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## PRESS RELEASE

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### **Trend in the financial structure and results of firms in 2006**

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Every year, in the Economic Review of December, the National Bank describes the developments apparent from the annual accounts of non-financial corporations. This year the article comprises, in addition to an analysis of the movements in the profit and loss account, balance sheet and annex to the annual accounts, an analysis of the recent changes concerning corporation tax.

The economic context was predominantly favourable for businesses in 2006, as a result of such factors as export market growth, a stable currency, slowing of the oil price rise, a low long-term interest rate and rising stock markets. In those circumstances, the added value of non-financial corporations kept in line with the trend in GDP: growth gathered pace in 2006 to 6.3 p.c. at real prices, a level comparable to that in 2004. The increase in total operating costs accelerated again in 2006 to 5.5 p.c. Although such an increase had not been seen since the year 2000, the growth of added value once again outstripped the rise in operating costs. As a result, the net operating profit which had already improved dramatically in the three preceding years, recorded a further substantial increase (+9.2 p.c.). This meant that the net operating profit had virtually doubled in the space of four years, from 17 billion euro in 2002 to almost 33 billion euro in 2006.

The financial and exceptional results showed a decidedly positive balance in 2006. Following deduction of taxes, non-financial corporations recorded a total net profit of over 43 billion euro in 2006, an increase of almost 5 p.c. against the previous year. The profit excluding the exceptional result again increased by around 14 p.c. to 34 billion euro. It should be remembered that in 2002 the profit excluding the exceptional result was only 15 billion.

The financial situation of the corporations continued to improve in 2006. Overall, and regardless of the approach adopted, Belgian corporations are achieving a level of profitability that has not been seen for almost twenty years. The degree of financial independence for both large firms and SMEs has also been rising for the past fifteen years. In both categories of firm, average interest charges have risen slightly because market interest rates increased somewhat in 2006. Nonetheless, the debt burden is at a historically low level, as are interest charges. Since 2003 there has been an upward trend in liquidity, driving it to a record level in 2006. Moreover, the improved balance of maturities applies to the whole population of firms. Yet it should be remembered that more than a quarter of Belgian firms incurred losses, while 16 p.c. have negative equity.

Owing to recent tax changes, the growth of corporation tax revenues slowed in 2006. Nonetheless, non-financial corporations generated a record level of corporation tax revenues totalling 8.5 billion euro. The median of the implicit rate of corporation tax, which indicates the real burden of taxation on corporate profits, was down in 2003 for both large firms and SMEs. That decline is attributable to the first tax reform which was intended to strengthen the competitiveness of firms by reducing the nominal tax rate. In 2006 there is a further decline in the tax burden for both categories of firm, resulting from the introduction of the notional interest deduction. This measure should produce a structural effect on the financial behaviour of firms. That may be one reason why capital increases by the issue of shares have expanded by more than 250 p.c. compared to 2005. The adjusted equity capital, the basis for calculating the amount of the tax allowance for venture capital, is also increasing, while the dividends paid out by large firms are declining.

The conclusion is therefore that, for non-financial corporations in 2006, as a result of the generally favourable economic climate, the growth of added value more than outweighed the increase in operating costs. As a result of these contrasting developments, the net operating profit showed a particularly strong rise.