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Financial flows and balance sheets of households and non-financial corporations in 2018

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Abstract

The Financial Accounts of the Spanish Economy (FASE) show that in 2018 households received positive net bank financing for the first time since 2011, mainly due to the increase in consumer credit and other lending, while their saving ratio continued to fall, to a new historical low. These developments were, however, compatible with a further reduction in household bank debt (to 59% of GDP, down 26 percentage points (pp) from its peak in 2010). At the same time, the gross financial wealth of households edged down, for the first time since 2012, mainly as a result of the fall in value of their holdings of financial instruments caused by the global financial market tensions in the latter months of 2018. As regards firms, although their total borrowing in consolidated terms was positive in 2018, their debt ratio fell to 75% of GDP at the end of the year (down 43 pp from its 2010 peak). The market value of the equity securities of firms fell by 4.1% in 2018. This fall, the first since 2008, was a consequence of moderate fund raising and especially of the decline in value of these liabilities, largely owing to the drop in stock market indices at the end of 2018 (this drop was, however, reversed in the first few months of 2019).

Keywords: financing, credit, investment in financial assets, household debt, non-financial corporations and saving ratio.

JEL codes: D22, G21, L25, M21, R2.

FINANCIAL FLOWS AND BALANCE SHEETS OF HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS IN 2018

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Introduction

This article analyses the changes in the balance sheets and financial transactions of households and non-financial corporations (NFCs or firms) in 2018, drawing on information from the Financial Accounts of the Spanish Economy (FASE).[1] These changes were influenced by robust growth in the Spanish economy, although the rate was lower than in 2017, and by some deterioration in the external environment, especially towards the end of the year. In the financial arena, overall financial conditions remained accommodative from an historical perspective, although they gradually tightened during 2018. This process intensified in the latter months of the year, against a background of increased international macro-financial and geopolitical uncertainty, which led to a sharp increase in investor risk aversion, with widespread stock market falls, rising volatility and higher credit risk premiums.

In line with the dynamics observed in recent years, the 2018 FASE show a reduction in household[2] and NFC debt ratios. In the case of households, their bank debt[3] decreased to 96% of their gross disposable income (GDI), down 3 percentage points (pp) from 2017. In terms of GDP, household debt decreased by 2 pp in 2018, to 59%, down 26 pp from its peak in 2010 and 1 pp above the average level in the euro area. In the case of firms, their interest-bearing borrowing declined by 3 pp, with respect to 2017, to stand at 75% of GDP, 43 pp below the mid-2010 peak and 3 pp below the euro area average.

In 2018, household gross financial wealth fell for the first time since 2012. This was the result of a fall in the price of listed financial instruments during the year, which was not offset by the increase in investment in assets. Firms' own funds also fell in 2018, after several years of rises. As in the case of households, this change in trend was primarily determined by the deterioration in the behaviour of global financial markets, which impacted the price of assets in the latter months of the year.

Household financial flows and balance sheets

FINANCIAL FLOWS

In 2018, the household saving ratio stood at historical lows, reaching 4.9% of GDI at year-end. This level is 0.6 pp lower than in 2017 and also 1 pp below the saving ratio of 2007, its trough in the last upswing.

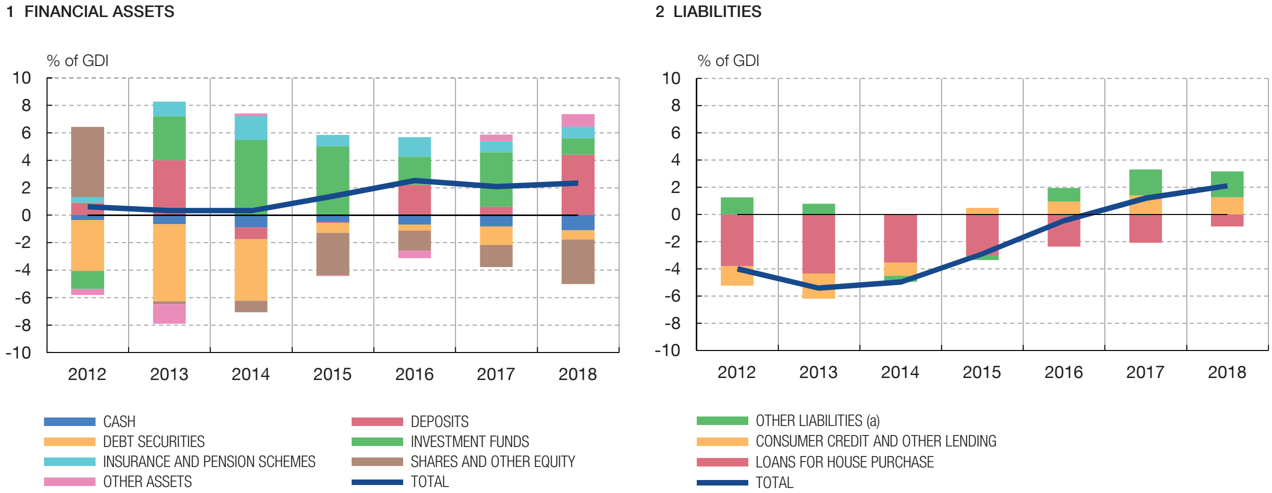
This behaviour was, however, compatible with continuation of the upward trend in the net acquisition of financial assets by households, the level of which stood in 2018 at 2.3% of GDI, 0.3 pp more than in 2017 (see Chart 1.1). Most of these investments took the form of bank deposits (4.4% of GDI), which increased notably with respect to 2017. By contrast, net investment fund purchases (1.2% of GDI) fell significantly relative to 2017, to their lowest level since 2012. As in previous years, households recorded net sales of securities, especially equity securities (3.2% of their GDI), but also bonds (0.7% of their GDI), and reduced their funds in the form of cash (1.1% of their GDI).

1 More detailed information on the FASE can be viewed at this link: https://www.bde.es/bde/es/secciones/informes/Publicaciones_an/Cuentas_Financie/.
2 The household sector referred to in this article includes non-profit institutions serving households (NPISHs).
3 The concept of bank debt used in this article includes securitised loans and those transferred to Sareb.

THE UPWARD TREND IN HOUSEHOLDS' NET ACQUISITION OF FINANCIAL ASSETS AND RECEIPT OF BANK FINANCING WAS EXTENDED

CHART 1

Most of household investment took the form of bank deposits, which increased notably in 2018, relative to 2017. By contrast, net acquisitions of investment funds declined significantly with respect to 2017. On the liabilities side, for the first time since 2011, households received net bank financing.



SOURCES: INE and Banco de España.

a Includes statistical adjustments.

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As mentioned above, in an environment of relatively stable interest rates (see Chart 2.1), these investment flows were influenced by the falls in stock market prices and investment fund returns recorded during 2018 (see Chart 2.2). These falls were especially significant in the latter part of the year, mainly because the monetary policy stance of the Federal Reserve was less accommodative than the markets expected, macroeconomic indicators disappointed and the trade negotiations between the United States and China were surrounded by pessimism. At the beginning of 2019, however, the deterioration in financial markets in late 2018 was reversed. This was made possible by the more accommodative monetary policy stance adopted by the world's main central banks and the positive surprises provided by activity indicators and business earnings. Even so, financial instrument prices remained highly volatile, as a result of the persistence of various sources of macro-financial and geopolitical uncertainty.

As regards liabilities, for the first time since 2011, households received net bank financing, equivalent to 0.2% of their GDI (see Chart 1.2).[4] In particular, the positive net flow of consumer credit and other lending (1.2% of GDI, in line with its 2017 levels) was larger than the fall in the amount of loans for house purchase[5] (0.9% of GDI, well below the contraction in 2017).

THE OUTSTANDING BALANCE OF FINANCIAL ASSETS AND LIABILITIES

Household gross financial wealth fell by 1.6% in 2018, to 293% of household GDI, reversing the upward trend that commenced in 2012. This fall was caused by the decline, mentioned above, in the price of financial assets recorded during the year (see Chart 3.1), which

4 The flow of total liabilities was positive owing to a high amount of other liabilities, in part associated with other accounts payable to general government (outstanding taxes and contributions) and to financial institutions.

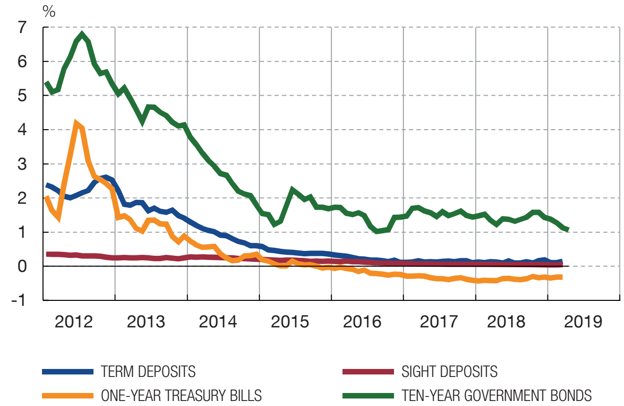
5 This was compatible with a slowdown in the growth rate of consumer credit, which has been occurring since mid-2017. The information on this breakdown is not obtained from the FASE but from the Banco de España's monetary and financial statistics.

INTEREST RATES HELD RELATIVELY STEADY IN 2018, WHILE STOCK MARKETS AND INVESTMENT FUND RETURNS FELL

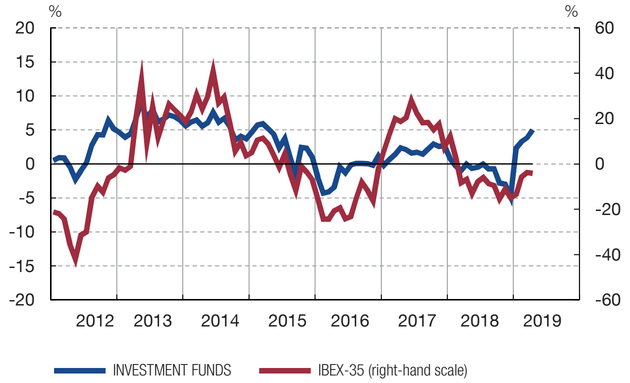
CHART 2

In the latter months of the year especially, the greater macro-financial and geopolitical uncertainty, and a Federal Reserve monetary policy stance that was less accommodative than the markets had expected, led to a sharp increase in investor risk aversion, which impacted stock market prices and the profitability of investment funds.

1 INTEREST RATES



2 IBEX-35 AND INVESTMENT FUNDN RETURNS (a)



SOURCES: INVERCO and Banco de España.

a Cumulative return over the last 12 months.

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mainly affected wealth in the form of equity securities (which amounted to 74% of household GDI at year-end), and wealth in the form of investment funds (which fell for the first time in recent years to 42% of GDI) (see Chart 3.2). In contrast to these declines, the weight of bank deposits in household wealth increased by 1 pp, so that these assets, which amount to 113% of GDI, continue to be the main component of household gross financial wealth. This growth was concentrated, once again, in sight deposits (88% of GDI, as against 81.5% in 2017), while the weight of term deposits declined (to 25.1% of GDI). Finally, cash remained on the downward path of previous years, reaching around 7% of GDI in 2018.

In 2018, household financial liabilities fell, with respect to both household GDI and GDP, mainly due to the growth in these reference variables. Thus, as a percentage of household GDI, household financial liabilities fell by 2 pp during 2018, to 107%. This was the result of two different dynamics. First, household debt to credit institutions was 96% of GDI at year-end, down 3 pp from 2017 and 37 pp below its peak in 2008 (see Chart 3.3). As in the previous two years, loans for house purchase fell (by somewhat more than 3 pp, to 71% of GDI), while consumer credit and other lending increased slightly (by 0.2 pp, to 25% of GDI).[6] At the same time, other financial liabilities of households increased by 0.9 pp during the year, to 10.7% of GDI.

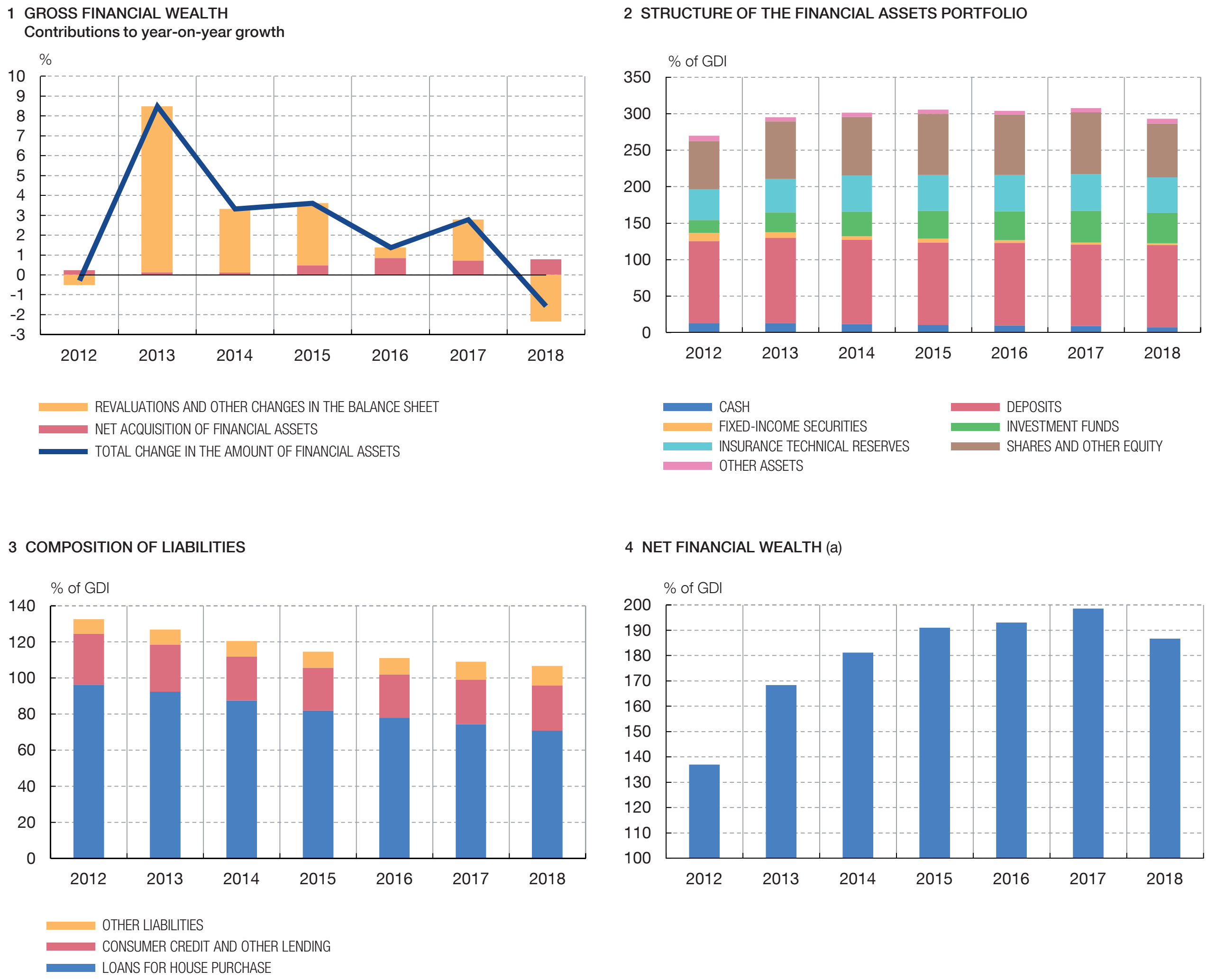
The decline in households' financial liabilities was smaller than the fall in their financial assets during the year, resulting in the first fall for eight years in the sector's net financial wealth (see Chart 3.4). In particular, the latter stood at 187% of GDI, almost 12 pp down from 2017.

6 For further details of recent developments in the consumer credit portfolio and its distribution according to level of household income, see the Spring 2019 *Financial Stability Report.*

THE GROSS FINANCIAL WEALTH OF HOUSEHOLDS FELL IN 2018 FOR THE FIRST TIME SINCE 2012

CHART 3

The gross financial wealth of households fell slightly in 2018, mainly as a result of the fall in the value of their financial instrument holdings. Households' financial liabilities also decreased as a percentage of their GDI and GDP, but to a lesser extent than gross financial wealth, which gave rise to the first fall in the net financial weatlh of households for eight years.



SOURCES: INE and Banco de España.

a Difference between financial assets and liabilities.

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Firms' financial flows and balance sheets

FINANCIAL FLOWS

Unlike in 2017, firms' gross saving ratio fell slightly in 2018 (by 0.3 pp), to 17.7% of GDP. Notwithstanding, NFCs' net investment in financial assets was again positive, in an amount equivalent to 4.8% of GDP, although the upward trend in this variable dating back to 2013 was broken (see Chart 4.1).

Most of the financial investment of NFCs was concentrated in equities (2.1% of GDP) and sight deposits (0.8% of GDP, included under the cash and deposits heading). Meanwhile, the flow of trade credit granted was positive (0.8% of GDP) for the fourth year running, which was compatible with an environment of growth in economic and business activity, while the flow of inter-company financing changed sign with respect to the previous year, turning positive (0.8% of GDP in 2018 as against -0.2% in 2017).

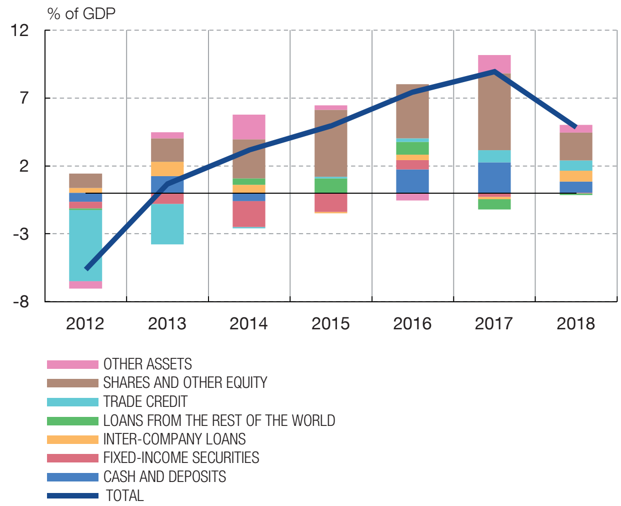
On the liabilities side, the net financing flows received by firms (both callable and non-callable funds) were positive for the fifth year running (see Chart 4.2). However, the amount

FLOWS OF CORPORATIONS' FINANCIAL ASSETS AND LIABILITIES SLOWED IN 2018, BREAKING THE UPWARD TREND OF RECENT YEARS

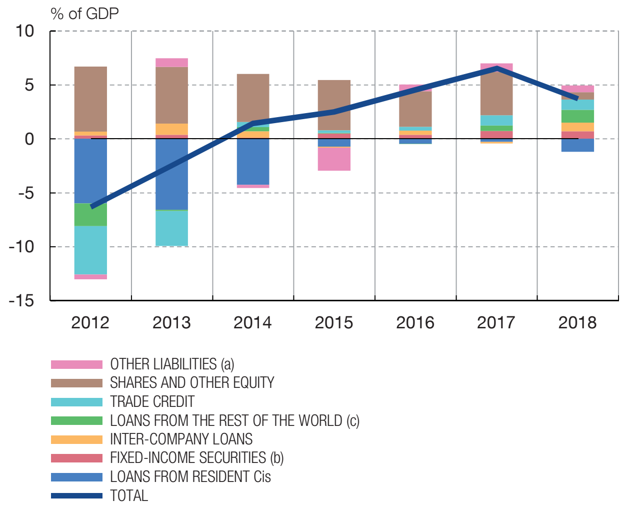
CHART 4

The financial investment of NFCs was concentrated in equity securities and sight deposits. On the liabilities side, net credit received by non-resident institutions was the main source of financing of firms in 2018, exceeding the financing obtained through shares and other equity.

1 FINANCIAL ASSETS



2 LIABILITIES



SOURCES: INE and Banco de España.

a Includes statistical adjustments.
b Includes net securities issues by resident subsidiaries of NFCs.
c Excludes trade credit.

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of these net flows fell from 6.5% of GDP in 2017 to 3.7% in 2018. By instrument, equity securities were not the main source of funding for the sector in 2018, in contrast to the preceding seven years. Instead, net financing obtained by means of loans from the rest of the world increased to 1.2% of GDP, so that these instruments became the main source of financing for firms in 2018. At the same time, as in previous years, against a background of low interest rates and corporate bond purchases by the Eurosystem, NFCs made net issues of fixed-income securities (including those made by the resident financial subsidiaries of NFCs)[7] in an amount equivalent to 0.7% of GDP. Finally, the flow of bank credit received by NFCs from resident institutions was again negative in net terms (-1.2% of GDP), a larger contraction than in 2017.

Taking into account asset and liability flows, the total flow of external financing (resident bank credit, fixed-income securities and loans from the rest of the world) raised by NFCs in consolidated terms in 2018 was positive, as in the preceding year, amounting to 0.8% of GDP.

OUTSTANDING BALANCE OF FINANCIAL ASSETS AND LIABILITIES

The gross financial wealth of the corporate sector remained practically unchanged in 2018, in contrast to the growth in previous years. This was the result of an increase in firms' financial assets, which was almost totally offset by the fall in their price, largely associated, as in the case of households, with the downward correction to bond and equity prices in the final quarter of the year (see Chart 5.1).

The composition of NFC's financial portfolio showed certain changes with respect to the previous year (see Chart 5.2). In line with the developments for households, equity

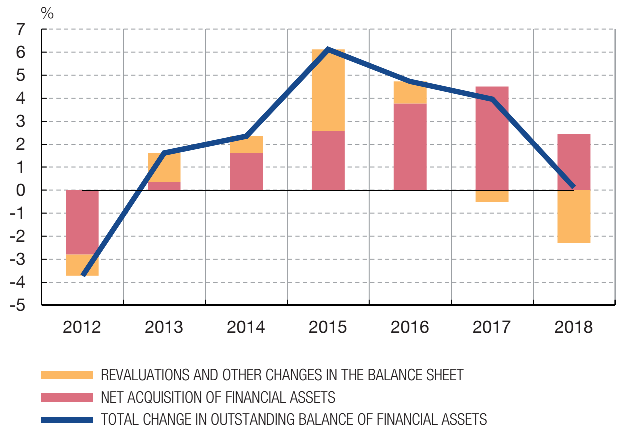
7 The information on these breakdowns is not taken from the FASE, but from the Banco de España's securities statistics.

THE GROSS FINANCIAL WEALTH OF THE CORPORATE SECTOR REMAINED PRACTICALLY UNCHANGED IN 2018, WHILE ITS OWN FUNDS FELL

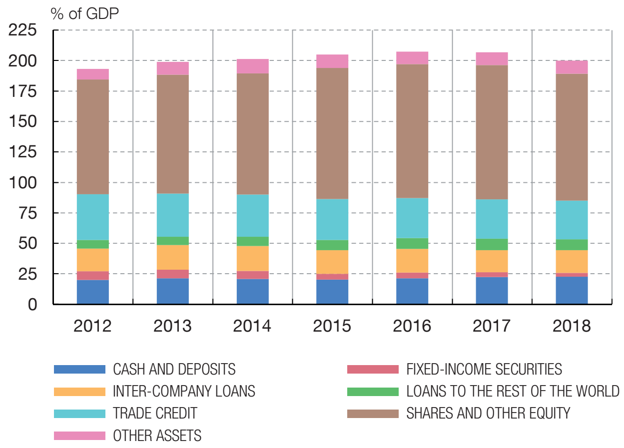
CHART 5

The increase in firms' financial assets was offset by the fall in their prices, so that the gross financial wealth of NFCs barely changed in 2018. The volume of NFCs' non-consolidated claimable liabilities fell to 130% of GDP, while the weight of banks loans granted by resident institutions in total external financing decreased for the ninth consecutive year.

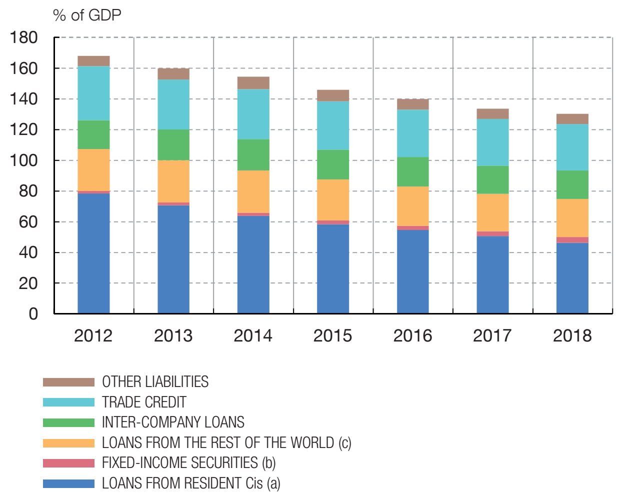
1 GROSS FINANCIAL WEALTH
Contributions to year-on-year growth



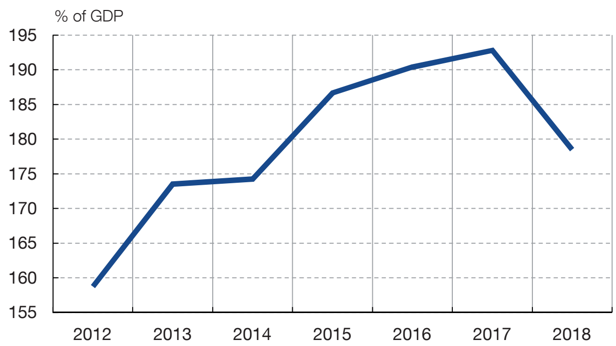
2 STRUCTURE OF THE FINANCIAL ASSETS PORTFOLIO



3 CLAIMABLE LIABILITIES



4 OWN FUNDS



SOURCES: INE and Banco de España.

a Includes off-balance-sheet securitised loans and loans transferred to Sareb.
b Includes securities issued by resident subsidiaries of NFCs.
c Excludes trade credit.

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securities declined as a proportion of the total financial assets of firms, although this component, in which unlisted equities predominated (74% of the total), continues to be the main financial asset of the sector (52.1% of total assets). By contrast, the proportion of cash and deposits increased slightly, with the weight of term deposits falling, while that of sight deposits increased.

The volume of NFC's non-consolidated claimable liabilities[8] fell by 3.4 pp of GDP from their level in 2017, partly due to the growth of nominal output, to stand at 130% (see

8 This variable is defined as the total amount of liabilities less the amount of shares and other equity.

Chart 5.3). By component, the weight of bank loans granted by resident institutions in total external financing continued to fall for the ninth consecutive year, to 35.4% of the total (down 2.4 pp from 2017), while that of trade credit increased by 0.5 pp, to 23.3%. Meanwhile, the importance of foreign loans and securities other than shares, a source of funding basically used by a small proportion of large firms, increased to 19% and 2.9% of the total, respectively. As a result of these developments, the debt ratio (essentially bank credit from resident institutions, foreign loans and fixed income securities)[9] fell by 3 pp in 2018, to stand at 75% of GDP, down 43 pp from mid-2010, when an historical high was recorded.

Lastly, the value of NFC's own funds (i.e. shares and other capital holdings) fell by 4.1% during the year, the first fall since 2008, due to the combined effect of moderate fund raising and a considerable decline in the value of these instruments. By component, the largest fall in the balance was recorded by listed shares (-11%), followed by other equity securities (-4.1%) and, to a lesser extent, unlisted shares (-0.1%). In terms of GDP, given the growth in nominal output, the decline in own funds was sharper: 13.5 pp, to 179% (see Chart 5.4).

11.6.2019.

9 This definition is an approximation of the concept of consolidated debt (i.e. deducting from total debt the liabilities vis-à-vis the sector itself).