

ANALYTICAL ARTICLES

Economic Bulletin

3/2022

BANCO DE **ESPAÑA**  
Eurosistema

FINANCIAL FLOWS AND BALANCE SHEETS  
OF HOUSEHOLDS AND NON-FINANCIAL  
CORPORATIONS IN 2021

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## ABSTRACT

The Financial Accounts of the Spanish Economy show that the financial situation of households and non-financial corporations strengthened in 2021. Unlike in 2020, households increased their outstanding debt in the form of bank loans, mainly loans for house purchase, in keeping with the real estate market's greater buoyancy. However, given that household income grew more, their debt-to-income ratio fell by 1.6 percentage points to 91.9%. This remains, however, above its 2019 level. Non-financial corporations' debt-to-GDP ratio also fell in 2021 (by 4.3 percentage points, to 80%). This was largely due to GDP growth, as their consolidated debt increased slightly. Turning to financial asset investment decisions, households continued the trend of recent years of increasing their holdings of bank deposits and investment fund shares or units, while – in keeping with the recovery in business activity and with lower concern for liquidity risks, respectively – firms granted a higher volume of trade finance and accumulated fewer liquid assets.

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

**JEL classification:** D22, G21, L25, M21, R2.

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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 2021, drawing on information from the Financial Accounts of the Spanish Economy (FASE).<sup>1</sup> These changes took place in an environment influenced by the Spanish economy's gradual recovery, which was underpinned by progress in the COVID-19 vaccination campaign, allowing the pandemic containment measures to be lifted, and by financing conditions remaining favourable, with interest rates that reached record lows. Thus, GDP grew by 5.1% in the year. However, the strength of the recovery was dampened over the course of 2021 by global supply chain disruptions and inflationary pressures. Financial markets were characterised by the recovery in the stock market indices and the slight increase in the yields on medium and long-term debt securities.

The FASE show that the financial position of households and NFCs strengthened in 2021. First, the debt ratios of the two sectors resumed a downward path after increasing in 2020, although at end-2021 they were above their pre-pandemic levels. Second, and unlike in 2020, household gross financial wealth also rose, as growth in net investment in financial assets combined, on this occasion, with the increase in equity instrument prices.

Turning to financial asset investment decisions, households continued the trend of recent years of increasing their holdings of bank deposits and investment fund shares or units, although in 2021 most of the new investments were in the latter. This resulted in an increase in the relative share of instruments whose value depends on changes in financial asset prices, such that household financial wealth is now more sensitive to fluctuations in the prices traded on financial markets. Firms granted and received a higher volume of trade finance, in keeping with the recovery in business activity. They also accumulated fewer liquid assets, which is consistent with lower concern for liquidity risks.

Following this introduction, this article comprises two sections. The first section describes the changes in the financial flows and balance sheets of households in 2021 and the second includes a similar analysis for NFCs.

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<sup>1</sup> More detailed information on the FASE can be found [here](#).

## Household financial flows and balance sheets

### Financial flows

After surging in 2020, in 2021 the household gross saving rate fell from 15% of gross disposable income (GDI) to 11.4%. Despite this decline, the level remained high and actually represents the second highest saving rate of the last 40 years, behind the 2020 peak.

Interest rates on bank deposits and Treasury bills were close to zero or in negative territory (see Chart 1.1). The yield on long-term Spanish government debt remained positive throughout 2021, following a smooth upward trend to end the year at around 0.5%. The 12-month cumulative returns on stocks were positive throughout the year and stock prices were less volatile than in 2020 (see Chart 1.2). In keeping with this performance, investment funds investing in these assets posted positive returns throughout the year. Lastly, the return on monetary funds and short-term fixed-income investment funds followed a downward path, entering negative territory at year-end, which is consistent with the low interest rates on the financial instruments in which these vehicles invest.

In this macro-financial setting, households' net acquisition of financial assets was high once again in 2021 (10.6% of GDI), albeit lower than in the previous year (15.2%) (see Chart 2.1).

In keeping with the trend of recent years, in 2021 households' new financial investments were mostly concentrated in deposits (5.8% of their GDI, although this was lower than the 2020 figure) and in investment fund shares or units (4.8% of their GDI, the highest amount invested in this item in the last seven years). This change in the make-up of financial asset investment may have been influenced by the search for yield in a context of low interest rates on bank deposits.

After the improvement in 2020, net investment in shares and other equity was slightly negative (-0.3% of their GDI), as was saving in fixed-income securities (-0.4% of their GDI), which is compatible with the gradual institutionalisation of household savings. Similar to 2020, net investment in insurance and pension schemes also decreased (-0.4% of their GDI).

Turning to liabilities, the net flow of debt increased (see Chart 2.2).<sup>2</sup> The flow of bank loans amounted to 1.1% of GDI. Specifically, positive net financing via loans for

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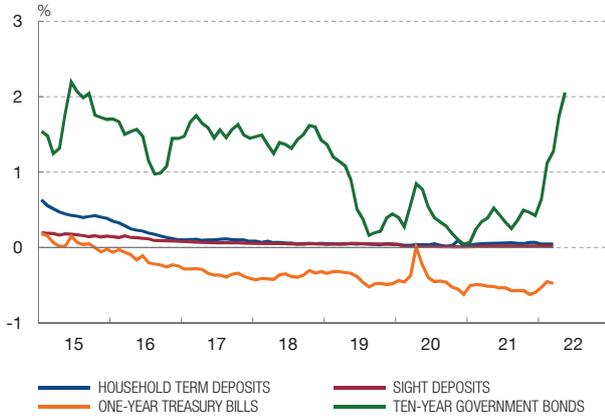
<sup>2</sup> The flow of total liabilities was higher, largely owing to "other accounts payable, except trade credit", which includes accounts payable to general government (outstanding taxes and social security contributions) and to financial institutions. It also includes the amounts resulting from the differences between the net lending/net borrowing in the sector's non-financial accounts and its total net financial transactions, assuming that they are accounts payable timing mismatches. These amounts have been higher in 2020 and 2021.

Chart 1

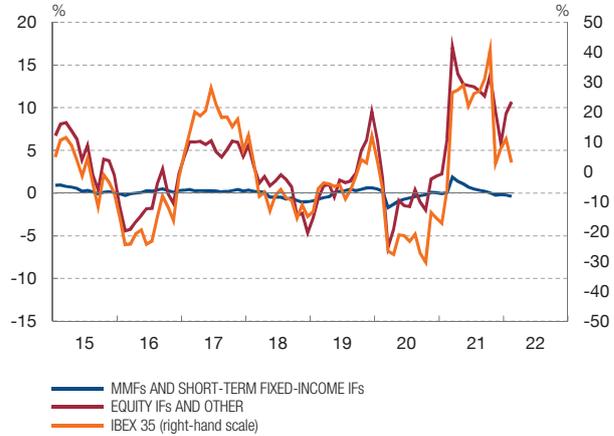
**IN 2021 THE MONETARY AND FINANCIAL ENVIRONMENT WAS CHARACTERISED BY VERY LOW INTEREST RATES AND A RECOVERY IN EQUITY PRICES**

Interest rates on bank deposits and monetary assets (such as Treasury bills) remained close to zero or in negative territory in 2021, while the yield on long-term Spanish government debt showed a smooth upward trend. In 12-month cumulative terms, stock prices increased in value over the course of the year.

1 INTEREST RATES



2 RETURNS ON IBEX 35 AND INVESTMENT FUNDS (a)



SOURCES: INVERCO and Banco de España.

a 12-month cumulative return.

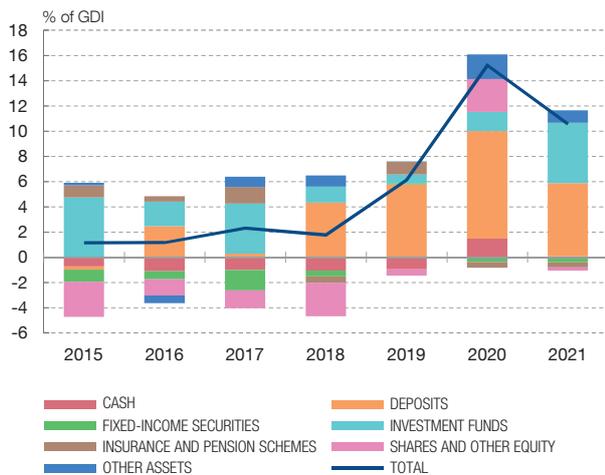


Chart 2

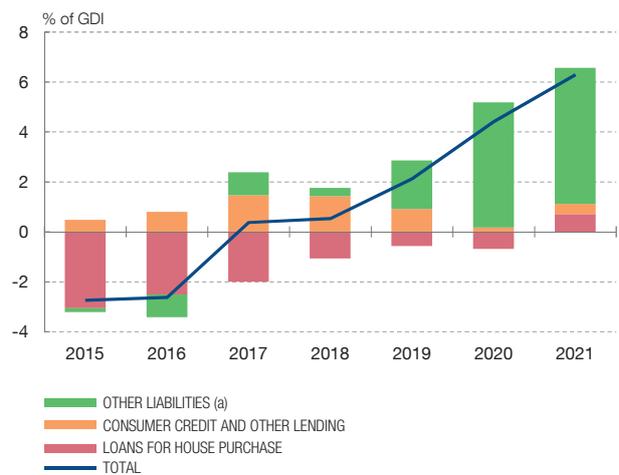
**IN 2021 HOUSEHOLDS' NET INVESTMENT IN FINANCIAL ASSETS FELL, WHILE FINANCING INCREASED**

Households once again mainly acquired deposits and investment fund shares or units. Net financing via bank loans (consumer credit and loans for house purchase) was positive.

1 FINANCIAL ASSETS (Financial transactions)



2 FINANCIAL LIABILITIES (Financial transactions)



SOURCES: INE and Banco de España.

a Including statistical adjustments.



house purchase was received (0.7% of GDI), in keeping with the greater momentum of real estate market transactions. This interrupted the deleveraging that had been observed in this heading since 2011. Net financing obtained via consumer credit and other lending was equal to 0.4% of GDI, up 0.2 percentage points (pp) on 2020.<sup>3</sup>

### The outstanding balance of financial assets and liabilities

Household gross financial wealth rose by 7% in 2021, a sizeable increase compared with the growth of 3.9% in 2020 and 5.6% in 2019 (see Chart 3.1). Unlike a year earlier, this was the result of growth in its two components. Thus, 3.2 pp of this increase was attributable to the net acquisition of financial assets, with portfolio valuation gains explaining the remaining 3.8 pp. The increase in equity and, to a lesser degree, fixed-income security prices, in addition to the appreciation of investment and pension fund shares or units contributed to the aforementioned valuation gains. In GDI terms, household gross financial wealth was up 16 pp from 2020 and amounted to 355%, the highest level since 2000 (see Chart 3.2).

The above-mentioned developments have prompted certain changes in the relative shares of the different assets that make up household gross financial wealth. In many cases this has prolonged the patterns recorded in 2020. Thus, the strong relative growth of shares and other equity (up 7.1 pp, to 101.7% of GDI), followed by investment fund shares or units (up 6.6 pp, to 53.9% of GDI), stands out (see Chart 3.2). Bank deposits grew by 3.1 pp to represent 128.5% of GDI, thus remaining the main component of the household financial asset portfolio. The share of insurance technical reserves and pension schemes fell to 51.2% of GDI, down 1 pp from 2020. These changes in the structure of the financial asset portfolio reflect the sensitivity of the portfolio's value to changes in financial asset prices.

As regards liabilities, the household debt-to-income ratio<sup>4</sup> decreased slightly once again, after increasing in 2020. Specifically, debt amounted to 91.9% of their GDI, down 1.6 pp from 2020 but remaining above the 2019 level (89.8%) (see Chart 3.3). This decrease was due to household income (the ratio's denominator) growing faster than the outstanding amount of bank debt. The ratio of debt to GDP amounted to 58.4% in 2021, compared with 62.4% in 2020 and 56.9% in 2019.

The increase in the balance of household financial assets, in terms of GDI, combined with the decrease in their liabilities, prompted the sector's net financial wealth ratio to rise again, reaching 254% of GDI, its highest level since 2005 (see Chart 3.4).

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

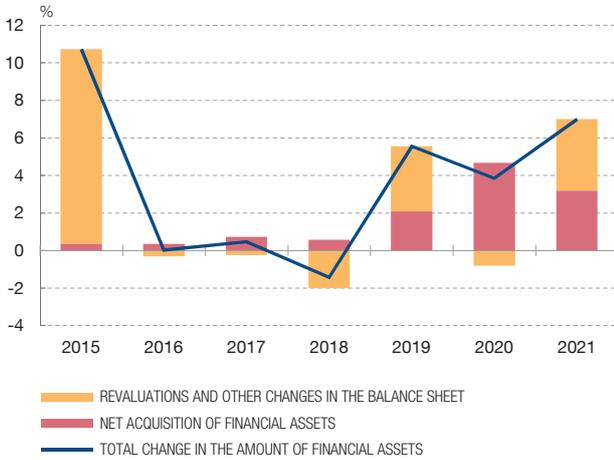
4 The definition of debt used includes only liabilities in the form of bank loans.

Chart 3

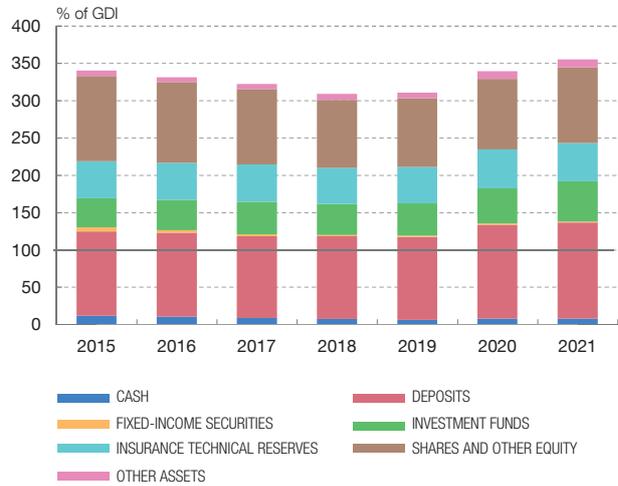
**IN 2021 THE VALUE OF HOUSEHOLDS' FINANCIAL ASSETS RELATIVE TO THEIR GROSS DISPOSABLE INCOME INCREASED, WHILE THEIR BANK DEBT-TO-INCOME RATIO FELL**

Household gross financial wealth grew as a result of the net acquisition of financial assets and valuation gains in their financial asset portfolio. The household debt-to-income ratio fell again, although it remained above its 2019 level. Net wealth as a percentage of GDI rose.

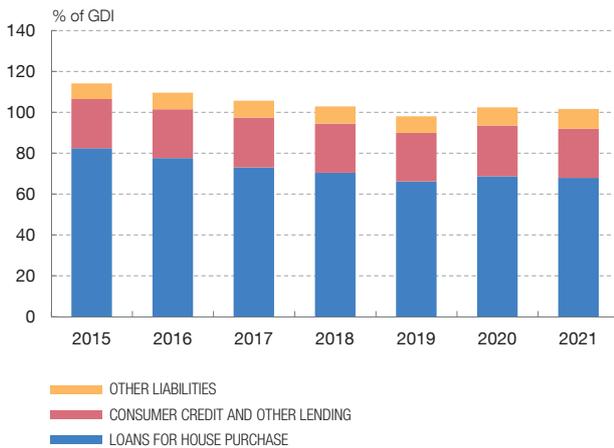
1 GROSS FINANCIAL WEALTH  
(Contributions to year-on-year growth)



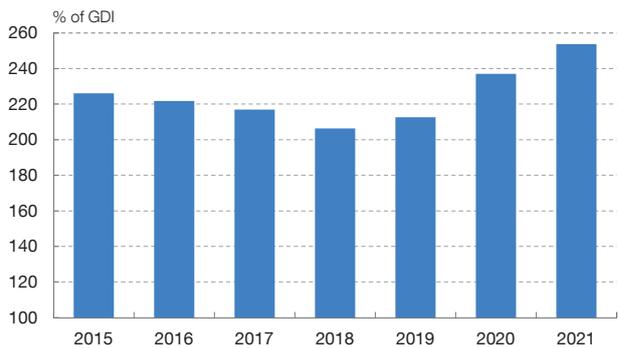
2 STRUCTURE OF THE FINANCIAL ASSET PORTFOLIO



3 COMPOSITION OF LIABILITIES



4 NET FINANCIAL WEALTH (a)



SOURCES: INE and Banco de España.

a Difference between financial assets and liabilities.



## Firms' financial flows and balance sheets

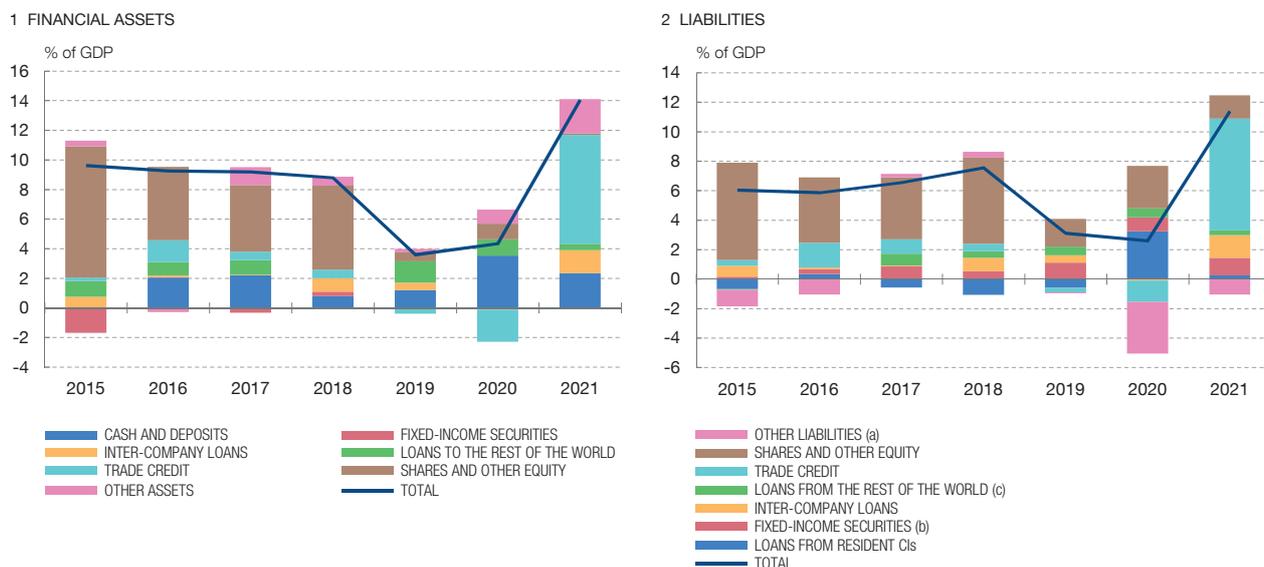
### Financial flows

Net investment in financial assets by NFCs amounted to 14.1% of GDP in 2021, a much higher figure than in 2020 (see Chart 4.1). This increase is largely due to the

Chart 4

**IN 2021 FIRMS' FINANCIAL FLOWS INCREASED ON BOTH THE ASSET AND THE LIABILITY SIDE**

The increase was largely the result of the sharp rise in trade finance, which is reflected under assets and liabilities. By contrast, net financing via bank loans fell steeply compared with 2020.



SOURCES: INE and Banco de España.

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



resurgence of unintermediated finance – especially trade credit,<sup>5</sup> which amounted to 7.4% of GDP, up 9.5 pp from 2020 –, which was linked to the recovery in economic activity.<sup>6</sup> Inter-company financing also grew to reach 1.5% of GDP. The net acquisition of liquid assets (cash and deposits) by NFCs was also positive, albeit down from a year earlier, amounting to 2.4% of GDP. This occurred as liquidity risks waned once economic activity gradually recovered. Net funds granted to the rest of the world in the form of loans (essentially intra-group loans) amounted to 0.4% of GDP. Investment in equities and fixed-income securities barely amounted to 0.1% of GDP.

Net financing flows received by firms (both claimable and non-claimable funds) amounted to 11.4% of GDP, up quite significantly from 2021 and with a very different breakdown (see Chart 4.2). By instrument, unintermediated corporate finance was particularly prominent, given that the funds channelled through trade credit, inter-

5 Trade credit is a typically unsecured form of lending and finance resulting from the deferred payment of goods or services where the seller acts as the lender and the buyer as the borrower.

6 Trade credit tends to behave procyclically, i.e. it grows during economic booms. This is due to firms buying more intermediate goods as economic activity picks up, which results in an increase in the balance payable – which is trade credit –, as most of these purchases are not paid on a cash basis.

company financing<sup>7</sup> and the net issuance of fixed-income securities amounted to 7.6%, 1.5% and 1.2% of GDP, respectively. The momentum of the latter item was driven by favourable financing conditions. By contrast, equity financing amounted to 1.6% of GDP, down 1.3 pp on the previous year. These funds were obtained by issuing unlisted (0.9% of GDP) and listed (0.1% of GDP) shares, and through other equity (0.6% of GDP).

Net financing obtained by firms via bank lending fell sharply from 3.2% of GDP in 2020 to 0.3% of GDP in 2021, while net financing obtained via loans from the rest of the world was very similar to that recorded in prior years (0.6% of GDP). The reduced vibrancy of bank finance must be assessed in light of the considerable use of this type of borrowing in 2020, when firms mainly resorted to this channel to cover their high financing needs stemming from the economic effects of the outbreak of the COVID-19 pandemic.<sup>8</sup>

Thus, in 2021 the flow of total external financing raised, in consolidated terms, by NFCs (resident bank credit, fixed-income securities and loans from the rest of the world) stood at 1.8% of GDP, a substantially lower figure than that recorded in 2020 (4.8% of GDP).

### The outstanding balance of financial assets and liabilities

The outstanding balance of firms' financial assets rose markedly in 2021, by 9.7% (compared with a decline of 0.8% in 2020), the highest rate of growth since 2013 (see Chart 5.1). This was the result of both the increase in asset prices and, to a greater degree, the net acquisition of financial assets.

The composition of NFCs' financial asset portfolio changed slightly compared with 2020 (see Chart 5.2). The growth (of 5.1 pp, to 37.6% of GDP) in the relative importance of trade credit granted stands out due to this component's considerable momentum. By contrast, inter-company financing held at 22.7% of GDP. The proportion of shares and other equity fell slightly, although it remained the main component and accounted for 52.8% of the financial asset portfolio (equal to 133% of GDP). Unlisted shares continued to make up most of this component (56.6% of shares and other equity).

The volume of NFCs' non-consolidated claimable liabilities increased slightly by 0.6 pp of GDP in 2021, to 147%, the second consecutive rise after the protracted downward trend initiated in 2010 (see Chart 5.3). By contrast, the consolidated debt-to-GDP ratio (resident bank credit, loans from the rest of the world and fixed-income

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7 Inter-company financing is defined as the loans and credit that NFCs extend to one another where no credit institutions are involved. It is typically extended more frequently between companies belonging to the same economic-financial group or that have other corporate ties.

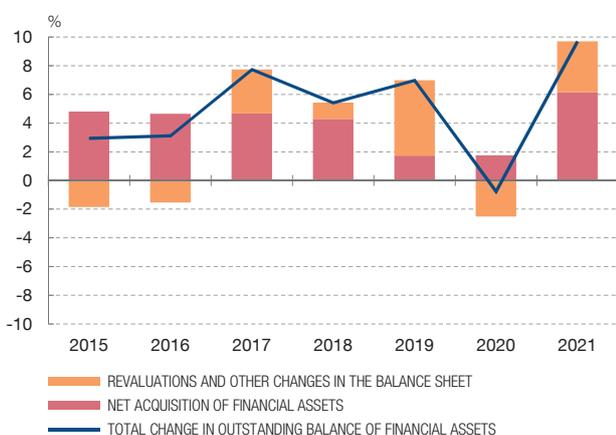
8 For more details, see Blanco, Mayordomo, Menéndez and Mulino, "Spanish non-financial corporations' liquidity needs and solvency after the COVID-19 shock", *Occasional Paper* No 2020, Banco de España, and "Impact of the COVID-19 crisis on Spanish firms' financial vulnerability", *Occasional Paper* No 2119, Banco de España.

Chart 5

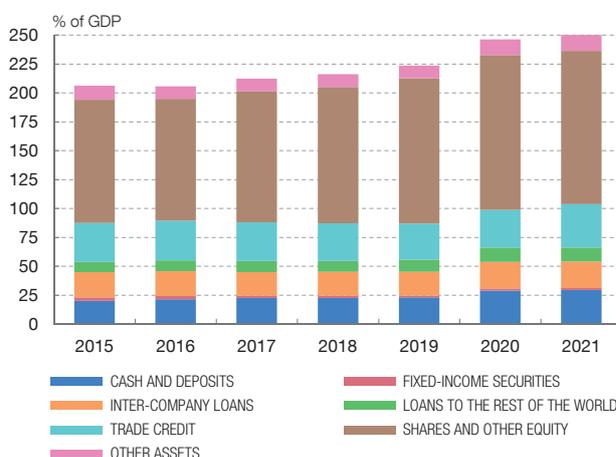
**THE OUTSTANDING BALANCE OF THE CORPORATE SECTOR'S FINANCIAL ASSETS IN TERMS OF GDP GREW CONSIDERABLY IN 2021, WHILE ITS DEBT-TO-GDP RATIO DECREASED**

Firms' acquisition of financial assets and, to a lesser degree, financial asset valuation gains drove the growth in the outstanding balance of NFCs' financial assets. The debt-to-GDP ratio (resident bank credit, loans from the rest of the world and fixed-income securities) fell by 4.3 pp in 2021 to 80%.

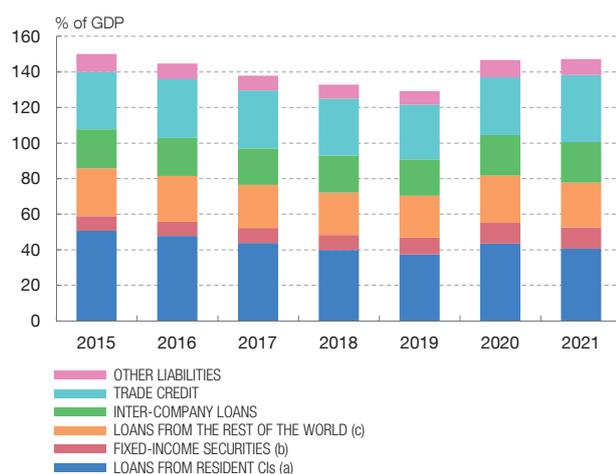
1 OUTSTANDING BALANCE OF FINANCIAL ASSETS  
(Contributions to year-on-year growth)



2 STRUCTURE OF THE FINANCIAL ASSET PORTFOLIO



3 CLAIMABLE LIABILITIES



4 EQUITY



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.



securities) fell by 4.3 pp in 2021, to 80%, although it remained above the pre-pandemic figure.

Lastly, the value of NFCs' shares and other equity increased by 6.1% in 2021. This, together with GDP growth, resulted in a 3 pp decrease in the equity-to-GDP ratio, which amounted to 237% at the end of the year (see Chart 5.4).

8.7.2022.