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PRESS RELEASE

Recent trends in the financial situation of firms and equity links
(Article published in the December Economic Review)

Each year, in the December Economic Review, the Bank gives a detailed overview of trends emerging from the annual accounts of non-financial companies for the previous year, based on a representative sample of companies' annual accounts available in September. This year, the analysis was greatly complicated by the transposition into Belgian law of EU Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings. Among the main changes resulting from this new legislation are the overhaul of the concepts of large and small firm as defined in the Company Code and the creation of the micro-company, amendments to the contents of the annual accounts and the reform of the accounting treatment of certain items, including research expenses and exceptional results, to name but a few. Applicable to accounting years starting after 31 December 2015, these new rules cause an unprecedented break in the series of data from the Central Balance Sheet Office.

Some general conclusions can nevertheless be drawn from the annual accounts for the year 2016. If the impact of the change in the depreciation method for research expenses is neutralised, along with certain one-off operations by multinationals with no impact on real economic activity, growth in the aggregate operating result was highly stable in 2016, in both gross and net terms. This stability reflects an economic context of moderate growth in activity, on the one hand, combined with a favourable trend in the main costs borne by businesses (notably wages and purchases of raw materials), on the other hand. Overall, profitability also remained fairly stable in 2016: while most of the profitability ratios were up slightly in globalised terms, there was scarcely any improvement in the median ratios.

As far as solvency is concerned, the last few years have been particularly marked by a net rise in SMEs' median ratios. This shift was obviously caused by the changes made to the tax treatment of liquidation surpluses, which led small firms to keep taxable profits in the company, first of all in form of share capital, and then in the form of specific reserves, called "liquidation" reserves. While the main measurements of solvency reflect a steady improvement, it should be remembered that 17 % of the firms surveyed are in a situation of negative equity, which constitutes a considerable financial warning light. Moreover, the bankruptcy figures suggest renewed business vulnerability over the last few months: after three years of falling rates, the number of bankruptcies started to rise again from the third quarter of 2016.

In line with the trend observed since the onset of the financial crisis, interest charges eased further in 2016, in a context of still highly accommodative monetary policy. Combined with the high degree of production capacity utilisation and the healthy size of cash reserves, the persistence of low interest rates is likely to encourage business investment efforts. In this respect, it appears that the median ratio of new tangible fixed assets, although still well below levels recorded before the 2008-2009 recession, has tended to recover in recent years.

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The last part of the article throws new light on one particular aspect of inter-company relations: shareholding links declared by firms in the notes to their annual accounts. Among the key findings of this analysis is that the equity links are usually quite narrow: in almost two-thirds of all cases, they are majority stakes, often with shares of well over 50 %. An intensification of group relations has also been observed over the last 20 years, reflecting a general tendency towards a proliferation of legal structures, as companies have become more inclined to set up separate businesses for different functions or activities. While this movement has affected all branches of activity, it has been largely fuelled by numerous company formations in areas that, by their very nature, are appropriate for shareholding links, like so-called “management” companies, head offices and holding companies. Firms operating in these branches generally tend to employ very few workers and generate relatively little value added because they have legal, financial or fiscal implications. In contrast, firms active in the more traditional branches of the Belgian economy (industry, trade or construction, for instance) and which have shareholding links employ a lot more staff. It is worth noting that the annual accounts of many large commercial or industrial enterprises are of a rather mixed nature these days with, on the one hand, the assets side mainly composed of fixed financial assets and, on the other hand, a profit and loss account still largely determined by the operating result (and thus by productive activities).

By combining the baseline data declared by firms, the analysis has also enabled the reconstitution of groups of companies. This work notably reveals that the vast majority of companies with shareholding links belong to very small outfits, while a minority of firms belong to very large groups. Lastly, the initial findings of a study into the relationship between equity links and bankruptcy rates show that bankruptcies are a lot less common among companies belonging to a group, and tend to fall as the size of the group increases.