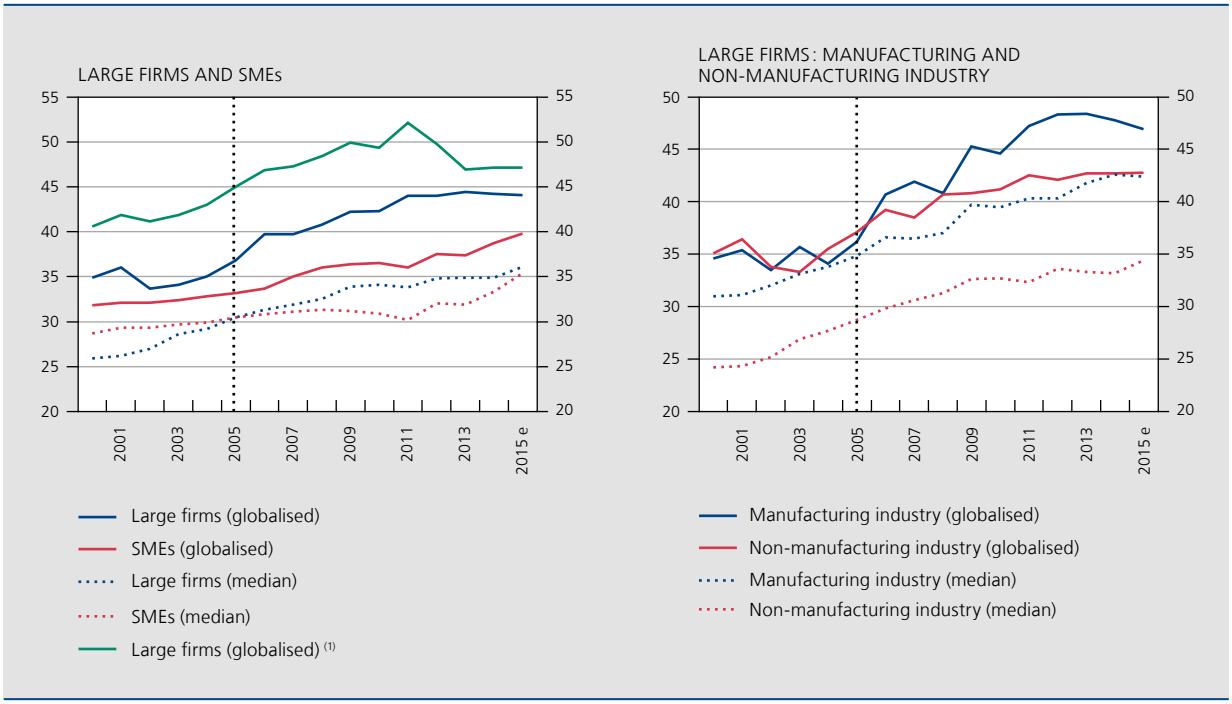
Companies with a high degree of financial independence will generally pay lower interest charges on their debts (because the risk is lower), which will leave them with a larger buffer for investment or for the distribution of dividends. When they need to raise extra funds, firms with greater financial independence will also find it easier to obtain a bank loan or to raise finance on the capital market.

Large firms tend to have a higher degree of financial independence than SMEs, especially in globalised terms. This means that large companies finance a bigger proportion of their balance sheet total from their equity capital. Since the introduction in 2005 of the tax allowance for risk capital – also referred to as the notional interest deduction –, the gap between the degree of financial independence of large firms and that of SMEs is widening with each passing year. This scheme has attracted vast amounts of foreign capital to Belgium, which has largely favoured big firms and has considerably boosted their degree of financial independence. The biggest inflow of foreign capital has been observed in the "head office activities" branch, which is not included in the population under review. By way of example, the development of the globalised

(1) The ICAS system is an instrument for analysing the credit quality of Belgian non-financial corporations in the context of the Eurosystem's monetary policy.

CHART 13 DEGREE OF FINANCIAL INDEPENDENCE

(in %)



Source : NBB.

(1) Including the "head office activities" branch.

degree of financial independence of large firms including this branch of activity is presented in the left-hand part of chart 13. Large industrial concerns have registered a stronger increase in their globalised degree of financial independence than large enterprises operating in the non-manufacturing industry, probably because several of the biggest industries have meanwhile started to take on additional coordinating tasks, on top of their main industrial production activity, assuming the role of financial centre for the group, another consequence of the introduction of the tax allowance scheme for risk capital. As a result of this trend, a lot more of the group's foreign capital has been transferred to Belgium. From 2012, however, the trend has stagnated among large firms owing to the drop in the notional interest deduction rate over time[1]. Among the big industries, the globalised ratio has even been in decline since 2014, having been influenced by a few big industrial firms that have increased their participating interests thanks to intra-group loans. On the SMEs' side, the degree of financial independence continues to

(1) The notional interest deduction rate has fallen in the last few years, on the one hand, because the basic allowance deduction has come down every year since the 2011 tax year (more precisely, to 1.131 % for the 2017 tax year compared with 4.473 % in 2010) and, on the other hand, because since the 2013 tax year, it has no longer been possible for companies to carry over to a later year interest payments exceeding the tax base. The basic rate of notional interest deduction is fixed on the basis of the yield on ten-year linear bonds (OLO) issued by the Belgian State.

TABLE 13 NOTIONAL INTEREST DEDUCTION RATES

(in %)

Tax year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Basic rate	3.781	4.307	4.473	3.800	3.425	3.000	2.742	2.630	1.630	1.131
Higher rate for SMEs	4.281	4.807	4.973	4.300	3.925	3.500	3.242	3.130	2.130	1.631

Source : FPS Economy.

progress slowly but surely: here too, the attraction of the tax allowance for risk capital, which gives small firms a better rate, comes into play (see table 9). In 2015, the estimated globalised average degree of financial independence of large firms remained more or less stable, at 44.1 %, while the globalised ratio for SMEs has continued to rise, reaching 39.8 %.

3.2.2 Interest charges and net financial indebtedness ratio

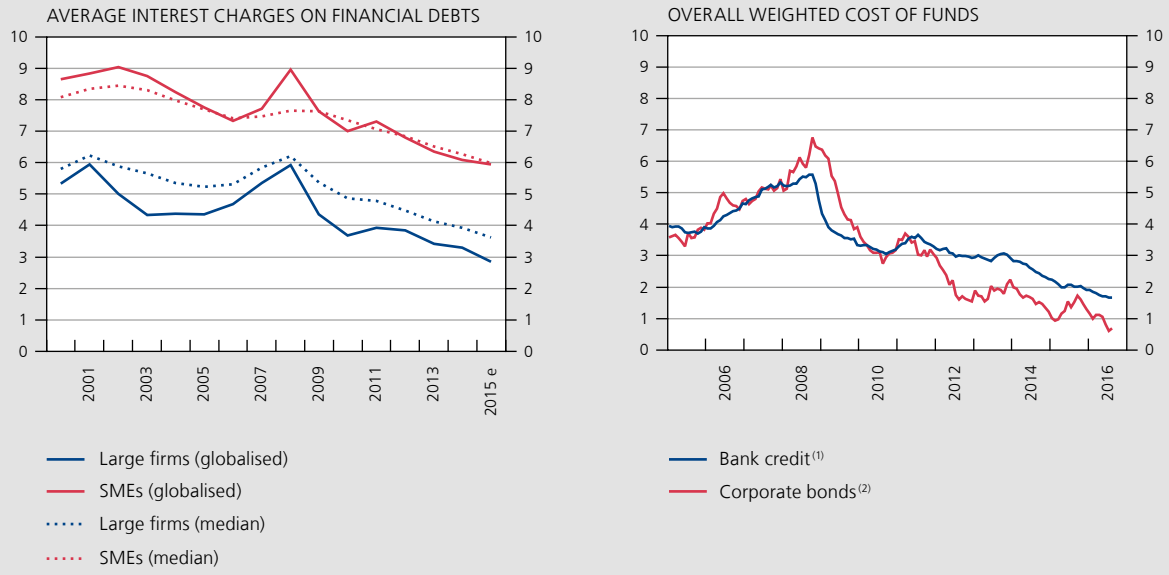
A company's solvency position can be estimated by combining the dependence of the company on financial debts to fund its assets – gauged by the net financial indebtedness ratio – and interest charges.

Interest charges measure the weight of the costs borne by a company in terms of interest due on its financial debts in proportion to the sum of its financial debts contracted in both the short and long term. As SMEs do not mention separately the interest charges due on financial debts, the numerator is higher in their case and incorporates all financial costs. Apart from interest charges, exchange rate costs and any reductions granted for cash payments from clients are also counted here, for example. A low ratio means that the firm can take on financial debts at favourable conditions. Falling interest charges year on year can be partly attributable to loan refinancing to obtain better interest rates. A ratio that goes up over the years under the impact of a rise in interest charges can also imply that the firm has to pay a higher risk premium in order to take on extra financial debts. This latter case may be a sign of potential credit problems.

In 2008, average interest charges peaked for large firms and SMEs alike, before dropping back and hitting a floor in 2015 (according to estimates, the globalised averages came to respectively 2.8 and 5.9 % for large firms and SMEs). The almost constant decline in interest charges for all firms regardless of their size shows a similar trend to that for weighted average costs that Belgian banks charge on new loans they grant to businesses, or that for corporate bond yields (right-hand side of chart 14). In 2015, the cost of bank credit (especially long-term loans) continued to decline gradually thanks to the particularly accommodating stance that the Eurosystem has given to its monetary policy once again through a raft of measures such as forward guidance[1]

(1) Forward guidance is a policy instrument that central banks use to give an indication of future movements in their key interest rates. It is assumed that a set policy line (i.e. keeping key interest rates at their current low levels) will be pursued as long as certain conditions are met. The objective is to encourage financial institutions to grant loans to borrowers on better conditions.

CHART 14 FINANCING COSTS
(in %)



Sources: Thomson Reuters Datastream, NBB.
(1) Weighted average rate charged by Belgian banks on new loans to businesses. The weighting is based on amounts outstanding for the various types of credit.
(2) Yield of an index of euro-denominated bonds issued by Belgian non-financial corporations, with maturities of longer then one year and a rating higher than Baa. Index weighted by outstanding amounts.

and the expanded asset purchase programme. Considering globalised figures as well as the median, average interest charges are higher for SMEs than for large enterprises. This can be largely explained by the method of calculation, since the numerator of the ratio for SMEs covers a wider concept than that for large firms (see above). But there are other explanations, too: SMEs' higher credit risk (see chart 17) for which they incur a higher risk premium, as well as the fact that SMEs are assumed to have less frequent access to group financing with lower interest charges, unlike large firms, that often use this option.

The net financial indebtedness ratio calculates the relationship between a company's net financial debt and balance sheet total. The numerator is obtained by adding up all the short- and long-term financial debts the firm has contracted and working out cash equivalents from [1] it. Financial debts include not just all bank loans, but also bond issues, leasing debts, subordinated loans [2], intra-group loans or loans through factoring [3]. A low ratio is an indication of a cautious external financing policy that will help the company to attract external funds more easily in the future. The higher the ratio, the harder it will be for a company to contract additional loans, without having to pay higher borrowing costs. If the ratio rises constantly over time, this shows that the company is permanently financing its day-to-day business by contracting new loans from lenders instead of self-financing.

(1) Cash equivalents refer to disposable assets and short-term financial investments.
(2) Subordinated loans are unsecured credits and can ony be repaid after other debts.
(3) Factoring enables a company to obtain a loan based on outstanding customer liabilities.

CHART 15 BREAKDOWN OF THE NET FINANCIAL INDEBTEDNESS RATIO
(in %)

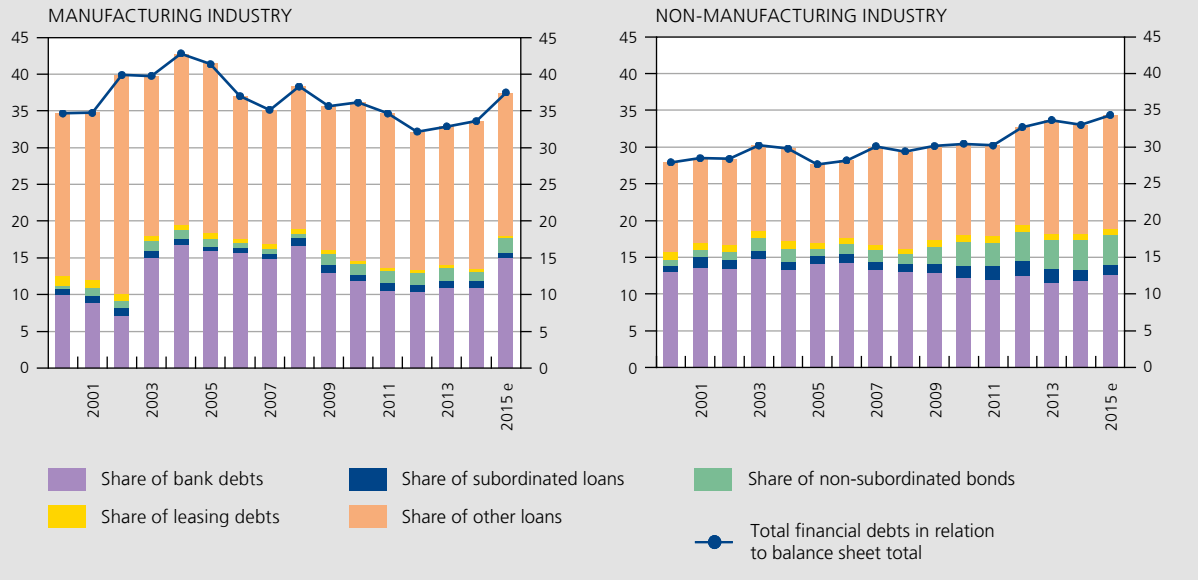
Source: NBB.

While the globalised net financial debt ratio for large firms has been relatively stable over the period under review (2000-2015), the ratio for smaller firms has come down. Between 2000 and 2007, the globalised ratio for SMEs dropped, as they have boosted the proportion of their cash equivalents in the balance sheet total over time (from 12 % in 2000 to 16 % in 2007). There may, however, be another explanation for the post- financial-crisis period, in that SMEs have reduced the share of their financial debt in the balance sheet total (from 30 % in 2007 to 27 % in 2015) and financed more of their operational activities from their own funds (see chart 13). The median value of the net financial debt ratio even dipped into negative territory between 2014 and 2015, indicating that a lot of small and medium-sized enterprises can pay off their financial debts from their cash equivalents. The globalised net financial indebtedness ratio for large enterprises (24 % on average between 2000 and 2015) is higher than that for SMEs (15 % on average between 2000 and 2015), even though both types of company finance roughly 30 % of their balance sheet total from financial debts. The difference lies in the ratio of cash resources to the size of the balance sheet. SMEs have relatively more disposable assets and short-term financial investments. Constituting such reserves may be a sign of less easy access to new borrowings to meet their growing (and unplanned) needs in terms of working capital, to cover current expenses like paying wages and purchasing raw materials, or even to finance future investment.

Large industrial concerns tend to have a higher net financial indebtedness ratio than large firms in non-manufacturing branches, given that they have relatively fewer cash equivalents (see chart 15) and they finance a larger part of their balance sheet total through financial debts. These are mainly "other loans" (see chart 16), essentially intra-group loans. From 2005 onwards, their net financial indebtedness ratio has been falling, as they have less and less recourse to bank loans, having been able to attract more foreign capital to Belgium via the tax allowance for risk capital scheme. The estimate for the year 2015 nevertheless points to a rise in the globalised net financial indebtedness ratio for large industrial firms while the median value continues to drop back (see chart 15). This can be largely explained by one very big pharmaceuticals company setting up a subsidiary financed, on the one hand, by mobilising available cash equivalents and, on the other hand, by contracting additional bank debts, thanks to the drop in borrowing costs in 2015 (see right-hand side of chart 14).

Chart 16 shows that large enterprises do not just use bank loans for their external funding, but are increasingly resorting to "other loans" (in other words, getting loans from companies within the same group). After the financial crisis, they have also been seeking alternative routes by issuing corporate bonds, the main issuers being companies from the non-manufacturing branches. Some of the

CHART 16 BREAKDOWN OF LARGE FIRMS' FINANCIAL DEBT BURDEN IN RELATION TO THEIR TOTAL BALANCE SHEET
(in %)



Source : NBB.

TABLE 14 GLOBALISED NET FINANCIAL INDEBTEDNESS RATIO OF LARGE FIRMS BY BRANCH OF ACTIVITY

(in %)

	Net financial indebtedness ratio				Share in the balance sheet total in 2015[e]
	2012	2013	2014	2015 r	
Manufacturing industry	**25.5**	**26.1**	**26.0**	**29.1**	**32**
of which :					
Agri-food industries	36.7	35.2	33.9	32.6	5
Textiles, clothing and footwear	20.5	15.4	12.5	12.0	0
Wood, paper and printing	23.6	37.5	35.4	27.2	1
Chemicals industry	29.2	28.5	31.7	27.3	8
Pharmaceuticals industry	–4.3	0.0	–8.4	5.0	4
Metallurgy and metalworking	24.4	23.6	21.8	19.7	2
Metal manufactures	10.1	8.6	9.8	10.2	4
Non-manufacturing branches	**23.9**	**25.2**	**24.5**	**24.5**	**68**
of which :					
Trade in motor vehicles	14.5	11.9	12.9	11.6	2
Wholesale trade	15.3	13.2	12.2	11.7	11
Retail trade	20.8	20.0	19.0	17.9	3
Transport and storage	16.7	17.0	18.8	18.6	7
Hotels, restaurants and catering	22.2	21.9	23.2	26.3	1
Information and communication	31.1	33.1	32.3	32.1	4
Real estate activities	38.6	40.4	40.9	41.5	6
Business services	18.4	15.1	13.3	13.7	11
Energy, water and waste	30.1	30.4	30.4	33.8	13
Construction	16.7	18.5	17.6	22.1	4
Total	**24.4**	**25.5**	**25.0**	**26.0**	**100**

Source : NBB.

electricity sector heavyweights, as well as large telecommunications companies, retail chains and pharmaceuticals companies are making wide use of corporate bonds.

Table 14 reveals that the pharmaceuticals industry has the lowest globalised net financial indebtedness ratio, even posting a negative figure for the years 2012 and 2014. This negative ratio is a good indication that pharmaceuticals companies are in a position to repay their financial debts immediately from their cash flow, which is hardly surprising when they generate such huge funds and considering that this sector is renowned for its moderate debt ratio. The increase in the estimated ratio for 2015 comes from cash equivalents disbursed and – as mentioned above – additional financial debts contracted by a big pharmaceuticals company to establish a subsidiary. This movement largely determines the rise in the ratio for the sector as a whole. Metal manufacturers, wholesale traders and vehicle traders (respectively 10.2 %, 11.7 % and 11.6 % in 2015) also tend to have a modest net financial indebtedness ratio, given that they take on relatively less financial debt and have more cash assets.

The globalised net financial indebtedness ratio remains high in the real estate activities branch, as companies operating in this sector are characterised by a relatively high financial debt ratio of 48.5 % on average over the period 2012–2015, while it came to 32 % on average for a large firm over the same period.

Among the industrial branches, the chemicals and agri-food industries have the heaviest debt ratio in relation to

their balance sheet total. In the chemicals industry, the weakening of the estimated globalised net financial indebtedness ratio in 2015 is above all due to the increasing proportion of cash equivalents in the size of the balance sheet. The rise in these reserves may reflect implementation of future investment or potentially growing requirements for working capital in the chemicals industry. As for the agri-food industry, the drop in the globalised ratio stems from a reduction in the weight of financial debts in the balance sheet total. Taken as a whole, the manufacturing industry nevertheless shows some increase in the estimated globalised ratio for 2015, mainly attributable to the rising movement in the pharmaceuticals industry (see above).

In terms of balance sheet total, the main non-manufacturing branches recorded varying trends in 2015, so that the globalised ratio for the whole sector has remained constant. The globalised net financial indebtedness ratio for the "energy, water and waste" branch was up, as a major gas and electricity supplier had to dip into its cash assets to pay out a very high dividend. In the wholesale trade, a slight drop in the ratio was observed owing to some relative strengthening of cash assets within the branch. The globalised net financial indebtedness ratio estimated for the construction sector increased in 2015, because a big underwater pipeline construction firm had acquired a majority stake that was largely financed through intra-group loans.

3.3 Credit risk

In 2015, the ECB approved the Bank's In-house Credit Assessment System (ICAS)[1], which is now used to assess the credit quality of Belgian non-financial corporations in the context of the Eurosystem's monetary policy. This credit quality is a measure of the default risk. A risk indicator can be calculated for each branch of activity. Chart 17 illustrates changes in the quartiles (first quartile, median and last quartile) of the sectoral credit risk for SMEs and large firms. The quarterly data show the changes from mid-2012 up to the third quarter of 2016. The higher the upper (third quartile) and lower (first quartile) lines, the higher the estimated credit risk.

The chart leads to the conclusion that the default risk is more widely dispersed, and therefore bigger, among SMEs than for large firms. It is also possible to deduce that large firms operating in the pharmaceuticals industry had the lowest credit risk over the period 2012-2016, and that the third quartile has risen in 2016 despite the median remaining very low. As there are only a few very big companies in the pharmaceuticals industry population[2], the higher figure for the third quartile for 2016 is not a cause for concern. The probability of default over the next twelve months is still minute in this branch of activity. Similarly, in chemicals, the food industry and the 'energy, water and waste' branch, the credit risk of large firms is relatively low. Firms in the hotels, restaurants and catering sector have a fairly high default risk. For SMEs, the probability of default came down in 2015. According to the latest data, the credit risk has remained moderate during the first three quarters of 2016.

The above findings drawn on the basis of the trend in the credit risk broadly confirm the results of the ratio analysis discussed in the preceding sections. Thus, the higher rate of self-financing in large firms suggests that their credit risk is lower, and chart 17 confirms that. The observation that large firms in the pharmaceuticals and metalworking industries make less use of financial debts to fund their activities also implies that those firms have a lower credit risk. Another point worth noting is that, in order to calculate the credit risk indicator, several ratios are combined and in some cases they are even supplemented by expert analysis. Unlike the ratios, which are calculated solely from the annual accounts, the risk indicator is also available for more recent periods, implying a significant advantage for this indicator and making it possible to enhance traditional analysis.

Conclusion

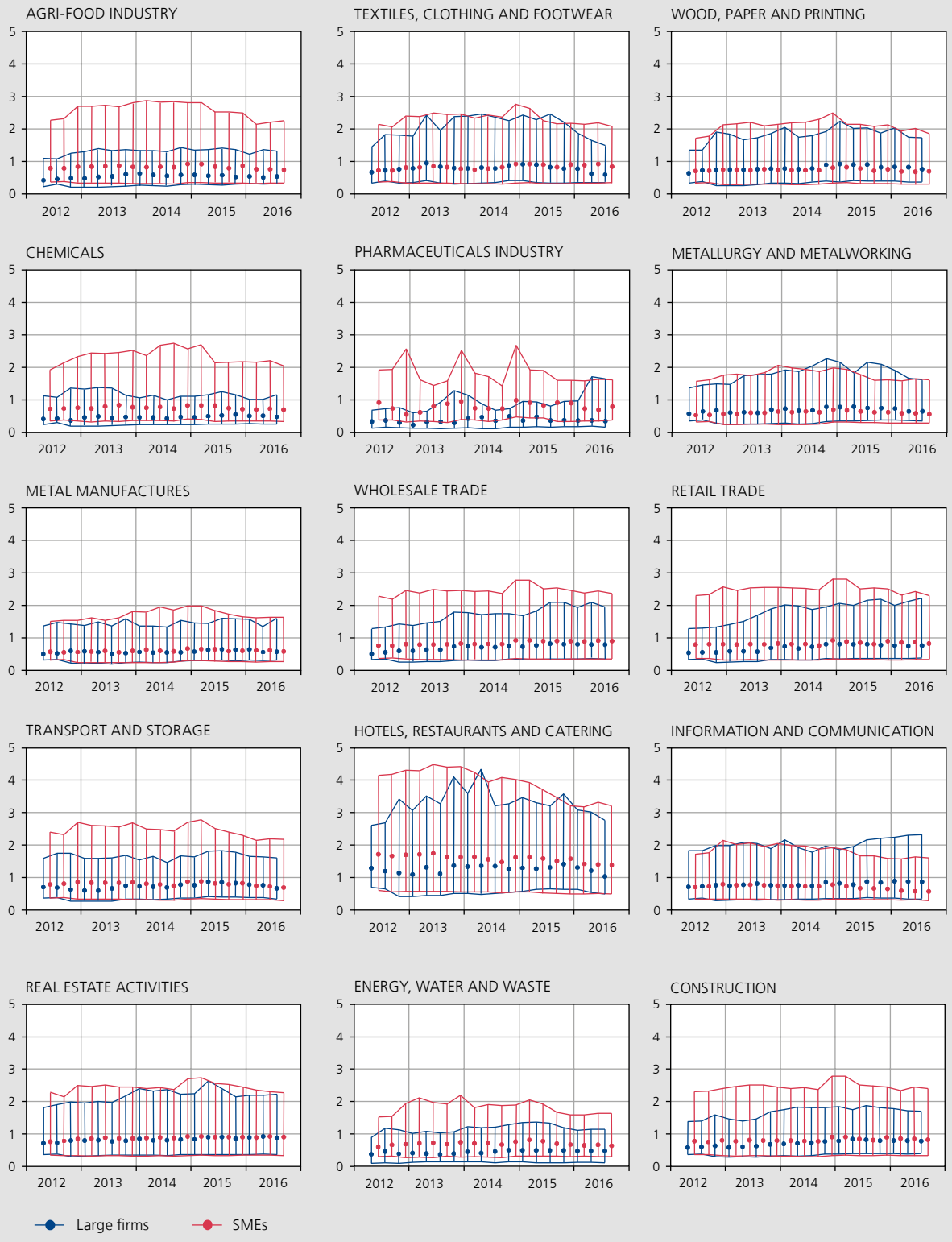
In 2015, the Belgian economy, just like its euro area counterparts, enjoyed a relatively favourable context, reflected by a 3.9 % rate of growth in total value added for non-financial corporations, a significantly stronger increase than that observed in the previous years. According to the annual accounts of large firms, which enable a breakdown of value added, this third consecutive year of growth is mainly attributable to the decline in purchases, while sales figures have shrunk further.

Meanwhile, the rise in staff costs has remained 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 its long-term average, which tends to confirm that companies have been treading carefully with their investment for several years now. This is notably because the rate of investment in tangible fixed assets is still at all-time low, whatever measurement or branch of activity considered.

(1) See https://www.ecb.europa.eu/paym/coll/risk/ecaf/html/index.en.html.
(2) Thirty large enterprises are said to be in financial debt in 2016.

CHART 17 CREDIT RISK BY BRANCH OF ACTIVITY AND FIRM SIZE

(in %, showing quartile1, the median and quartile 3)



Source: ICAS.

Nevertheless, for the last two years under review, a definite recovery in the median ratio has been observed, for SMEs as well as large corporations; this suggests that a majority of firms are once again making an effort to invest. This slight revival may be due to several factors, including low interest rates, the size of cash reserves or the high production capacity utilisation rate in the manufacturing industry.

Combined with the more pronounced upward trend in value added, the moderate rise in costs led to a marked improvement in operating profit in 2015 (up 13 % to € 35 billion), after four years of stability. 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).

Over the last two years under review, and contrary to the long-term trend, it has been the manufacturing industry where profits have risen the most rapidly, especially as regards the operating result. Industrial concerns have managed to recover despite the decline in sales figures, as purchases have contracted more sharply under the impact of the widespread drop in prices of raw materials and energy products, itself largely a consequence of economic activity running out of steam again in the emerging nations. Logically, the manufacturing branches posting the most significant increases in profits for the last two years are the most intensive in raw materials, namely chemicals, metallurgy, petrochemicals and refining.

While the effect of falling commodity prices has also been felt in the main non-manufacturing branches, the impact there has been a lot weaker owing to their much smaller share in these sectors' purchases which mainly consist of consumables, goods and supplies. Moreover, non-manufacturing dynamics have been more varied and dependent on specific sectoral features. In the trade sector, for instance, wholesale activities have followed the same kind of trends as seen in industry, owing to the close links between the two branches, and because some wholesalers are partly involved in industrial or ancillary activities. Conversely, while sales in the retail trade sector have continued to expand along with the pick-up in private consumption, value added has only risen very slightly, so margins have remained squeezed in an environment that is still highly competitive. The retail trade sector has also been hit by major restructuring efforts at one of the main distribution chains, which has been reflected in a contraction in the operating result because of related provisions.

Furthermore, this article pays particular attention to the specific features of the construction industry. The overall results for this branch of activity appear to be largely influenced by civil engineering, and more particularly by dredging and maritime construction projects, which mainly tend to be carried out by (very) large enterprises. A breakdown of value added by company size confirms the structural differences there are between large firms and SMEs in this branch. For instance, the big construction firms are much more closely geared towards civil engineering (with more than half of them operating in the field of dredging and maritime construction) and general construction work. By contrast, SMEs are much more involved in installation work (such as electricity, plumbing, heating, ventilation and insulation) and finishing work (like carpentry, floor and wall coverings, painting and glazing). These differences between the two categories of company have significant repercussions on movements in their profit and loss accounts, as market conditions vary considerably from one sub-sector to another: civil engineering firms are partly reliant on the international environment and on obtaining specific public procurement contracts; moreover, as in general construction, they generally tend to outsource a large part of their contracts. Conversely, SMEs carrying out installation and finishing work rely much more heavily on domestic demand, and regularly operate as subcontractors.

Profitability ratios that disregard financial income from participating interests – that is, the net sales margin and net return on operating assets – saw a small increase among large firms in 2015, especially in the manufacturing industry. Profitability is relatively high among SMEs, thanks to wider margins in the business services sector, where 20 % of all small and medium-sized enterprises operate, and has remained quite steady over the last two years. Small firms 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, despite being absolutely crucial for companies' growth potential. The tried and tested argument that a low level of investment is the consequence of high dividend payments was not confirmed. On average, 22 % of all large firms pay out a dividend, and 45 % of them hand out profit shares exceeding their available free cash flow. Compared with the overall population of large firms, companies that pay out more in dividends than their available free cash flow for up to four consecutive years, tend to be those that enjoy a positive level of profitability and have a sufficiently high investment rate. But, besides cash outflow, some of these firms are still having to assume debts to cover part of their profit shares. 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 have to take on more financial debts to be able to pay out their dividends. The number of firms in such a situation is very small.

From 2005 onwards, large industrial concerns have seen their globalised degree of financial independence increase more strongly than for large firms in the non-manufacturing branches, probably because several big industries have meanwhile assumed additional coordinating tasks, on top of their main industrial production activity, by taking on the role of financial centre for the group. Large firms have seen stagnation from 2012 because the notional interest deduction under the tax allowance scheme for risk capital has shrunk every year since then. SMEs have also seen slow growth in their degree of financial independence through the attraction of the notional interest deduction, not least because it gives them a better rate.

Average interest expenses have been coming down almost continuously since 2008 for all companies, regardless of their size, a downward trend that coincides with the movement in the average weightings applied by Belgian banks to new loans as well as yields on corporate bonds.

The globalised net financial indebtedness ratio for SMEs declined over the period from 2000 to 2015, partly because they have stepped up the proportion of their cash equivalents and partly because they have gradually scaled down their financial debt burden in the wake of the financial crisis. SMEs tend to have relatively more liquid assets and short-term cash investments than large enterprises. The establishment of these reserves may suggest that they are not securing new loans so easily. Large industrial concerns have seen their net financial indebtedness ratio fall since 2005; they are resorting less and less to bank lending, because they have been able to attract more foreign capital from their 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.

One notable feature of the pharmaceuticals industry is its very low net financial indebtedness ratio, given that this branch of activity generates a great deal of cash and is renowned for its low debts. The real estate sector has a permanently high ratio because of the scale of its financial debts.

The In-house Credit Assessment System (ICAS) makes it possible to estimate the risk of default among Belgian non-financial corporations over the coming years. The findings on this subject broadly corroborate the results obtained from the ratio analysis, namely that the risk of default among SMEs got smaller in 2015. According to the latest data, this credit risk remained low in the first three quarters of 2016.

ANNEXES

Annex 1

SECTORAL GROUPINGS

	NACE-BEL 2008 divisions
Manufacturing industry	**10-33**
of which:	
Agri-food industries	10-12
Textiles, clothing and footwear	13-15
Wood, paper products and printing	16-18
Chemicals industry	20
Pharmaceuticals industry	21
Metallurgy and metalworking	24-25
Metal manufactures	26-30
Non-manufacturing branches	**01-09, 35-82, 85.5 and 9** (1)
of which:	
Trade in motor vehicles	45
Wholesale trade (2)	46
Retail trade (2)	47
Transportation and storage	49-53
Accommodation and food service activities	55-56
Information and communication	58-63
Real estate activities	68
Business services (3)	69-82
Energy, water supply and waste	35-39
Construction	41-43

(1) Except 64, 65, 70100, 75, 94, 98 and 99.
(2) Excluding motor vehicles and motor cycles.
(3) Excluding head office activities (70100).

Annex 2

RATIO OF NEW TANGIBLE FIXED ASSETS, BY BRANCH OF ACTIVITY

(globalised figures, in %)

	2009	2010	2011	2012	2013	2014	2015 e
Manufacturing industry	**22.2**	**20.2**	**22.2**	**24.1**	**21.6**	**23.0**	**23.3**
of which:							
Agri-food industries	28.4	21.7	21.8	22.5	24.1	23.1	25.2
Textiles, clothing and footwear	17.8	18.5	22.8	21.3	22.4	26.7	23.4
Wood, paper and printing	19.4	18.5	16.9	18.6	17.7	20.1	18.8
Chemical industry	14.9	18.8	23.2	31.2	22.6	26.1	22.8
Pharmaceuticals industry	37.9	22.9	25.8	25.1	22.7	18.8	18.2
Metallurgy and metalworking	19.9	18.6	21.4	19.8	17.0	22.2	22.6
Metal manufactures	22.8	21.2	21.4	20.6	17.4	22.0	21.1
Non-manufacturing branches	**18.7**	**16.5**	**18.3**	**16.0**	**17.6**	**15.9**	**13.8**
of which:							
Trade in motor vehicles	20.6	23.9	23.1	21.6	18.9	20.8	20.5
Wholesale trade (1)	21.9	21.9	23.9	22.5	22.3	20.8	20.1
Retail trade (1)	22.3	22.1	23.1	22.9	20.8	21.1	21.2
Accommodation and food service activities	15.4	15.9	16.1	15.6	13.7	13.6	12.6
Information and communication	21.1	18.7	24.0	24.6	27.6	29.2	24.1
Real estate activities	10.6	9.8	13.1	10.0	10.3	10.9	9.3
Business services	27.3	26.8	31.4	28.5	24.2	27.0	25.3
Energy, water and waste	17.4	13.0	11.8	10.9	17.3	9.9	7.7
Construction	27.0	22.9	25.8	20.9	18.4	19.8	18.3
Total	**19.3**	**17.0**	**18.9**	**17.1**	**18.2**	**16.8**	**15.0**

Source: NBB.

(1) Excluding trade in motor vehicles.

Annex 3

COMPONENTS OF THE OPERATING ACCOUNT FOR SELECTED BRANCHES OF ACTIVITY, LARGE FIRMS

(in € million)

		2013	2014	2015 e	Difference 2015-2013
Manufacturing industry					
Operating income	(+)	222 683	221 488	216 512	–6 171
Purchases	(–)	145 389	142 649	133 867	–11 522
Services and other goods	(–)	34 898	35 232	37 451	+2 553
Value added		**42 396**	**43 607**	**45 194**	**+2 798**
Staff costs	(–)	25 887	25 816	25 803	–84
Depreciation and write-downs[1]	(–)	8 011	8 298	7 882	–129
Other operating expenses	(–)	1 602	1 381	1 384	–218
Net operating result		**6 896**	**8 113**	**10 125**	**+3 229**
Wholesale trade					
Operating income	(+)	202 236	199 653	192 583	–9 652
Purchases	(–)	167 675	164 926	155 377	–12 297
Services and other goods	(–)	16 556	16 659	17 983	+1 427
Value added		**18 006**	**18 067**	**19 223**	**+1 218**
Staff costs	(–)	9 674	9 627	9 651	–23
Depreciation and write-downs[1]	(–)	2 319	1 752	1 733	–586
Other operating expenses	(–)	3 073	3 135	3 359	+286
Net operating result		**2 940**	**3 554**	**4 481**	**+1 541**
Major other market services[2]					
Operating income	(+)	151 096	157 492	166 016	+14 920
Purchases	(–)	81 732	84 122	88 116	+6 384
Services and other goods	(–)	28 819	30 644	32 893	+4 073
Value added		**40 545**	**42 726**	**45 007**	**+4 462**
Staff costs	(–)	25 614	26 832	28 038	+2 424
Depreciation and write-downs[1]	(–)	7 491	8 656	9 574	+2 083
Other operating expenses	(–)	1 420	1 533	1 534	+115
Net operating result		**6 021**	**5 705**	**5 860**	**–160**
Construction					
Operating income	(+)	27 185	27 953	28 810	1 625
Purchases	(–)	16 185	16 777	17 136	951
Services and other goods	(–)	4 103	4 381	4 538	435
Value added		**6 897**	**6 796**	**7 136**	**239**
Staff costs	(–)	4 500	4 624	4 700	200
Depreciation and write-downs[1]	(–)	757	756	788	31
Other operating expenses	(–)	337	224	272	–65
Net operating result		**1 303**	**1 192**	**1 376**	**73**

Source: NBB.

(1) On tangible fixed assets, intangible fixed assets and start-up costs (item 630).

(2) Namely, the sum of retail trade, business services, information and communication, trade in motor vehicles, real estate, hotels and catering activities.

Annex 4

DEFINITION OF THE RATIOS

	Item numbers allocated	
	in the full format	in the abbreviated format
1. Ratio of new tangible fixed assets		
Numerator (N)	8169 + 8229 – 8299	8169 + 8229 – 8299
Denominator (D)	8199P + 8259P – 8329P	8199P + 8259P – 8329P
Ratio = N/D × 100		
Conditions for calculation of the ratio:		
12-month financial year		
8169 + 8229 – 8299 > 0 (1)		
2. Net margin on sales		
Numerator (N)	9901 + 9125	9901 + 9125
Denominator (D)	70 + 74 – 740	70
Ratio = N/D × 100		
Condition for calculation of the ratio:		
Simplified format: 70 > 0		
3. Net return on total assets before tax and debt servicing, excluding exceptional result		
Numerator (N)	9904 + 650 + 653 – 9126 + 9134 – 76 + 66	9904 + 65 – 9126 + 67/77 – 76 + 66
Denominator (D)	20/58	20/58
Ratio = N/D × 100		
Condition for calculation of the ratio:		
12-month financial year		
4. Return on equity, before tax, excluding the exceptional result		
Numerator (N)	9904 – 76 + 66 + 9134	9904 – 76 + 66 + 9134
Denominator (D)	10/15	10/15
Ratio = N/D × 100		
Conditions for calculation of the ratio:		
12-month financial year		
10/15 > 0 (1)		
5. Return on operating assets		
Numerator (N)	9901	9901
Denominator (D)	20 + 21 + 22/27 + 3 + 40/41 + 490/1	20 + 21 + 22/27 + 3 + 40/41 + 490/1
Ratio = N/D × 100		
Conditions for calculation of the ratio:		
12-month financial year		
10/15 > 0 (1)		

(1) Condition valid for the calculation of the median but not for the globalised ratio.

DEFINITION OF THE RATIOS (continued)

	Item numbers allocated	
	in the full format	in the abbreviated format
6. Degree of financial independence		
Numerator (N)	10/15	10/15
Denominator (D)	10/49	10/49
Ratio = N/D × 100		
7. Average interest expense on financial debts		
Numerator (N)	650	65 – 9125 – 9126
Denominator (D)	170/4 + 42 + 43	170/4 + 42 + 43
Ratio = N/D × 100		
Condition for calculation of the ratio:		
12-month financial year		
8. Net financial indebtedness ratio		
Numerator (N)	170/4 + 43 + 8801 – 54/58 – 50/53	170/4 + 43 + 42 – 54/58 – 50/53
Denominator (D)	20/58	20/58
Ratio = N/D × 100		

Annex 5

MEDIAN CASH FLOW VALUES FOR DIVIDEND-PAYING FIRMS

(in € thousand)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 (1)
	(median firm 1)								
Operating cash flow	835	845	968	891	750	782	782	747	776
Investment cash flow	–140	–140	–105	–103	–119	–120	–100	–98	–105
Free cash flow	428	404	560	483	363	429	420	416	419
Dividends	427	450	450	450	415	400	466	400	405
Net profit for the year	631	586	535	566	531	524	453	467	504
Change in cash equivalents	9	2	9	8	0	1	1	4	9
Balance sheet total	8 183	8 143	7 965	7 928	7 626	7 942	7 689	7 559	7 874
	(median firm 2)								
Operating cash flow	303	303	302	327	289	255	312	286	273
Investment cash flow	–207	–200	–148	–143	–169	–188	–141	–152	–161
Free cash flow	–22	–18	3	30	–4	–5	29	10	–5
Dividends	500	500	500	500	476	435	598	502	480
Net profit for the year	630	565	529	557	511	505	433	454	486
Change in cash equivalents	–59	–91	–75	–94	–91	–93	–66	–46	–70
Balance sheet total	8 794	8 671	8 401	8 602	8 455	8 040	7 905	8 189	7 986

Source : NBB.

(1) Figures for 2015 are based on the population available as at 10 September 2016.