

# The financial situation of Belgian non-financial corporations

S. Cappoen  
M.-D. Zachary

## Introduction

As entities where the production process takes place, non-financial corporations deserve our full attention in the analysis of real and financial accounts. However, examination of the financial behaviour of non-financial corporations is traditionally confined to their financing: thus, the Bank's annual report generally only considers their liabilities.

Yet the formation of financial assets by non-financial corporations is a significant item of information, in both statistical and economic terms. Total financial assets held by non-financial corporations in Belgium are considerable, as they far exceed the total financial assets of households. A study recently revealed the historically high level of financial asset formation by non-financial corporations in the main industrialised countries, a factor which could help to explain the relatively low level of long-term interest rates.

It therefore makes good sense for this article to take a close look at asset formation by non-financial corporations in Belgium.

The article is divided into three sections.

The first section offers a general picture of the financial situation of non-financial corporations. It first describes the importance of their assets and liabilities in the Belgian economy. It then analyses the financial balances – in terms of both real and financial accounts – of these non-financial corporations and compares them with those of their foreign counterparts.

The second section is devoted to analysis of the formation of financial assets by non-financial corporations in Belgium. It first examines new transactions in detail, and compares the overall trend with that for the euro area. Next it looks at the total outstanding volume of financial assets. That analysis in fact makes it possible to identify the specific activities of certain economic agents.

The third section, which examines the liabilities of non-financial corporations, follows the same general approach as the analysis of asset formation. New liabilities are first examined and compared with the trend in liabilities in the euro area in general. A more detailed analysis of the financing of non-financial corporations in Belgium then follows. Once again, the analysis of the outstanding totals makes it possible to identify some significant underlying factors.

## 1. General overview

### 1.1 The importance of the assets and liabilities of non-financial corporations in the Belgian economy

The household sector, which had net financial assets of around 648 billion euro at the end of 2005, is the Belgian economy's only creditor sector. It finances the other two resident non-financial sectors and the rest of the world. In 2005, non-financial corporations represented the largest debtor sector. Their net financial liabilities totalled around 302 billion euro. However, excluding shares and other equity – a major source of their net funding – the net

liabilities of non-financial corporations came to around 49 billion euro.

Non-financial corporations also constitute the resident non-financial sector with the highest gross financial assets and liabilities. Thus, their gross outstanding assets totalled 833 billion euro at the end of 2005, a figure well in excess of the asset portfolio of households (784 billion euro), although that receives more attention in the analysis of the financial accounts.

The general government debt came to a net total of 241 billion euro, while the net financial liabilities of the rest of the world totalled just over 104 billion euro. Conventionally, financial corporations have no net financial assets, despite their position at the heart of the financial system.

The statistics analysed above are outstanding totals which express the value of the assets and liabilities at a given moment. More traditionally, the analysis of the financial accounts concerns new assets or liabilities, i.e. the flows of funds taking place over a given period. A number of methodological differences explain why the change in the outstanding total may be completely different from the flows of funds during the period considered.

From a methodological point of view, the change in the outstanding total from one period to the next depends not only on these flows of funds, but also on price adjustments relating to successive outstanding totals and other volume changes. These factors are particularly important for equities, a vital source of funding for non-financial corporations. As regards price adjustments, the outstanding total of unquoted shares is thus assessed at the value of the shareholders' equity. That figure is calculated as a

balance by deducting the shareholders' equity of listed companies from the shareholders' equity of all Belgian companies. The outstanding total of quoted shares is assessed on the basis of market capitalisation.

The price effects (and other volume changes) which correspond to the difference between the official outstanding total and a theoretical outstanding total, calculated on the basis of an initial outstanding total to which are added the successive issue flows, may therefore be considerable. In the case of quoted shares, they were decidedly positive between 1995 and 1998, a period when Belgian stock market indices were rising rapidly and many companies were going public. Conversely, from 1999 to 2002, negative price effects materialised as share prices collapsed and some large Belgian companies were delisted. Since 2003, the recovery of Belgian share prices has once again generated positive price effects. Financial instruments other than equities (loans and fixed-income securities) have been valued in the same way in regard to flows and outstanding totals, namely at their book value, which greatly limits the possibility of any resulting price effects.

The statistics on the flows of quoted or unquoted share issues include cash contributions made when a company is formed or its capital is increased, and cash issue premiums at the time of an increase in capital, from which are deducted any capital reductions in the form of repayments to shareholders. Contributions in kind<sup>(1)</sup>, delistings, bankruptcies and initial public offerings without the issue of new shares do not affect the flow statistics, but are included – as other volume changes – in the outstanding total statistics.

(1) Except in the case of listed companies.

**TABLE 1** FINANCIAL ASSETS AND LIABILITIES BY SECTOR IN 2005  
(Outstanding total at the end of the year, billions of euro)

	Financial assets	Financial liabilities	Net financial assets
Households .....	784.0	136.1	647.9
Non-financial corporations .....	833.4	1,135.8	-302.3
General government .....	76.9	318.3	-241.4
Financial corporations <sup>(1)</sup> .....	1,556.4	1,556.4	0.0
Rest of the world .....	1,215.5	1,319.7	-104.2

Source: NBB.

(1) Financial corporations comprise mainly the NBB, credit institutions and institutional investors. These institutions are treated as pure financial intermediaries: by construction, their financial assets equal their financial liabilities.

## 1.2 The balances of non-financial corporations

The financial situation of non-financial corporations can be deduced from the financial account statistics, which relate exclusively to financial transactions and are based on purely financial data (balance sheets of banking institutions and institutional investors, data relating to issuing activities on the financial markets, etc.).

Under the European System of National Accounts (ESA 1995), however, the financial accounts form the final component of the system of accounts. They come after the real accounts, which present the income and expenditure of the various sectors. The financial balance of non-financial corporations is deduced from the capital account in their non-financial (sectoral) accounts. The financial accounts reveal the way in which non-financial corporations use their surpluses and finance their deficits.

Table 2 shows how to make the transition from the capital account to the financial account. The gross savings of non-financial corporations (i.e. the gross disposable income adjusted for changes in provisions for pension insurance) and capital transfers (mainly investment aid) are the resources available in the capital account. These resources are used to acquire non-financial fixed assets (mainly investments and, to a lesser extent, stock formation). While the resulting financial balance may indicate a financial surplus, the non-financial corporations more often present a financial deficit. A financial deficit on the capital account should be reflected in a net borrowing

requirement in the financial account. The net borrowing requirement corresponds to the net difference between the formation of financial assets and new financial liabilities of firms. However, during the period under review, this net borrowing requirement in the financial account generally exceeded the financial deficit in the capital account. It therefore seems that there is a major discrepancy between these two types of statistics; that is due, in particular to differing sources and valuation methods, and to statistical inconsistencies.

A similar difference is apparent in almost all European countries, so that there is therefore also a discrepancy for non-financial corporations in the euro area<sup>(1)</sup>. In some countries, the capital account balance is higher than the financial account balance, whereas the opposite is true in other countries. During the period 2001-2004, the non-financial corporations sector in the euro area recorded, on average, a financial deficit of 1.1 p.c. of GDP, since investments in non-financial fixed assets exceeded the available resources (gross savings). The same applies in Belgium, albeit to a smaller extent, where the financial deficit came to 0.3 p.c. of GDP.

(1) This article considers the whole of the euro area except Ireland and Luxembourg, which do not publish any financial accounts. No information is available as yet for 2005 on the capital accounts for the euro area as a whole.

**TABLE 2** CAPITAL ACCOUNT AND FINANCIAL ACCOUNT OF NON-FINANCIAL CORPORATIONS IN BELGIUM  
(Billions of euro)

	2001	2002	2003	2004	2005
Capital account					
Gross savings <sup>(1)</sup> . . . . .	30.3	29.6	31.6	35.4	35.7
Acquisitions of non-financial assets <sup>(2)</sup> . . . . .	32.4	30.2	32.0	36.0	38.4
Financial balance: financial surplus (+) or deficit (-) . . . . .	-2.2	-0.5	-0.4	-0.6	-2.8
Financial account					
Formation of financial assets . . . . .	62.3	28.1	53.7	28.6	11.4
New financial liabilities . . . . .	72.0	30.1	56.9	31.6	12.7
Net borrowing requirement (-) or capacity (+) . . . . .	-9.6	-2.0	-3.2	-3.0	-1.3
Statistical variation between the capital account and the financial account . . . . .	-7.5	-1.5	-2.8	-2.5	1.5

Sources: Eurostat, NBB.

(1) Including net capital transfers.

(2) Comprises gross fixed capital formation, change in stocks and balance of purchases and sales of non-produced, non-financial assets.

**TABLE 3** CAPITAL ACCOUNT AND FINANCIAL ACCOUNT OF NON-FINANCIAL CORPORATIONS: AVERAGES DURING THE PERIOD 2001-2004  
(Percentages of GDP)

	Belgium	Euro area <sup>(1)</sup>
Capital account		
Gross savings <sup>(2)</sup> . . . . .	11.6	9.6
Acquisitions of non-financial assets <sup>(3)</sup> . . . . .	12.0	10.6
Financial balance: financial surplus (+) or deficit (-)	-0.3	-1.1
Financial account		
Formation of financial assets . . .	16.0	7.2
New financial liabilities . . . . .	17.7	8.6
Net borrowing requirement (-) or capacity (+) . . . . .	-1.7	-1.3
Statistical variation between the capital account and the financial account . . . . .	-1.3	-0.3

Sources: Eurostat, NBB.

(1) Excluding Ireland and Luxembourg.

(2) Including net capital transfers.

(3) Comprises gross fixed capital formation, change in stocks and balance of purchases and sales of non-produced, non-financial assets.

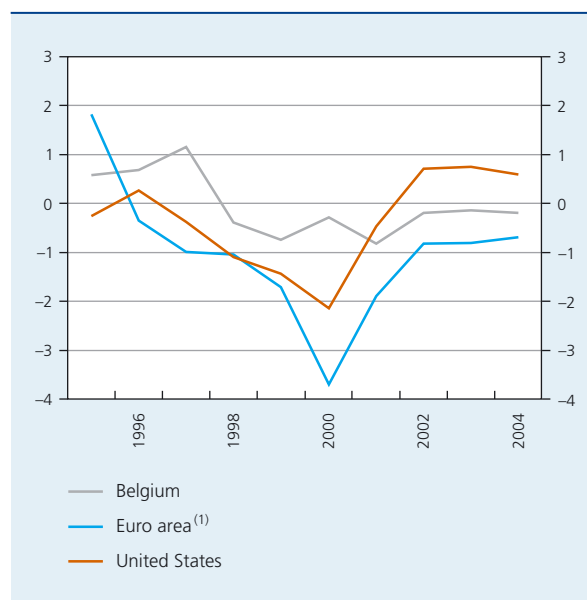
The difference between the financial balances of Belgium and those of the euro area is not due to their respective investment behaviour. Following a slight fall in 2002, the gross investments of Belgian firms increased steadily to reach an average of around 12 p.c. of GDP between 2001 and 2004. In the euro area, investments were slightly lower, averaging 10.6 p.c. of GDP during the same period. The smaller financial deficit of Belgian non-financial corporations is therefore due more to the fact that gross savings (disposable income) are higher in Belgium than in the euro area as a whole. Also, both the formation of financial assets and the new financial liabilities of non-financial corporations in Belgium, expressed as percentages of GDP, were considerably higher than in the euro area. This aspect will be explained later.

Comparison of the financial balance in Belgium with that of the euro area as a whole, and that of the United States over a longer period, namely 1995-2004, immediately reveals that in 2000 the financial balance of the euro area was indeed more negative than that of Belgium. In that year, the UMTS licences were in fact auctioned by the authorities of several European countries. A number

of telecommunications companies then paid a high price for a licence. Owing to these heavy investments, non-financial corporations in general presented a large financial deficit in those countries. Thus, investment in UMTS licences in Germany represented 2.5 p.c. of GDP. In contrast, Belgium waited until 2001 before organising a similar auction, and the operation raised only 0.2 p.c. of GDP for the national authorities. Consequently, the corresponding investment for non-financial corporations was much smaller than in the other European countries. Except in the year 1995, Belgian non-financial corporations have always had a higher financial balance than their counterparts in the euro area.

The financial balance in the euro area declined between 1995 and 2000, before resuming an upward trend in the following years. This pattern appears to be common to all the industrialised countries; in the United States, non-financial corporations have actually recorded a financial surplus since 2002. In other words, in the United States companies are making bigger profits, which are then allocated not to investment in fixed assets (or stocks) but to the formation of financial assets or the reduction of financial liabilities (mainly by repaying debts<sup>(1)</sup>). The decline in the financial balance at the end of the 1990s coincided with the stock market boom during that same period. Following that decline and the interest rate cuts,

**CHART 1** FINANCIAL BALANCE: FINANCIAL SURPLUS (+) OR DEFICIT (-)  
(Percentages of GDP)



Sources: Eurostat, Federal Reserve, NBB.

(1) Excluding Ireland and Luxembourg.

firms (and especially those active in the ICT sector) found it relatively easier to obtain new capital and to make substantial investments. Following the stock market crash in 2000, firms were more reticent to use their gross savings for that purpose. Those savings were less likely to be used for investing in fixed assets and were devoted more to forming financial assets or honouring financial liabilities. In addition, a number of studies – such as those by the IMF (2006) and the ECB (September 2006) – showed that non-financial corporations in the leading industrialised countries were forming more financial assets (and more particularly liquid assets) than in the past. Except during 2000 and 2001 (owing to the UMTS licences), the financial balance of Belgian non-financial corporations follows the same pattern as the financial balances of the euro area and the United States, although the movement is less marked. The question is therefore whether non-financial corporations in Belgium are also accumulating more financial assets. In order to study that aspect, the assets and liabilities of Belgian non-financial corporations are examined in detail below, and compared with those of their counterparts in the euro area.

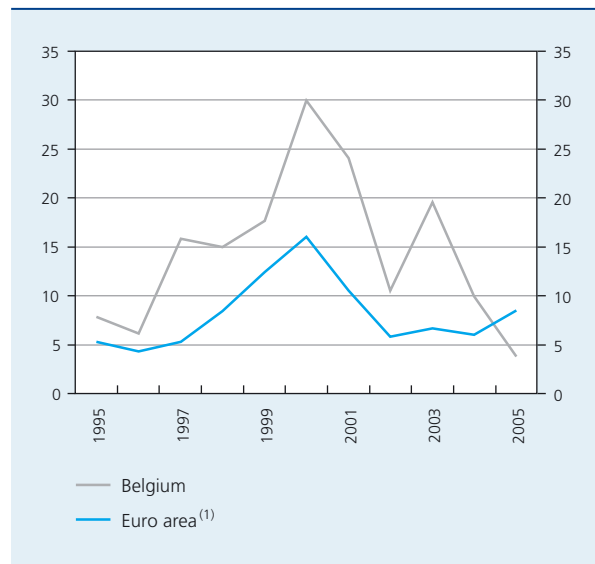
## 2. Trend in the financial assets of non-financial corporations in Belgium

### 2.1 New financial assets

Except in 2005, the formation of financial assets (flow statistics) by Belgian non-financial corporations, expressed as a percentage of GDP, has always exceeded the figure for the euro area since 1995. Both in Belgium and in the euro area as a whole, an upward trend prevailed between 1996 and 2000 and a downward trend was recorded from 2000 onwards. In the case of the euro area, that trend is due mainly to equity transactions; in Belgium, the flows exhibit greater volatility, due essentially to claims. During the period 1995-2005, around 70 p.c. of the formation of financial assets by Belgian non-financial corporations consisted of claims on foreign and resident non-financial corporations.

However, these flows of financial assets and liabilities also include the financial transactions of coordination centres and non-financial holding companies. Although a good many coordination centres engage mainly, but not exclusively, in financial activities, they form part of the financial accounts of the non-financial corporations sector. Moreover, the main task of non-financial holding companies is to hold controlling (financial) interests in other non-financial corporations. The ESA 1995 also considers these companies to be non-financial corporations. In order to

**CHART 2** FORMATION OF FINANCIAL ASSETS BY NON-FINANCIAL CORPORATIONS  
(Flows, percentages of GDP)



Sources: Eurostat, NBB.

(1) Excluding Ireland and Luxembourg.

make an accurate comparison between the structure of non-financial corporations in Belgium and those in the euro area, it is necessary to exclude the non-financial holding companies and coordination centres peculiar to Belgium. However, this correction may be overdone: some countries in the euro area also host companies which, from the point of view of the role they play, can be regarded as similar to coordination centres and non-financial holding companies in Belgium. Nevertheless, they are much less important. Since the financial accounts do not contain separate data on coordination centres and non-financial holding companies, the annual accounts of the Central Balance Sheet Office were used to extract that information from the annual accounts filed. The annual accounts offer a fairly accurate picture of the annual outstanding total of the various instruments. However, it is difficult to calculate the financial flows from the annual accounts (owing to valuation differences, reclassifications, etc.). The analysis was therefore conducted on the outstanding totals.

(1) For a more detailed description of the status of coordination centres and non-financial holding companies, see Minne and Douénias (2004).

## Coordination centres

Coordination centres are undertakings established in Belgium and forming part of a multinational group; their sole object is to provide certain services in the sphere of financing, cash flow management, accounting, consultancy, factoring, etc. for other companies belonging to the same group. They frequently act as an “internal banker” within a multinational group.

By way of exception from the ordinary tax rules, the taxable income of the coordination centres was fixed in 1983 as a flat percentage of the operating costs (“cost plus” method). The coordination centres were also exempted from the withholding tax on income from immovable property, from registration duties on capital contribution and from the obligation to deduct tax at source on income distributions. To gain approval as a coordination centre, a company was required, among other things, to belong to a multinational group with subsidiaries in at least four different countries; it could not hold any shares in other companies and had to meet a range of minimum requirements regarding equity capital and turnover.

The European Commission took the view that the regulations applied to coordination centres were no longer compatible with the current State aid rules, and that Belgium should therefore rescind them. That is why Belgium is no longer recognising any new coordination centres, and this category of undertaking will be abolished by 2010 at the latest. The risk that the coordination centres may be relocated is one of the reasons prompting the government to introduce the tax system comprising the notional interest allowance.

## Non-financial holding companies

Holding companies are companies whose main object is to manage investments in other companies. Only non-financial holding companies are considered in this study. Companies which mainly hold shares in financial corporations (such as credit institutions and insurance companies) are regarded by the ESA 1995 as financial holding companies and classified in the financial sector.

However, there are several categories of non-financial holding companies which often perform different functions. Some holding companies supervise a range of subsidiaries. A pyramid structure of sub-holding companies, enabling the parent company to create and control an extensive network of subsidiaries with relatively limited capital, is sometimes seen. Other holding companies specialise in granting venture capital, particularly for new businesses. They are sometimes listed on the stock market, enabling small investors to take advantage of the portfolio diversification and expertise of the managers. The holding company structure is also used to plan the succession of a firm's founder(s) and/or shareholder(s).

The success of holding companies in Belgium is due to the favourable fiscal conditions. The Participation Exemption Regime grants a 95 p.c. tax exemption for the recipient company on dividends which have already been taxed at the company paying them, if certain conditions are met. In addition, capital gains on equities realised by Belgian companies are also tax exempt, subject to certain conditions.

### 2.2 Outstanding total of financial assets held by Belgian non-financial corporations

The outstanding total of financial assets held by Belgian non-financial corporations grew from 128 p.c. of GDP in 1995 to 280 p.c. in 2005. The biggest increase concerns financial assets in the form of equities and claims.

Equities rose from 58 p.c. to 135 p.c. of GDP. They do not only represent portfolio investments, which offer no scope for control, but also – and predominantly – participating interests in other companies, both in Belgium and abroad.

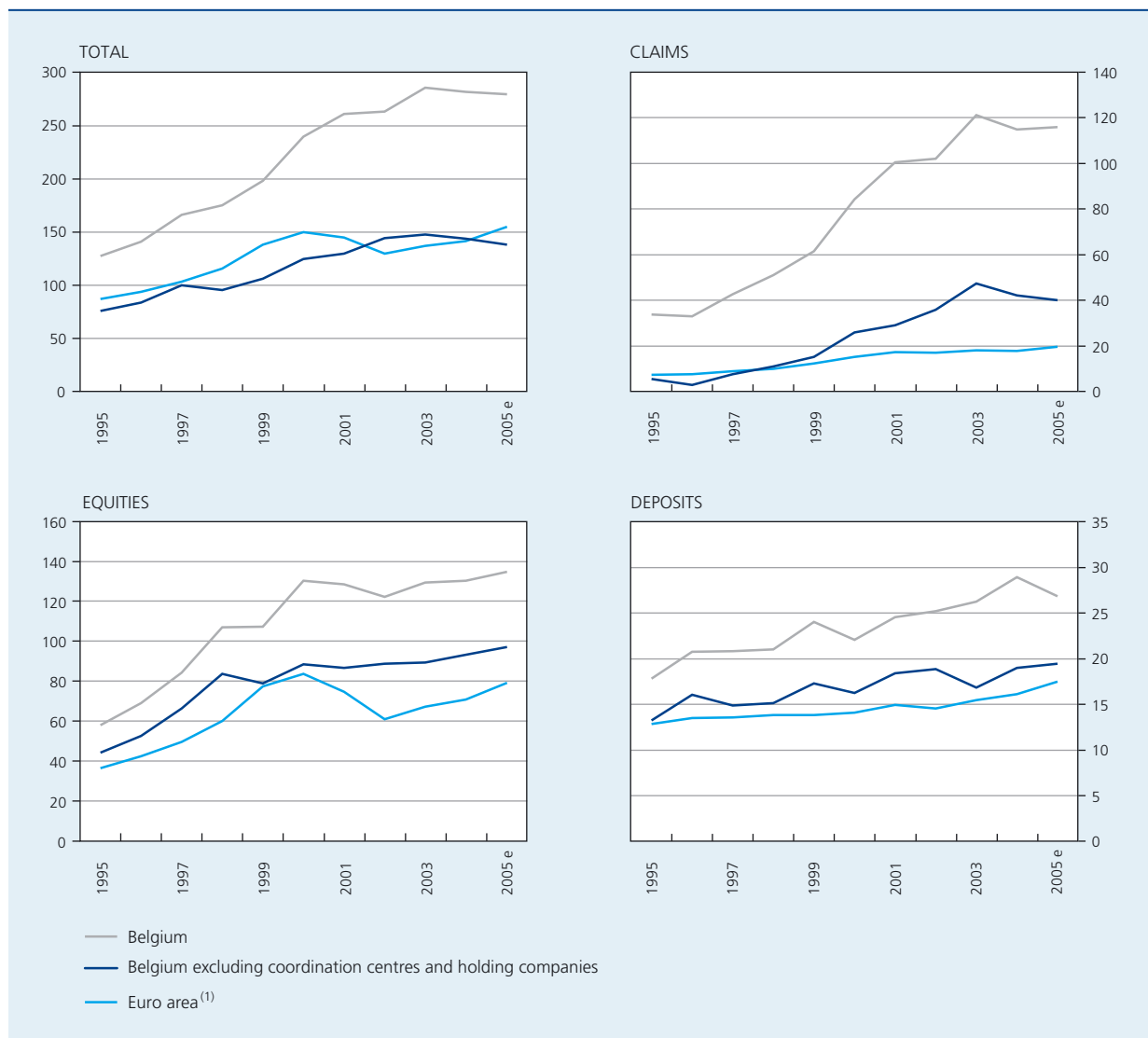
During the same period, claims increased from 34 p.c. to 116 p.c. of GDP. These do not include trade receivables, which are shown separately under the ESA 1995 in the "Other" item. They consist solely of non-trade receivables, i.e. loans granted to other non-financial corporations and/or to other sectors of the economy or to other countries. These financial loans are mostly granted by Belgian coordination centres. They thus finance other undertakings within the multinational group to which they belong.

Deposits formed with credit institutions also increased, though to a lesser extent. Other financial instruments, such as fixed-income securities and transitory items, are less important and are disregarded here.

The increase in these outstanding totals, expressed as percentages of GDP, is due partly to the formation of more new financial assets and partly to the higher valuation of the various instruments. This price effect mainly influences equities, and more particularly those quoted on the stock market.

The movement in stock market prices (an increase from 1995 to 2000, a fall until 2002, followed by a steady recovery) is more clearly reflected in the outstanding total of shares held by non-financial corporations in the euro area as a whole than in the corresponding outstanding total for Belgian companies. There are two reasons for this situation. First, the ratio between quoted and unquoted

**CHART 3** FINANCIAL ASSETS HELD BY NON-FINANCIAL CORPORATIONS  
(Outstanding totals, end of period, percentages of GDP)



Source : Eurostat, NBB.

(1) Excluding Ireland and Luxembourg.

shares is higher in most European countries than in Belgium. Also, in some euro area countries, unquoted shares are recorded at market value. That value, estimated on the basis of ratios for quoted shares, tracks the stock market fluctuations to some extent, and is generally higher than the book value. Despite these differences of method, non-financial corporations in the euro area hold far fewer shares, in percentages of GDP, than non-financial corporations in Belgium (79 p.c. against 135 p.c. in 2005). The Belgian non-financial corporations sector in fact includes non-financial holding companies. The inclusion of numerous holding (and any sub-holding) companies in the non-financial corporations sector artificially increases the outstanding total of shares held in Belgian companies.

Since the claims on the assets side of non-financial corporations are much higher in Belgium than in the euro area as a whole (116 p.c. of GDP against 20 p.c. in 2005) because of the presence of the coordination centres, the Belgian non-financial corporations hold financial assets which, in percentages of GDP, are almost twice as large as those of non-financial corporations in the euro area as a whole (280 p.c. against 155 p.c.) in 2005.

Nonetheless, this difference is negative if the assets held by Belgian coordination centres and non-financial holding companies are disregarded, as that halves the assets held by Belgian non-financial corporations to 138 p.c. in 2005. The differences of level for each instrument taken separately also decline very significantly.

The movement in the total financial assets of Belgian non-financial corporations, excluding holding companies and coordination centres, is also similar to that for non-financial corporations in the euro area. In percentages of GDP, Belgium records a rise from 76 to 138 p.c. and the euro area figure increases from 87 to 155 p.c. It is only during the years 1998 to 2002 that the influence of the stock market boom and the ensuing correction were more apparent in the figures for the euro area. That becomes even more obvious if the data on shares are viewed separately.

The movement in the outstanding total of shares held by Belgian companies, excluding non-financial holding companies and coordination centres<sup>(1)</sup>, parallels that of the euro area data between 1995 and 1998; it then diverges. The outstanding total of shares held by Belgian non-financial corporations, excluding non-financial holding companies, increases constantly while the outstanding total of shares on the assets side of non-financial corporations in the euro area tracks the trend on the stock market. The reason is that the shares held by Belgian

non-financial corporations are primarily unquoted shares, the prices of which are less volatile.

The claims of Belgian non-financial corporations excluding the coordination centres are well below the figures which include the coordination centres, namely 40 p.c. against 116 p.c. in 2005. In comparison with the figures for the euro area, a more noticeable increase is apparent from the year 2000. This means that a number of Belgian non-financial corporations which are not coordination centres are making financial loans available to other companies.

During the period under review, deposits (including notes and coins) of Belgian non-financial corporations, excluding the coordination centres and non-financial holding companies, always exceeded the deposits of non-financial corporations in the euro area in percentages of GDP. In both Belgium and the euro area, there is a small rise, in percentages of GDP, between 1995 and 2005, but no clearly stronger increase after the year 2000, in contrast to the findings of some studies covering a number of industrialised countries.

However, the fact that non-financial corporations held liquid assets for almost 20 p.c. of GDP in 2005 merits further attention.

In the financial accounts, deposits and notes and coins always have as the counterparty a credit institution or central bank, by definition. This increase is therefore not due directly to intra-group transactions. In financial theory, there are two alternative hypotheses explaining why companies adjust their liquid assets. According to the theory of passive cash adjustment, the quantity of cash held is due to movements affecting income and investments, and it is only in the longer term that the company makes adjustments. An expansion in deposits could then be explained by higher profits and/or lower investments.

Conversely, the active theory (Opler et al., 1999) assumes that companies tend to minimise the opportunity cost of holding cash. Apart from the need to hold a certain quantity of cash at all times for effecting transactions, companies try – according to this hypothesis – to limit the risk of a cash shortage caused by disappointing results. They thus avoid missing an investment opportunity or having to resort to external financing which is more expensive. Consequently, increased volatility (uncertainty) in the forecast results of a business may prompt them to hold more cash.

(1) The coordination centres exert hardly any influence since, in principle, they cannot hold participating interests.



It is sometimes also suggested that a larger proportion of intangible fixed assets on the corporate balance sheet encourages firms to hold more cash. Unlike tangible fixed assets (buildings, etc.), intangible assets (brands, patents) cannot be used as collateral for loans, so that it is necessary to hold more liquid assets to cushion cash flow deficits (Passov, 2003).

However, there is a possibility of a certain substitution effect whereby companies hold short-term claims as liquid assets (e.g. against a coordination centre) rather than deposits. The liquidity of corporate assets exerts a negative influence on the outstanding total of liquid assets held (Ferreira and Vilela, 2004).

The financial accounts can also provide information on the counterparties of the financial assets of non-financial corporations. However, it is not possible to isolate the data for coordination centres and non-financial holding companies (the annual accounts give hardly any information on the counterparty sectors). For countries in the euro area, the information available is also insufficient. For Belgian non-financial corporations as a whole, the increase in the foreign financial assets is proportionately greater than the increase in Belgian assets.

In 1995, 28 p.c. of claims (which largely represent the transactions of the coordination centres) were held against other countries. In 2005, that figure reached 37 p.c. In the case of equities, too, there was a strong rise in the holding of participating interests both in Belgium and abroad. However, the growth is more marked for foreign interests. While in 1995, 22 p.c. of shares recorded as assets by non-financial corporations were shares in foreign companies, that proportion had increased to 38 p.c. by 2005. This rise was particularly apparent from 2002 onwards. As already mentioned, these share transactions often concern controlling interests. Non-financial corporations therefore effect proportionately more foreign direct investments. That is evidence of a clear trend towards internationalisation in the financial transactions of non-financial corporations, which are becoming steadily more integrated into a global economy. However, it should be remembered that tangible investments (in land and buildings) effected by Belgian firms in other countries are considered to be purely financial, according to the national accounts methodology.

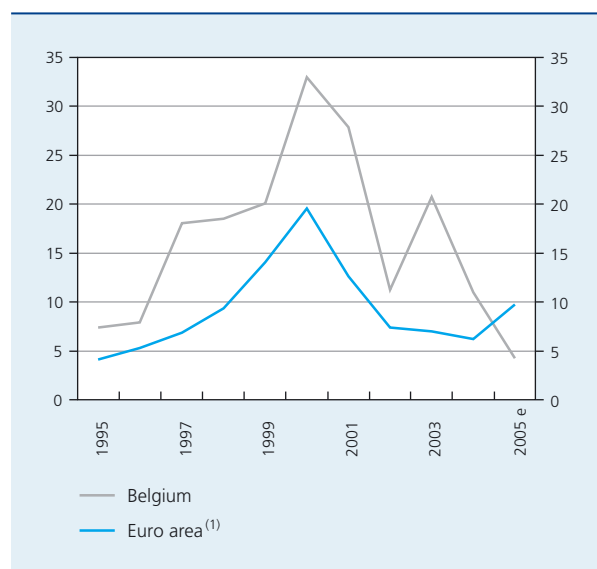
### 3. Trend in the financial liabilities of non-financial corporations

#### 3.1 New financial liabilities

In the past ten years, the trend in the volume of new financial liabilities of non-financial corporations, expressed in p.c. of GDP, has followed a similar pattern in Belgium and the euro area. There was a steady increase in the flows between 1995 and 2000, followed by a marked contraction between 2000 and 2002. After that, in the euro area, between 2002 and 2005, the level of new liabilities remained stable, then increased again at the end of the period, whereas in Belgium it continued to decline between 2003 and 2005. The movement in the new financial liabilities, in both the euro area and Belgium, is due mainly to the movement in loans and equities (ECB, May 2006). The pattern of share issues parallels the stock market fluctuations of the past decade and their impact on the cost of capital.

Compared to the picture for the euro area as a whole, the volume of new financial liabilities, expressed in percentages of GDP, is greater in Belgium throughout the reference period, except for the year 2005. As in the case of the assets, this situation reflects the presence of the coordination centres and non-financial holding companies in Belgium.

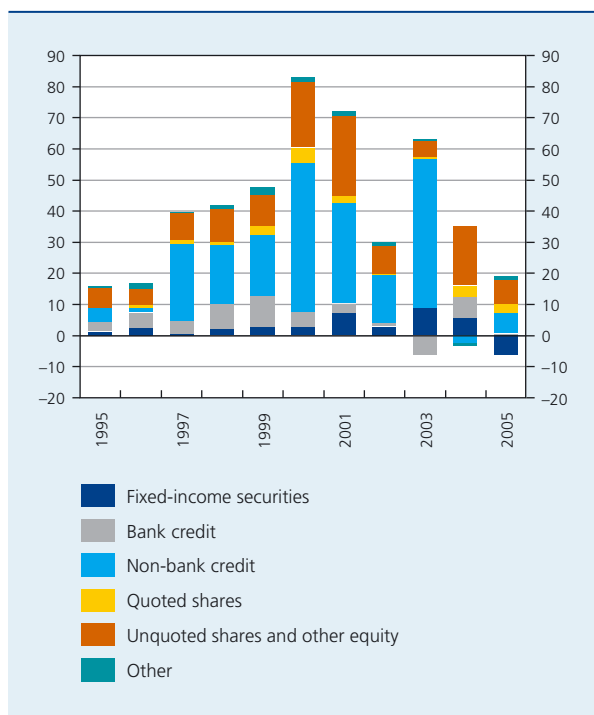
**CHART 4** NEW FINANCIAL LIABILITIES OF NON-FINANCIAL CORPORATIONS  
(Flows, percentages of GDP)



Sources: Eurostat, NBB.

(1) Excluding Ireland and Luxembourg.

**CHART 5** NEW FINANCIAL LIABILITIES OF NON-FINANCIAL CORPORATIONS: BREAKDOWN BY INSTRUMENT  
(Flows, billions of euro)



Source: NBB.

Looking at the volume of new financial liabilities of Belgian companies, it is apparent that, at the beginning of the period (1995-1996), the flows were relatively modest, with amounts in the order of 17 billion euro. They increased rapidly in the following three years (1997-1999), mainly as a result of the accelerating rate of both bank and non-bank credit expansion. Over this period, non-financial corporations had contracted new liabilities totalling 43 billion euro, on average. During the years 2000 and 2001, the volume of issues of unquoted shares and other equity increased, with continuing sustained recourse to loans. These developments helped to boost the volume of new liabilities of non-financial corporations to an average of 77 billion euro during those two years. From 2002, net new liabilities showed a decline.

Loans have been the main financing tool used by non-financial corporations over the past ten years, except in the years 2004 and 2005. Firms mainly had recourse to non-bank credit, most of it consisting of loans between undertakings, whether or not belonging to the same group. The scale of these intersectoral flows is impressive. From 1995 to 2005, they averaged around 20 billion euro per annum, or almost half of the average new liabilities of non-financial corporations. The presence of the

coordination centres in Belgium is the primary reason for this situation, plus to a lesser extent the presence of the non-financial holding companies.

The analysis of bank credit reveals the following points: after a period of growth from 1995 to 1999, the flow of lending to non-financial corporations by Belgian and foreign credit institutions slowed down and actually became negative in 2003. It subsequently recovered. More recently, the drop in bank credit to non-financial corporations in 2005, compared to 2004, has contrasted with the situation prevailing in the euro area, where this lending has gradually accelerated (NBB, 2006). According to the available indicators (constant decline in the utilisation rate of credit since mid 2004, downward trend in demand for credit originating from non-financial corporations), this situation in Belgium is probably due to demand factors.

Finally, with regard to equities, it is evident that during the period from 1995 to 2005, there have been wide fluctuations in issuance over time, in the case of both quoted and unquoted shares<sup>(1)</sup>. Firms are in fact very aware of the relative costs of the various forms of financing available to them. The role of equities in the financing of companies in Belgium was analysed in detail in a previous issue of the Economic Review (September 2006). We refer the interested reader to that article.

### 3.2 Outstanding total of financial liabilities of non-financial corporations

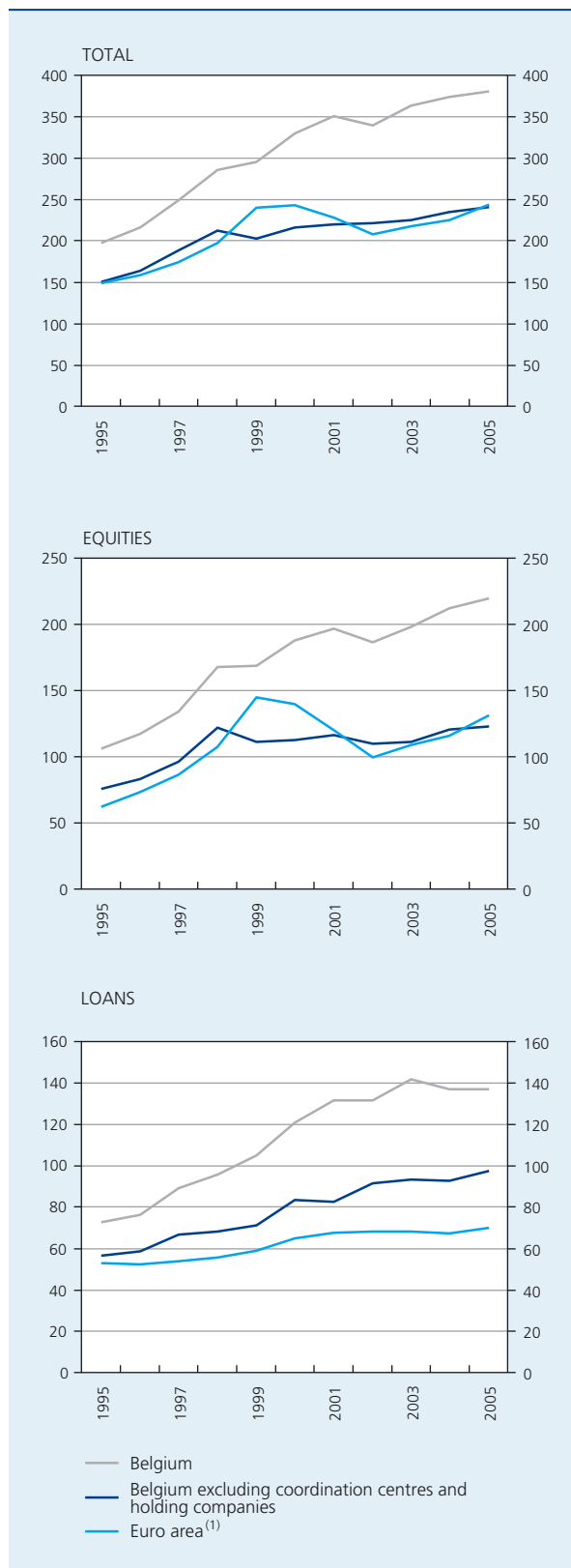
Between 1995 and 2005, the outstanding total of the financial liabilities of non-financial corporations located in Belgium grew rapidly, expanding from 197 p.c. of GDP at the end of 1995 to 381 p.c. of GDP at the end of 2005. Over the same period, the financial liabilities of firms in the euro area grew from 149 to 244 p.c. of GDP.

In Belgium, the growth of financial liabilities is determined primarily by the scale of equity issuance and debts recorded as corporate liabilities. In the euro area, the movement in the outstanding total of equity issuance is a major factor influencing the total financial liabilities of firms.

As in the case of assets, the growth of the financial liabilities of Belgian non-financial corporations is distorted by the presence of numerous coordination centres, which concentrate in particular on the financing and cash management operations of multinational groups, and non-financial holding companies which are also used to channel funding to Belgian companies.

(1) The flows of unquoted share issues mirror very closely the trend in quoted share issues, suggesting that they are determined by the same factors.

**CHART 6** FINANCIAL LIABILITIES OF NON-FINANCIAL CORPORATIONS  
(Outstanding totals, end of period, percentages of GDP)



Sources: Eurostat, NBB.

(1) Excluding Ireland and Luxembourg.

The liabilities of these two types of companies underlying numerous financing transactions have in fact shown sustained growth over the past ten years, rising from 101 billion euro at the end of 1995 to 417 billion euro at the end of 2005. They consist mainly of equities in the case of non-financial holding companies, and equities and loans in the case of the coordination centres. If the data relating to the coordination centres and non-financial holding companies are excluded from the total outstanding liabilities of Belgian non-financial corporations, the trend and level which emerge are similar to those recorded in the euro area. The stronger growth of the financial liabilities in the euro area during 1999 and 2000 is due to the intense stock market activity at that time. In Belgium, where unquoted shares predominate, the same phenomenon is not apparent.

Broadly speaking, the findings are the same if one considers the two main financing instruments of non-financial corporations, namely equities and loans. Expressed in percentages of GDP, the volume and trend for equities are similar to those seen in firms in the euro area, if the coordination centres and non-financial holding companies are excluded. Where loans are concerned, the presence of these two types of companies once again causes some distortion in the picture for the past ten years. If their data are excluded from the figures for other non-financial corporations, the profile of the outstanding total loans on the liabilities side of Belgian firms tallies more closely with that of firms in the euro area.

As regards the various financing channels used by Belgian firms, equity finance is the principal source. Over the past decade, while the proportion of quoted shares in corporate liabilities fluctuated in line with stock market activity, the proportion of unquoted shares and other equity increased steadily in relation to GDP. As already explained, the coordination centres – financed mainly by equity – are partly responsible for the strong growth of shares on corporate balance sheets.

The loans recorded as corporate liabilities have also risen in the past ten years. They consist mainly of non-bank credit, which represented 38 p.c. of GDP in 1995, but totalled 96 p.c. of GDP, or 287 billion euro, by the end of 2005. The share of bank credit has remained relatively stable in the past decade, accounting for around 40 p.c. of GDP.

The structure of the financial liabilities of Belgian non-financial corporations therefore changed somewhat between 1995 and 2005. Equities clearly gained in importance: having represented 54 p.c. of total financial liabilities in 1995, they amounted to 58 p.c. in 2005.

However, quoted shares became less important (representing only 10 p.c. of corporate liabilities in 2005, against 13 p.c. in 1995), while unquoted shares and other equity gained ground, representing 47 p.c. of GDP in 2005 (against 41 p.c. in 1995).

The share represented by loans was more or less the same in 1995 (37 p.c. of total financial liabilities) and in 2005 (36 p.c.). But here, too, it is necessary to distinguish between bank and non-bank credit. In 1995, these two types of credit represented more or less equal shares (18 p.c. and 19 p.c. of the total), but in 2005, non-bank credit accounted for 25 p.c. of the financial liabilities, against 11 p.c. for bank credit.

The share of the various counterparty sectors in the financing of Belgian firms has also changed. In 2005, the latter obtained finance mainly from other non-financial corporations and the rest of the world, totalling 442 and 445 billion euro respectively. These were also the two sectors where corporate financial liabilities have shown the largest increase in the past ten years. The share of other non-financial corporations and the rest of the world in corporate financing was in fact proportionately greater in 2005 than in 1995. Whereas, in 1995, firms obtained 31 p.c. of their finance from other non-financial corporations and 23 p.c. from the rest of the world, in 2005, these two sectors gained in importance, together accounting for almost 80 p.c. of the financing requirements of non-financial corporations (or 39 p.c. each). The share of the other economic agents has therefore declined in relative terms. At the end of 2005, household assets held with non-financial corporations represented only 8.1 p.c. of total corporate liabilities (against 17.4 p.c. at the end of 1995), those of financial institutions came to 12.4 p.c. (against 26.3 p.c.) and those of general government 1.5 p.c. (against 2.4 p.c.).

## Conclusion

In recent years, Belgian non-financial corporations have formed substantially more financial assets than their counterparts in the euro area. In 2005, the financial assets held by Belgian companies were – partly for that reason – almost double the financial assets, expressed in percentages of GDP, of non-financial corporations in the euro area.

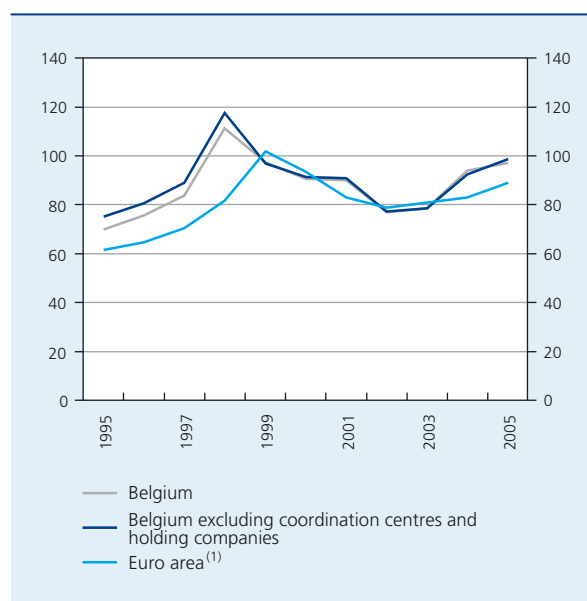
However, this situation certainly does not indicate any risk aversion on the part of Belgian non-financial corporations. In fact the liabilities side of their balance sheets also records growth of new financial liabilities in excess of the figure for non-financial corporations in the euro area, so

that – in terms of liabilities, too – the outstanding total in Belgium is comparatively much higher than the outstanding total in the euro area.

This paradoxical situation of Belgian non-financial corporations – the fact that they hold much more substantial assets while at the same time contracting significantly greater liabilities – is due to the fact that the Belgian non-financial corporations sector includes coordination centres and non-financial holding companies, i.e. undertakings acting, as it were, as financial intermediaries. If the coordination centres and non-financial holding companies are excluded, the overall outstanding total gross assets and liabilities of Belgian non-financial corporations reverts to a level very close to the figure for the euro area.

Finally, in 2005, Belgian non-financial institutions recorded an outstanding total of net liabilities amounting to around 100 p.c. of GDP, i.e. slightly more than the outstanding total for non-financial corporations in the euro area. It is also apparent that the exclusion of the coordination centres and non-financial holding companies has hardly any effect on Belgium's net debtor position, confirming that these two types of institutions perform an intermediary function.

**CHART 7** NET FINANCIAL LIABILITIES OF NON-FINANCIAL CORPORATIONS  
(Outstanding totals, end of period, percentages of GDP)



Sources: Eurostat, NBB.  
(1) Excluding Ireland and Luxembourg.

Although it is not possible to isolate the coordination centres and non-financial holding companies in the case of new transactions (flows), there is no reason to think that the effect would be any different: there would be a significant decline in the gross flows of new assets and liabilities, but that would have a negligible influence on the financial balance. That balance is very similar to the one for the euro area.

## Bibliography

Baugnet V. and G. Wuyts (2006), "The role of equities in corporate finance in Belgium", *Economic Review of the National Bank of Belgium*, September, 35-47.

ECB (2006), "Why have listed non-financial corporations in the euro area increased their cash holdings over the last three years?", *ECB Monthly Bulletin*, September, 41-43.

ECB (2006), "Equity issuance in the Euro Area", *ECB Monthly Bulletin*, May, 89-99 (and more particularly the box on pages 93-96).

Ferreira M.A. and A.S. Vilela (2004), "Why Do Firms Hold Cash? Evidence from EMU-countries", *European Financial Management*, 295-319.

International Monetary Fund (2006), *World Economic Outlook*, April, 135-159.

Minne P. and S. Douénias (2004), *Planification fiscale internationale des sociétés belges*, Larcier, Brussels.

National Bank of Belgium (2006), *Financial stability review*.

Opler T., L. Pinkowitz, R. Stulz and R. Williamson (1999), "The Determinants and Implications of Corporate Cash Holdings", *Journal of Financial Economics*, April, 3-46.

Passov R. (2003), "How Much Cash Does Your Company need?", *Harvard Business Review*, November, 119-128.