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PRESS RELEASE

The role of equities in corporate finance in Belgium
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Share issues are a significant source of finance for non-financial corporations in Belgium. Between 1995 and 2005, they represented around 32 p.c. of the cumulative new liabilities of non-financial corporations. Share issues are therefore the second most important source of finance, the first being non-bank credit, which accounts for 51 p.c. of the total. Share issues are a much more important source of funding than bank credit and issues of fixed-income securities. Unquoted shares represent the major part of this, namely 27 p.c. of the cumulative new liabilities, mainly because of the high level of foreign direct investment. Quoted shares represented only 5 p.c. of the cumulative new liabilities of non-financial corporations during the period 1995-2005.

An empirical analysis of the determinants of the capital structure highlights the fact that quoted companies having more intangible fixed assets are more inclined to opt for equity financing. Conversely, other factors, such as the company's debt level, size and internal resources have a negative influence on equity financing.

The timing of the use of this type of financing depends partly on macroeconomic factors such as real and financial investments of the corporations. The cost of capital may also be regarded as a key determinant of the use of equity financing over time. Substantial issues were recorded during the period 1999-2001 and from mid 2005 onwards. These developments coincided with either a cost of capital well below its long-run average or a movement in the cost of capital which was more favourable than the price of alternative sources of finance. The recent government measure aimed at allowing the deduction of notional interest charges could also give a substantial boost to new share issues.

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