BANCO DE ESPAÑA
Eurosistema

ECONOMIC BULLETIN 2/2018
ANALYTICAL ARTICLES

Financial flows and balance sheets of households and non-financial corporations in 2017

Víctor García-Vaquero and Juan Carlos Casado

14 June 2018

The *Financial Accounts of the Spanish Economy* reveal that the financial position of households and non-financial corporations once again strengthened in 2017. In the case of households, bank debt stood at 61% of GDP, 3 pp down on 2016 and 24 pp below its 2010 peak. As in previous years, there was a decline in loans for house purchase, which was partly offset by the increase in consumer credit and other lending. The gross financial wealth of households continued on a rising trend, as a result both of investment in financial assets and of the revaluation of financial instruments held by households. In the case of corporations, the flow of total borrowings raised, in consolidated terms, was positive – following the virtual zero amounts of the two previous years and the negative amounts of the four preceding years – of the order of a volume equivalent to 0.8% of GDP, the highest level since 2009. In terms of outstanding balances, this debt accounted in 2017 for 78% of GDP, 5 pp down on 2016 and 39 pp below the 2010 peak. Corporations' own funds grew by 3.2%, as a result both of the raising of funds and of the revaluation of these liabilities, as has been the case since 2015.

FINANCIAL FLOWS AND BALANCE SHEETS OF HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS IN 2017

The authors of this article are Víctor García-Vaquero and Juan Carlos Casado of the Directorate General Economics, Statistics and Research.

Introduction

The aim of this article is to analyse the changes in the balance sheets and the financial transactions of households and non-financial corporations (NFCs) in 2017, drawing on information from the Financial Accounts of the Spanish Economy (FASE[1]). The environment in which these changes took place was influenced by the prolongation of the upturn in the Spanish economy, with GDP growth of 3.1% over the year as a whole, and by continuing and very accommodative financial conditions for households and firms, underpinned by a highly expansionary monetary policy that was instrumental in holding interest rates at historical lows. In parallel, stock market prices posted increases, with low volatility levels.

The FASE show that the financial position of households[2] and NFCs strengthened once again in 2017. The debt ratios of both sectors continued to decline. In the case of households, bank debt[3] accounted for a figure equivalent to 99% of their gross disposable income (GDI), entailing a 3 pp decline on 2016. In terms of GDP, the debt in this sector accounted for 61%, 3 pp down on 2016 and 24 pp down on the 2010 peak. In the case of firms, interest-bearing borrowing stood at 78% of GDP, 5 pp below the 2016 level and 39 pp below the peaks as at mid-2010. At the same time, households' gross financial wealth increased once more, boosted both by investment in financial assets and by revaluations.

During 2017, most household investment was in investment funds, followed by the acquisition of pension and insurance schemes and of bank deposits, while direct holdings of transferable securities declined. By contrast, in the case of firms, investment was once more chiefly concentrated in shares and other equity and, to a lesser extent, in deposits.

Following this introduction, the article comprises two further sections: the first describes household financial flows and the changes in their financial balance sheets in 2017; and the second performs a similar analysis for non-financial corporations.

The changes in household financial flows and balance sheets

FINANCIAL FLOWS

The household gross saving ratio stood at 6% of GDI in 2017 (i.e. 1.7 pp down on the 2016 figure), marking a continuation of the declining trend of recent years and its lowest level since 2007. Against this background, the sector's net acquisition of financial assets remained positive, but fell by 1.3 pp of its GDI in relation to the figure a year earlier, standing at close to 2% of its GDI (see Chart 1.1).

The key aspect in 2017 of household financial asset flows was the heavy concentration in acquisitions, in net terms, of investment fund shares (4.3% of their GDI), more than double those of the previous year. Secondly, at a sizeable distance, were investments in insurance instruments and pension schemes (0.8% of GDI) and in bank deposits (0.6% of GDI), in both cases with lower figures than in 2016.

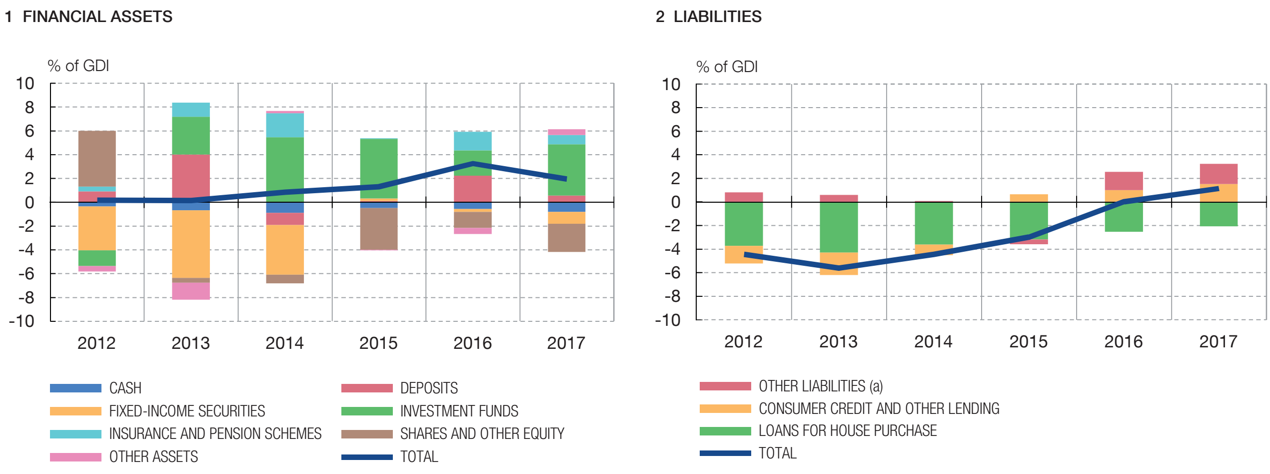
1 More detailed information on the FASE can be viewed in this link: https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesAnuales/CuentasFinancierasEconomia/2017/Files/Cfee_2017_en.pdf.

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.

HOUSEHOLD FINANCIAL FLOWS

CHART 1



SOURCES: INE and Banco de España.

a Includes statistical adjustments.

Ongoing direct divestment of transferable securities continued, given that, on one hand, net investment in shares and other equity turned negative once more (-2.4% of GDI) and on a greater scale, in absolute terms, than that observed the previous year (-1.3%). The bulk of the decline continued to be concentrated in listed shares (-2.2% of GDI). Further, households also reduced their holdings of fixed-income securities (-1% of GDI), meaning that the declining trend dating back to 2012 (and interrupted solely in 2015) continued. Funds in the form of cash continued to diminish (for an amount equivalent to 0.8% of GDI), as was the case during the six previous years.

These developments came about against the backdrop of the continuing and very low levels of short-term interest rates on bank deposits, negative yields on Treasury bills and low – but positive – yields on long-term debt, which were relatively stable throughout the year (see Chart 2.1). Stock market prices rose over the course of the year, amid the low volatility of indices, and the average return on investment funds also remained in positive territory (see Chart 2.2). The low level of interest rates has contributed to increasing the appeal of investment funds over other instruments, such as bank deposits which, in terms of outstanding balances, remain the main investment vehicle for households.

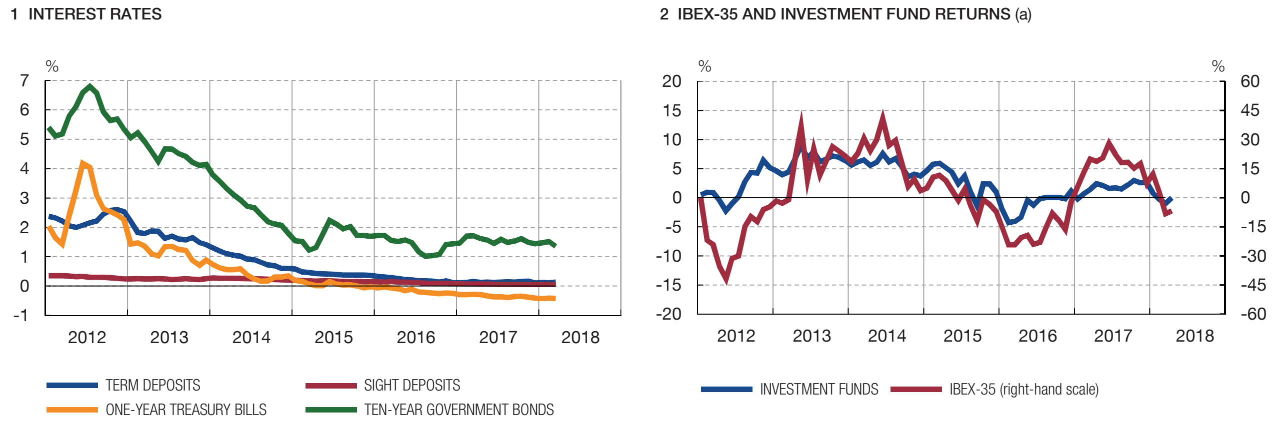
Turning to liabilities, ongoing household deleveraging continued in 2017, meaning that the net bank financing raised by this sector was once again negative, albeit for a more moderate amount than a year earlier: -0.6% of GDI, compared with -1.6% in 2016 (see Chart 1.2).[4] In terms of components, the same profile as the last two years was observed in 2017: first, the positive net flow linked to household debt in respect of consumer credit and other lending continued (1.5% of GDI, somewhat higher than the figure of 1% for 2016), while as far as loans for house purchase[5] are concerned, repayments once again exceeded new business, meaning that the net result was a decline in the outstanding balance, albeit one more moderate than that in 2016 (2.1% of GDI in 2017, compared with 2.5% the previous year).

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 The information on this breakdown is not obtained from the FASE but from the Banco de España's monetary and financial statistics.

RETURN ON FINANCIAL ASSETS

CHART 2



SOURCES: INVERCO and Banco de España.

a Cumulative return over past twelve months.

CHANGES IN THE OUTSTANDING BALANCE OF FINANCIAL ASSETS AND LIABILITIES

Household gross financial wealth rose by 2.1% in 2017, a higher rate than that observed in 2016 (see Chart 3.1). This was the outcome of a positive contribution by the volume of acquisitions (0.7 pp) and, to a greater extent, of a rise in asset prices (1.4 pp), in line with the revaluation of stock market indices and the stability of bond prices. In terms of GDI, household gross financial wealth stood at 300%, practically the same figure as for the previous two years.

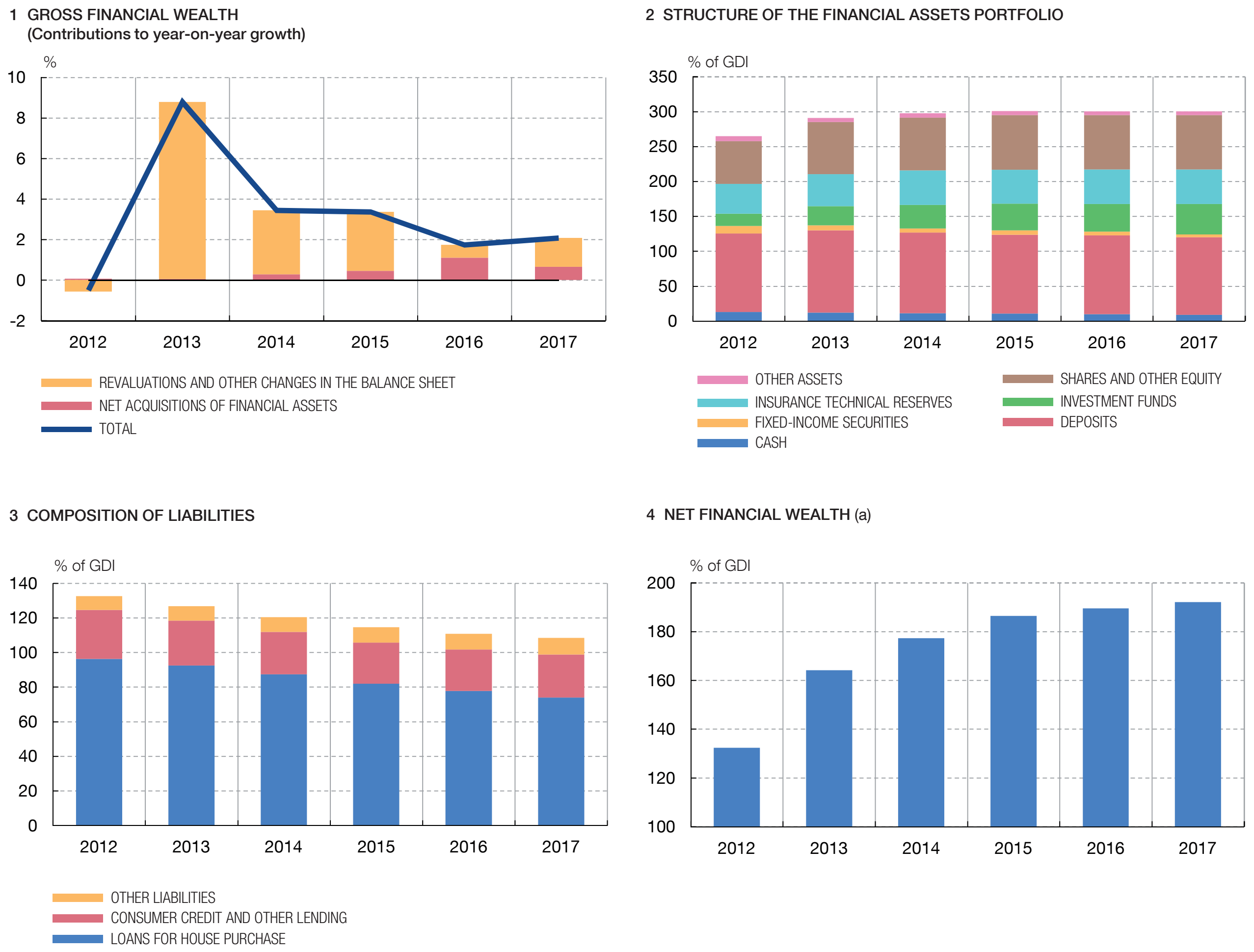
These developments have prompted certain changes in the relative weight of the various assets comprising household gross wealth, which in many cases entail a prolongation of the patterns recorded in 2016. Thus, in terms of instruments, the most notable aspect of the portfolio was the appreciable increase in the relative significance of investment funds, which increased by 3.8 pp, to account for close to 44% of GDI (see Chart 3.2). The weight of shares and other equity and of insurance technical reserves held stable, at levels close to 78% and 50% of GDI, respectively. Conversely, the weight of bank deposits fell by 1.7 pp, continuing on the declining trend initiated in 2013, although they continue to be the main component of household gross financial wealth (somewhat more than 111% of GDI). This decline was concentrated, once again, in term deposits in 2017, since the weight of sight accounts rose. Cash continued on the declining path of previous years, standing at levels somewhat lower than 9% of GDI in 2017.

As regards liabilities, households' debt ratio with credit institutions ended the year at 99% of GDI, 3 pp down on 2016 and 34 pp below the 2008 peak (see Chart 3.3). In 2017 there was, as in the two previous years, an uneven performance across the various instruments: loans for house purchase fell by almost 4 pp relative to GDI, accounting for 74% of total bank liabilities, while consumer credit and other lending increased slightly (0.7 pp of GDI), attaining a weight close to 25%. As to other liabilities, their volume relative to GDI also grew, drawing close to 10%.

As has been the case over recent years, the increase in financial assets, combined with the decline in household liabilities, in terms of their GDI, led to a further increase in the sector's net financial wealth, which climbed to 192% of GDI, entailing an increase (1.3 pp) similar to that observed in 2016 (see Chart 3.4).

OUTSTANDING BALANCE OF HOUSEHOLD FINANCIAL ASSETS AND LIABILITIES

CHART 3



SOURCES: INE and Banco de España.

a Difference between financial assets and liabilities.

Changes in firms' financial flows and balance sheets

FINANCIAL FLOWS

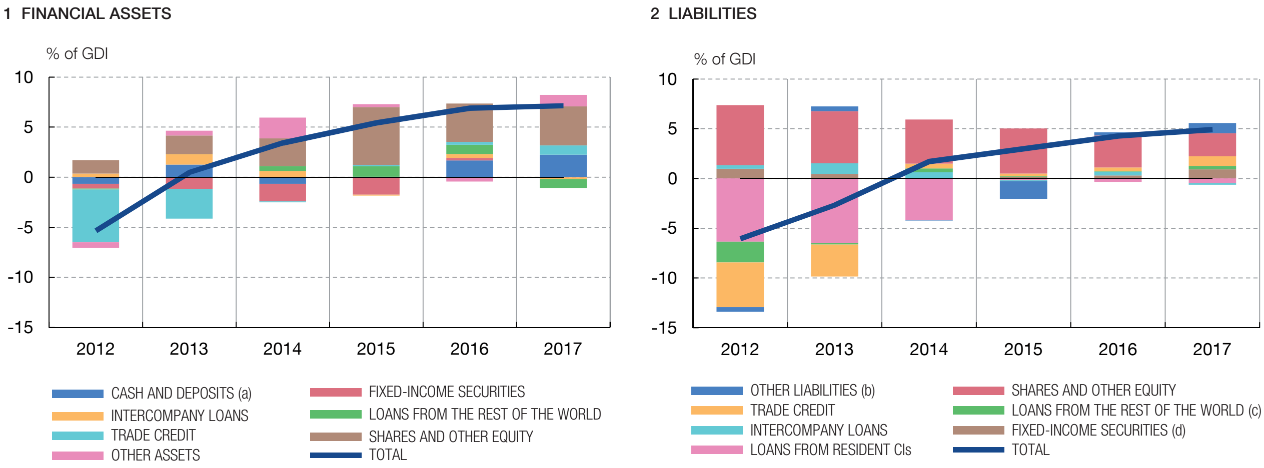
Unlike in the case of households, firms' gross saving ratio increased slightly in 2017 (by 0.2 pp to 17.6% of GDP). Against this backdrop, NFCs' net investment in financial assets turned positive once again, for an amount equivalent to 7.1% of GDP, slightly up on 2016 (see Chart 4.1).

The bulk of NFCs' financial investment was concentrated in equities (3.9% of GDP) and in sight deposits (2.2% of GDP, included in the cash and deposits caption). Conversely, bond holdings were practically unchanged. In a setting of recovering economic and business activity, trade credit flows granted were positive (0.9% of GDP) for the third year running. This figure was once again lower than that for firms' liabilities-side operations under this same caption, meaning that, in net terms, the resources channelled by the sector through trade credit evidenced a debit balance (i.e. the sector raised, in net terms, financing from other sectors through this channel), equivalent to 0.1% of GDP. There was a change in sign (it turned negative) in the flow of intercompany financing compared with the previous year (-0.2% of GDP in 2017 against 0.4% in 2016).

As can be seen in Chart 4.2, net financing flows received from firms (both callable and non-callable funds) were positive for the fourth year running, in this case for an amount of 4.9% of GDP (up on 4.3% in 2016). By instrument, shares and other equities remain the

NON-FINANCIAL CORPORATIONS' FINANCIAL FLOWS

CHART 4



SOURCES: INE and Banco de España.

a Includes repos.
b Includes statistical adjustments.
c Includes net securities issues by resident subsidiaries of non-financial corporations.
d Excludes trade credit.

main source of financing, although the amount of funds obtained through this channel was lower than in previous years (2.3% of GDP, compared with 3.2% in 2016). These funds were obtained through the issuance of listed and unlisted shares (1.9% and 0.7% of GDP, respectively), while channels tapping funds through other capital holdings were negative (-0.3% of GDP). As regards external borrowing, the flow from bank lending received from resident institutions was once again negative in net terms, by an amount slightly higher than that of the previous year (-0.5% of GDP); as a result, the ongoing bank deleveraging initiated six years back continued. By contrast, there was a step-up in net issues of fixed-income securities (including those by the resident financial subsidiaries of non-financial corporations[6]), which were positive in 2017 and for a higher value than a year earlier (0.9% of GDP in 2017, against 0.3% in 2016 and 0.2% in 2015), a development assisted by the low cost of raising funds through these instruments, partly as a consequence of the Eurosystem's corporate sector purchase programme[7]. Lastly, net financing via loans from the rest of the world was positive in 2017 (0.4% of GDP) and higher than that raised the previous year. Hence, in 2017 the flow of total external financing raised, in consolidated terms, by NFCs (resident bank lending, fixed-income securities and loans from the rest of the world) was positive, following the practically zero amounts of the two previous years and the negative amounts of the four preceding years, for a volume equivalent to 0.8% of GDP, the highest level observed since 2009.

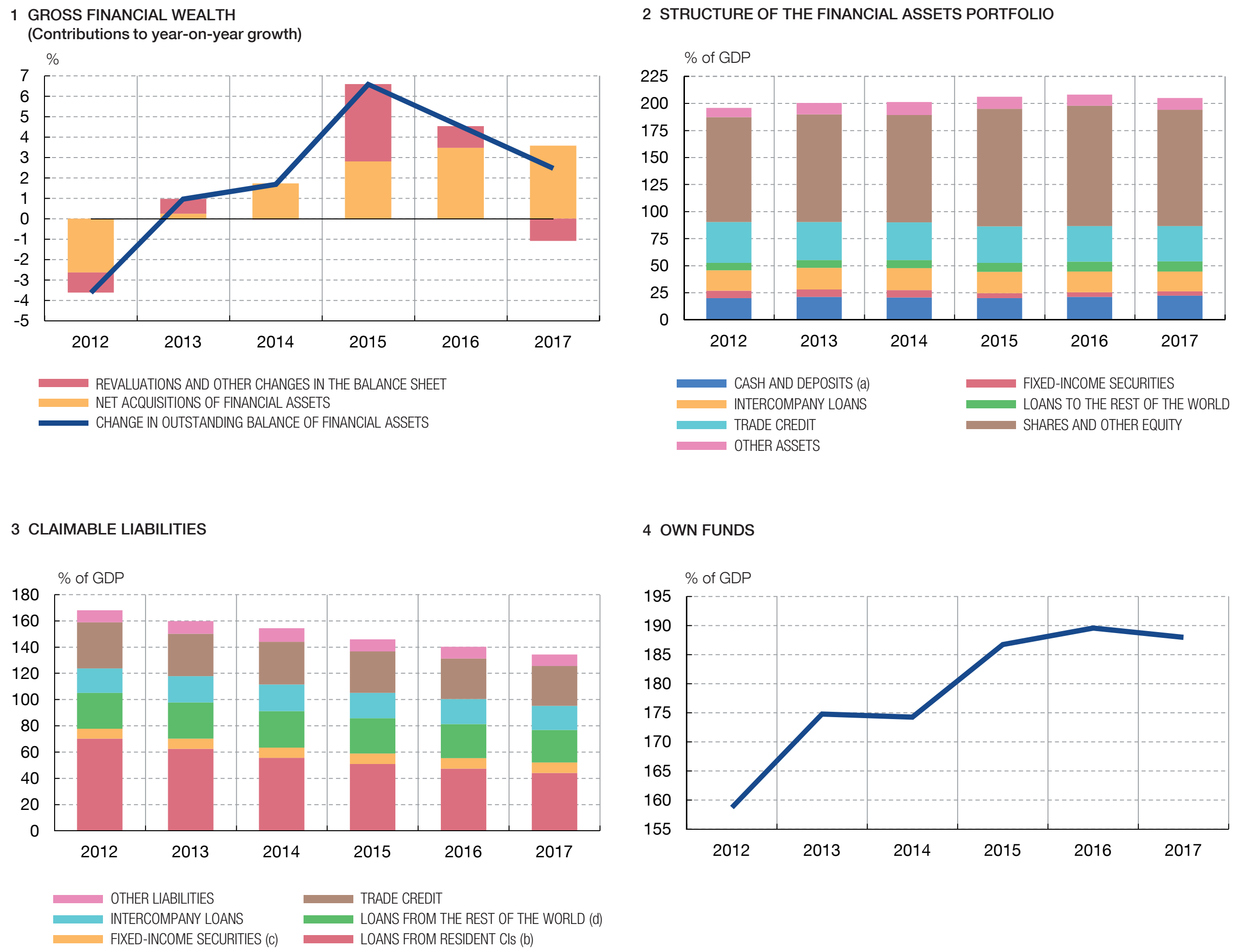
OUTSTANDING BALANCE OF FINANCIAL ASSETS AND LIABILITIES

The sector's gross financial wealth increased once again in 2017, although growth was lower than observed a year earlier (2.5%, compared with 4.5% in 2016). This development was mainly the result of firms' investment in financial assets, given that the contribution attributable to prices and other changes in volume exerted a negative impact, as can be seen in Chart 5.1.

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

7 For further details, see Ó. Arce, R. Gimeno and S. Mayordomo (2018), "The effects of the Eurosystem's corporate sector purchase programme on Spanish companies", *Economic Bulletin,* 1/2018, Banco de España.

OUTSTANDING BALANCE OF NON-FINANCIAL CORPORATIONS' FINANCIAL ASSETS AND LIABILITIES CHART 5



SOURCES: INE and Banco de España.

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

The structure of NFC's' financial portfolio underwent certain changes from 2016 (see Chart 5.2). Thus, the weight of shares and other equity fell by 3.6 pp of GDP (compared with a 2.4 pp increase in 2016), although it remains the main component relative to the sector's total assets, standing at around 53% (equivalent to 108% of GDP), with the singularity that unlisted equities continue to account for the bulk of this item (73% of the total). The changes were also manifest, first, in the proportion accounted for by cash and deposits, with a 1.2 pp increase to 10.8% of the total (entailing 22.2% of GDP). In line with households, the share of term deposits continued to diminish relative to the total compared with sight accounts. Further, the outstanding balances of fixed-income securities declined by 0.4 pp to 4% of GDP. Trade credit granted fell (by 0.4 pp, standing at around 32.4% of GDP), as did intercompany financing, which declined by 0.9 pp.

The volume of NFCs' non-consolidated claimable liabilities relative to GDP fell by 6 pp in 2017 to 134% (see Chart 5.3). In terms of components, the weight of bank loans granted by resident institutions in total external financing continued to decline for the eighth year running, to 32.7% (1.1 pp less than in 2016), while the weight of trade credit rose by 0.7 pp to 22.7%. This significance of external loans and of securities other than shares, which are a funding source used essentially by a limited proportion of large corporations, remained unchanged in the case of the former (18.5%), while in the latter there was an increase of 0.4 pp (to 6%). The relative weight of intercompany financing declined slightly to 13.6%. As a result of these developments, the debt ratio (bank lending from resident institutions, external loans and fixed-income securities, in the main[8]) fell by 5 pp in 2017 to 78% of GDP, 39 pp less than in mid-2010, the date at which it last peaked.

Finally, NFCs' own funds increased by 3.2%, as a result both of the tapping of funds through this channel and of the increase in the value of these instruments. The increase was mainly concentrated in listed shares (8.3%) and, to a lesser extent, in unlisted shares (3.4%), while other capital holdings fell very moderately (0.3%). However, as seen in Chart 5.4, the rising trend of the own funds/GDP ratio was interrupted last year (standing at end-2017 at 188%, after falling by 1.6 pp), as a result of the more moderate increase in own funds as compared with the rise in nominal output.

14.6.2018.

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