FINANCIAL FLOWS AND BALANCE SHEETS
OF HOUSEHOLDS AND NON-FINANCIAL
CORPORATIONS IN 2019

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The Financial Accounts of the Spanish Economy show that in 2019 households received, for the second consecutive year, positive net bank financing in a moderate amount, similar to that received in 2018, mainly owing to the increase in consumer and other lending. These developments were compatible with a further reduction in household bank debt (to 57% of GDP at year-end, down 2 percentage points (pp) from the level in 2018 and 29 pp from its peak in 2010). At the same time, the gross financial wealth of households increased – unlike in 2018 – mainly as a result of the rise in value of their financial portfolio, in line with the appreciation of stock market indices and fixed-income securities. As regards firms, the net flow of bank lending received from resident financial institutions was once again negative, in an amount slightly lower than that of the previous year, contributing to a drop in their debt ratio to 73% of GDP, down 2 pp from 2018 and 47 pp from the maximum levels recorded in mid-2010. Finally, in contrast to the previous year, non-financial corporations’ own funds increased, owing to both fund raising via this channel and, to a greater extent, the increase in the value of these instruments.

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

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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 2019, drawing on information from the Financial Accounts of the Spanish Economy (FASE).

These changes took place in an environment influenced by the expansionary phase of the Spanish economy, with GDP growth of 3.1% for the year as a whole, and by the continuation of very accommodative financial conditions, supported by a highly expansionary monetary policy which helped interest rates remain at record lows. In parallel, stock market prices posted increases, with low volatility levels.

The FASE show that the financial position of households and NFCs continued to strengthen in 2019. Both sectors’ debt ratios continued to decrease. In the case of households, indebtedness stood at 91% of their gross disposable income (GDI), down 4 percentage points (pp) from 2018. In terms of GDP, household debt decreased to 57%, down 2 pp from the level in 2018 and 29 pp from its peak in 2010. In the case of firms, their interest-bearing borrowings stood at 73% of GDP, 2 pp lower than in 2018 and 47 pp below the mid-2010 peak. At the same time, households’ gross financial wealth increased once again, driven both by investment in financial assets and, to a greater extent, by the appreciation of their portfolio.

In 2019, most household financial investment took the form of bank deposits, followed by collective investment instruments (investment funds, pension funds and insurance). Firms’ investment once again was mainly concentrated in shares and other equity and, to a lesser degree, deposits.

Following this introduction, this article comprises two further sections. The first section describes changes in the financial flows and balance sheets of households and the second section includes a similar analysis for NFCs.

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1 More detailed information on the FASE can be viewed at this link: https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesAnuales/CuentasFinancierasEconomia/2019/Files/Cfee_2019_en.pdf. An extraordinary review of the FASE was conducted in 2019, following the agreements reached at the European level for the consistent revision of macroeconomic statistics (for further details, see Statistical Note 12) modifying the information in the time series relating to the financial assets and liabilities of households and firms.
Household financial flows and balance sheets

Financial flows

In 2019, households made their financial decisions against a background of an increase in their gross saving ratio of 1.4 pp, to 7.4% of GDI, the highest level reached since 2013. Monetary and financial conditions were characterised by low interest rate levels. Thus, bank deposit rates were virtually zero and long-term government bond yields followed a downward trend, posting very low values throughout the year (see Chart 1.1). Stock market prices rose progressively over the course of 2019, in a setting of low volatility of the main global indices. In line with these developments, annual average investment fund returns followed a rising pattern over the course of the year, reaching positive territory during 2019 H2 (see Chart 1.2).

Against this backdrop, the net acquisition of financial assets by households increased by nearly 1 pp, to 5.1% of their GDI (see Chart 2.1). The bulk of household financial investment took the form of bank deposits (5.9% of their GDI). Continuing the trend of prior years, savings invested in instruments managed by institutional investors continued to gain weight, to the detriment of direct holdings of securities. Thus, investment in insurance and pension plans increased (1% of their GDI, compared with 0.5% a year earlier) and the net acquisition of shares in investment funds was...
once again positive (0.9% of their GDI), but lower than in 2018. Net investment in shares and other equity was again negative (-2.2 of their GDI), while the acquisition of fixed-income securities was positive, although by a small amount. Lastly, cash holdings continued to decline (by an amount equivalent to 1% of their GDI), as in the previous nine years.

As regards liabilities, for the second year running, households increased their debt in the form of bank loans moderately.

2 By component, the same profile of the last four years was observed again in 2019. On one hand, there was a positive net flow linked to consumer credit and lending other than for house purchase (0.9% of GDI), somewhat lower than that posted in 2018 (1.4%). In contrast, as regards loans for house purchase,3 once again the amount of repayments exceeded the volume of new lending, such that the net flow of total liabilities was positive owing to a high amount of other liabilities, in part associated with statistical adjustments and with other accounts payable to general government (outstanding taxes and contributions) and to financial institutions.

3 The information on this breakdown is not obtained from the FASE but from the Banco de España’s monetary and financial statistics.
result was a decline in the balance, albeit more moderate than that in 2018 (-0.6% of GDI in 2019, compared with -1.1% the previous year).

The outstanding balance of financial assets and liabilities

Unlike the previous year, households’ gross financial wealth grew by 6.1% in 2019 (see Chart 3.1). This rise was caused both by the acquisition of new assets and, to a greater extent, by the increase in value of their financial portfolio, in line with the appreciation of stock market indices and fixed-income securities. In terms of GDI, the gross financial wealth of households stood at 309%, 7 pp more than a year earlier and the highest level since 2017.

Changes in asset prices and in the investment preferences of households translated into some changes in the relative weight of the different instruments composing their portfolio (see Chart 3.2). In particular, there was a slight increase in the proportion of assets most linked to changes in securities markets, such as investment fund shares, shares and other equity, and insurance technical reserves and pension funds (overall, 180% of GDI, 5 pp more than a year earlier). For the second consecutive year, the weight of bank deposits increased by 1.7 pp, accounting for 112% of GDI. Therefore, it continues to be the main component of household gross financial wealth. Cash continued on the downward trend of prior years, standing in 2019 at levels near 6% of GDI.

As regards liabilities, the household debt ratio closed the year at 91% of GDI, 4 pp less than in 2018 and 44 pp below the peak in 2008 (see Chart 3.3). By instrument, performance in 2019 was similar to the previous year: the outstanding balance of loans for house purchase fell by 3 pp relative to the GDI, to 66% of total bank liabilities, as did that of consumer and other lending, albeit slightly (0.2% of GDI), adding up to nearly 24% of GDI. By contrast, the volume of other liabilities increased slightly, coming close to 9% of GDI.

The increase in the balance of households’ financial assets, together with the decline in their liabilities, led to a fresh increase in the sector’s net financial wealth, which reached 210% of GDI, the highest level in the last 15 years (see Chart 3.4).

Firms’ financial flows and balance sheets

Financial flows

Net investment by NFCs in financial assets was again positive in 2019, for an amount equal to 5.6% of GDP. However, the level of net investment was the lowest in the last five years (see Chart 4.1).
Firms’ financial investment decisions displayed some similarities to 2018. These flows were concentrated in equities and sight deposits, while holdings of fixed-income securities rose slightly. The slowdown in economic and business activity, compared with previous years, and the decrease in average collection periods led to a slight contraction in trade credit extended (and received). The flow of inter-company financing was very low and below that of 2018.
Net financing flows received by firms (both callable and non-callable funds) were, for the fifth year running, positive, in this case amounting to 5.3% of GDP (lower than the 8.8% recorded in 2018) (see Chart 4.2). By instrument, shares and other equity continued to be the main source of funding, although the amount of funds obtained through this channel was lower than in previous years (3.3% of GDP, compared with 5.8% in 2018). These funds were obtained by issuing listed (0.4% of GDP) and unlisted (1.5% of GDP) shares, and through other equity (1.4% of GDP).

As regards borrowed funds, the flow of bank lending from resident financial institutions was again negative, down slightly on the 2018 figure (-0.4% of GDP). By contrast, in 2019 net issues of fixed-income securities, which were positive and higher than in 2018 (1.1% of GDP), increased. This was driven by the low cost of raising funds through these instruments, to which the Eurosystem’s corporate sector purchase programme has partly contributed. Lastly, net loan financing from the rest of the world was negative (-0.1% of GDP). This had not been the case since 2012. Thus, in 2019 the total flow of external financing raised, in consolidated terms, by NFCs (resident bank credit, fixed-income securities and loans from the rest of the world) was positive and amounted to 0.5% of GDP.

**Sources:** INE and Banco de España.

- Including statistical adjustments.
- Including net issues of securities by resident subsidiaries of NFCs.
- Excluding trade credit.

Investment was concentrated in equities and liquid assets, while funding mainly took the form of shares and other equity, and, to a lesser extent, issues of fixed-income securities.
The outstanding balance of firms’ financial assets increased again in 2019, doing so at a faster pace than in 2018 (6.6%, compared with 3.2% in 2018). This was mainly driven by the increase in asset prices and other changes in volume, and, to a lesser extent, by firms’ investment in financial assets (see Chart 5.1).

Sources: INE and Banco de España.

a Including off-balance-sheet securitised loans and loans transferred to Sareb.

b Including securities issued by resident subsidiaries of NFCs.

c Excluding trade credit.
The structure of NFCs’ financial portfolio changed somewhat compared with its composition in 2018 (see Chart 5.2). The weight of shares and other equity increased, thus remaining the portfolio’s main component, amounting to around 55% of the total (equal to 124% of GDP), with the particularity that unlisted equities continued to account for the bulk of this category (46% of total financial assets). The proportion of cash and deposits also changed, increasing slightly to 23.2% of GDP. The balance of fixed-income securities grew for the first time in three years and amounted to 2.3% of GDP. Trade credit and inter-company financing fell, accounting for 31.4% and 20.2% of GDP, respectively.

The volume of NFCs’ non-consolidated claimable liabilities fell by 4.4 pp of GDP in 2019 to stand at 130% of GDP, prolonging the downward trend which started in 2010 (see Chart 5.3). By component, bank loans granted by resident institutions, in terms of GDP, continued to fall for the tenth year running, standing at 37% of GDP. Meanwhile, trade credit dropped to 30.4% of GDP. In turn, the importance of foreign loans and securities other than shares, a source of funding basically used by a small proportion of large firms, performed mixedly. The former decreased to 24.4% of GDP, while the latter increased to 9.6% of GDP, its highest level since 2005. Inter-company financing held relatively stable, amounting to 20.2% of GDP. As a result of these developments, the debt ratio (bank credit from resident institutions, foreign loans and fixed-income securities) fell by 2 pp in 2019 to stand at 73% of GDP, down 47 pp from mid-2010, when a historical high was recorded.

Lastly, in contrast to 2018, NFCs’ own funds rose 8.9%, as a result of both fund raising and the retention of earnings through this channel, and, to a greater extent, the increase in value of these instruments. The three components (listed shares, unlisted shares and other equity) made a similar contribution to this increase. Consequently, the own funds-to-GDP ratio returned to an upward path in 2019 (ending the year at 216%, an increase of 11.4 pp), as a result of the value of own funds growing more intensely than nominal GDP (see Chart 5.4).