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## PRESS RELEASE

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### Results and financial situation of firms in 2013

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Over the year 2013 as a whole, the total value added created by non-financial corporations increased by 2.0% at current prices. That is a slight improvement on 2012, when value added grew by 1.4%. This came about despite the erosion of sales (-1.0%), as total purchases recorded a larger fall (-1.7%) owing to such factors as the decline in prices of industrial commodities, energy and food.

At the same time, the rise in staff costs was smaller because inflation subsided. Depreciation slowed down again, reflecting an investment policy which has become much more conservative since the outbreak of the financial crisis. In that regard, the tangible fixed asset renewal ratio has fallen very steeply in recent years, and is now well below its long-term average.

Total operating costs, which are largely determined by staff costs and depreciation, were up by 2.1% in 2013; this controlled rise was very similar to the growth of value added. Following these movements, there was a modest improvement in the net operating result (+1.8%) which totalled €31 billion in 2013, thus ending a period of erosion in both 2011 (-1.7%) and 2012 (-5.9 %).

According to most of the criteria considered, profitability was down again in 2013. The profit ratios of large firms were particularly hard hit by the recent fluctuations in activity, so that they are now at their lowest level for ten or even fifteen years. That finding holds for almost all branches of activity considered. Overall, SME profitability has been more resilient, as SMEs are less concentrated on industrial activities and international trade.

After a long term upward trend, corporate financial independence has been relatively stable for the past two years, owing to the reduced attraction of the notional interest scheme (rate ceiling and reduction, abolition of postponement option). However, the picture varies from one branch of activity to another. Thus, in the case of head office activities, which comprise companies generally providing internal banking or cash management services for groups of firms, financial independence has diminished during the last few years under review, as these companies have become less inclined to hold their capital in Belgium. That development is reflected, for instance, in the statistics on the net capital contribution based on the *Moniteur belge*: net contributions were negative in both 2012 and 2013, whereas they had been systematically positive in previous years, and actually reached record levels after entry into force of the notional interest scheme.

Analysis of the financial structure also shows a reallocation of external funding sources. Between 2008 and 2013, bank debts as a share of financial debts in fact dropped from 44.7% to 34.3%, while the share of bonds rose from 4.1% to 10.5%. Factors influencing this shift in the funding structure included the tightening of bank lending conditions and the renewed attractions of corporate bonds, as they offer better yields than sovereign bonds.

The last part of the article examines recent trends affecting corporate cash position. The first point to emerge is that net cash position has expanded strongly since the outbreak of the financial crisis, rising from €9.5 billion in 2007 to €46.2 billion in 2013. This increase reflects greater prudence on the part of firms, which want more substantial liquidity reserves in order to cater for an uncertain economic context and the limitations of external funding. The cash position expansion is also the corollary to the drastic reduction in corporate investment projects. The analysis also shows that the proportion of the cash held in liquid assets has risen sharply since 2008, mainly at the expense of term accounts, which have become less attractive since the start of the financial crisis.

Finally, the article offers a sectoral analysis of the concepts of net working capital and net working capital need. Statistically, there is a very strong positive link between the two variables: the greater the need for net working capital in a branch of activity, the higher the net working capital. That is logical, as firms build up a buffer according to their needs. It is also evident that the working capital is positive and relatively substantial in industry and construction, owing to the length of the operating cycle and the resulting time lag before payment is received. Conversely, most service branches have a negative need for working capital because, on the whole, these branches have a brief operating cycle, with speedy collection of payment and negligible inventories. The specific character of mass retailing is also very evident in a need for working capital which is among the most negative in the Belgian economy.