FINANCIAL FLOWS AND BALANCE SHEETS OF HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS IN 2015

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This article summarises the key aspects of financial flows and balance sheets of Spanish households and non-financial corporations in 2015. Last year, the financial position of both sectors strengthened. Their gross financial wealth increased, driven mainly by investment in financial assets (especially in investment funds and, in the case of firms, also in shares and other equity), while their debt ratios continued to decline. In particular, the interest-bearing debt of households fell to 106% of their gross disposable income, and that of firms to 86% of GDP, six and seven percentage points (pp), respectively, below the 2014 figures, and 29 pp and 32 pp below the highs recorded in mid-2008 (households) and in 2010 Q2 (firms).

Introduction

The aim of this article, which is published annually, is to analyse the changes in the balance sheets and financial transactions of households and non-financial corporations, in this case in 2015, drawing on the information contained in the Financial Accounts of the Spanish Economy (FASE). These changes occurred in a setting in which the pace of recovery of the Spanish economy intensified, despite lower global growth and cyclical weakness in the euro area. These developments were encouraged by the progress made in restoring the main macro-financial balances, the slide in oil prices and monetary stimulus. In the financial arena, the ECB's monetary policies had a favourable impact on the cost of borrowing for agents overall, reducing the levels of financial fragmentation in the euro area.

The FASE show that the financial position of households and non-financial corporations gained renewed strength in 2015. On the one hand, their debt ratios continued to decline: in particular, households' bank debt[1] fell to 106% of their gross disposable income (GDI), 6 pp lower than in 2014 and 29 pp below the highs recorded in mid-2008, while firms' interest-bearing borrowing fell to 86% of GDP, 7 pp lower than in 2014 and 32 pp below the highs recorded in mid-2010. On the other hand, the gross financial wealth of both sectors increased again, driven by investment in financial assets, while in contrast to 2014, their portfolio values rose very modestly or not at all.

The FASE also show that in 2015 the bulk of households' investment was in investment funds, while their direct holdings of shares and other equity declined. By contrast, investment by non-financial corporations was concentrated on both kinds of instruments, and investment in equities was in fact higher.

Following this introduction, the article is divided into two parts: first, a description of the developments in 2015 in the financial transactions and balance sheets of households, followed by a similar analysis for non-financial corporations.

Households' financial flows and balance sheets

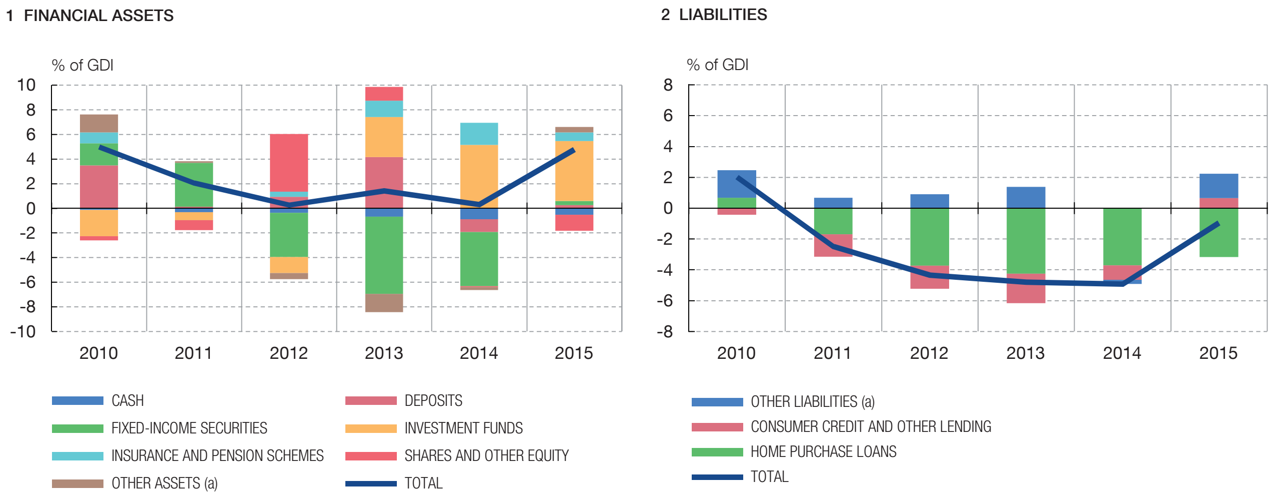
FINANCIAL FLOWS

Although the gross household saving rate fell slightly in 2015 (by 0.2 pp, to 9.4% of GDI), households' net purchases of financial assets (purchases minus sales) rose in the year, reaching 4.8% of their GDI, 4.5 pp higher than in 2014 and the highest figure of the last five years (see Chart 1.1).

1 In this article, bank debt includes securitised loans and loans transferred to Sareb.

FINANCIAL FLOWS, HOUSEHOLDS

CHART 1



SOURCES: INE and Banco de España.

a Includes statistical adjustments.

The bulk of investment in financial assets was concentrated, in net terms, on investment funds which continued to be the main channel for households' savings. In any event, investment in these instruments declined significantly in the second half of the year, after reaching the highest levels, in cumulative 12-month terms, since 1997 in Q1. Thus, as Chart 1.1 shows, in the year as a whole households invested the equivalent of 4.9% of their GDI in investment funds, slightly less than in 2014 (5.1%). Households' contributions to insurance and pension schemes and the like were also positive, amounting to 0.7% of their GDI, although lower than in 2014 (when they were a very high 1.8%, the highest level recorded since 2009). Moreover in 2015, for the first time in four years, households made net purchases of fixed-income securities, albeit in a modest amount (0.3% of GDI). In addition, after declining in 2014, the balance of deposits increased slightly in 2015 (0.3% of GDI), a development that was accompanied by a shift out of term deposits into current accounts that may have been encouraged by the narrow interest rate differential between the two products. By contrast, households pared down their portfolio of shares and other equity, divesting the equivalent of 1.3% of their GDI. At the same time, their cash holdings again declined (by the equivalent of 0.5% of their GDI), continuing in the downward pattern of the past four years.

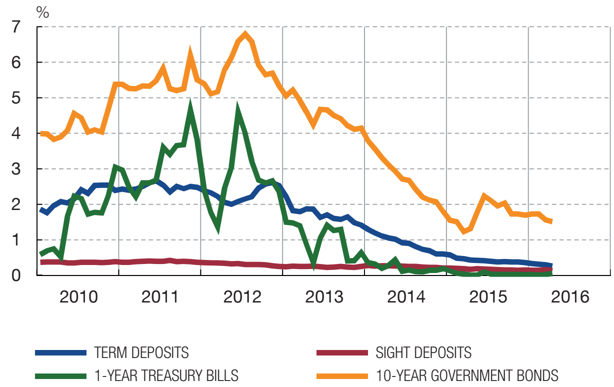
These investment flows were set against a backdrop of growing stock market volatility after the summer, with falls in stock prices both of Spanish and euro area securities (and particularly those of financial institutions). In keeping with these developments, the average year-on-year return on investment funds declined in 2015 H2, although it remained positive during most of that period (see Chart 2). Returns on term and sight deposits and government debt yields also fell slightly, recording very low levels. Thus, the spread between returns on investment funds and on lower risk assets narrowed in the course of the year and that, together with the higher market volatility, gradually made those instruments, which in 2014 had attracted a significant part of households' investment, to the detriment of deposits, less attractive.

On the liabilities side, in 2015 the net financing obtained by households was negative again, for the fifth consecutive year (see Chart 1.2), since although the volume of new

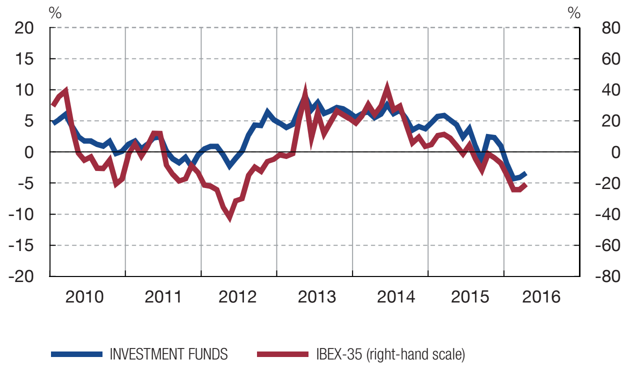
RETURN ON FINANCIAL ASSETS

CHART 2

1 INTEREST RATES



2 RETURN ON IBEX-35 AND INVESTMENT FUNDS (a)



SOURCES: INVERCO and Banco de España.

a Cumulative return in last 12 months.

lending increased, as in 2014, it was still lower than the volume of repayments. In any event, the amount of this flow (1% of GDI in absolute terms) moderated again and was much lower than in 2014 (4.9% of GDI). Moreover, different developments were observed by component. Thus, the balance of households' consumer credit and other lending rose for the first time since 2008, with net financing obtained through that channel equivalent to 0.6% of their GDI, underpinning the recovery observed in 2015 in this household spending component. By contrast, the net financing obtained through home purchase loans was negative again, although in a smaller amount than in 2014 (3.2% of GDI, compared with 3.7% a year earlier). The flows corresponding to the other (non-banking) liabilities were positive, in an amount equivalent to 1.6% of households' GDI.

BALANCE OF FINANCIAL ASSETS AND LIABILITIES

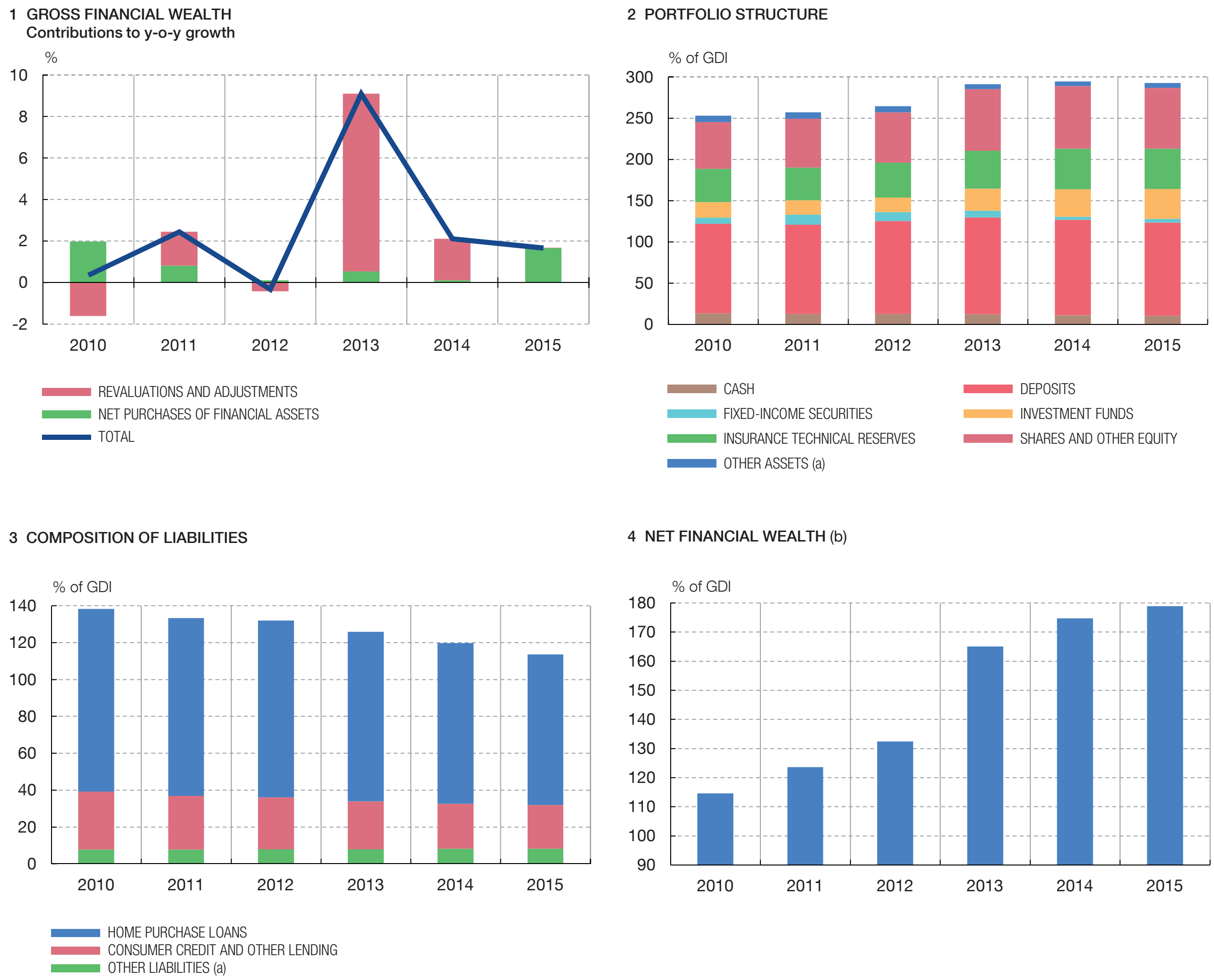
Net investment in financial assets translated into an increase of 1.7% in households' gross financial wealth (see Chart 3.1). Changes in asset prices had a practically zero impact overall, since the decline in the value of households' investment fund holdings (specifically, money market funds) and insurance and pension schemes was offset by the increase in the value of their fixed-income securities and, to a greater extent, of their holdings in shares and other equity, despite the fall in the main Spanish stock market indices in the year.[2]

In addition, investment flows, along with asset price fluctuations, translated into changes in the relative weight of the various instruments that make up households' financial portfolios. The most noteworthy change is the increase in the proportion of investment funds, which in 2015 amounted to 12% of households' total gross financial wealth, 1 pp more than in 2014, to the detriment of shares and other equity and deposits which fell by slightly more than 0.5 pp to 25% and 39%, respectively. In any event, deposits continue to be the main component of households' financial wealth (see Chart 3.2). The decline in their share was concentrated on term deposits (which fell by 3.6 pp), whereas sight accounts rose by 3 pp as a proportion of the total. The proportion of all the other instruments was hardly changed.

2 The explanation for the increase in value is that securities that posted the worst performance, such as, in particular, financial sector securities, have a lower weight in households' portfolios than in the stock market indices.

BALANCE OF FINANCIAL ASSETS AND LIABILITIES, HOUSEHOLDS

CHART 3



SOURCES: INE and Banco de España.

a Includes statistical adjustments.
b Difference between financial assets and liabilities.

Households' liabilities continued to decline in 2015. At year-end, the ratio of bank debt to GDI stood at 106%, 6 pp lower than a year earlier and 29 pp below its mid-2008 peak (see Chart 3.3). Home purchase loans fell by 6 pp as a percentage of GDI, to 82%, while consumer credit and other lending grew, but less so than households' disposable income, thus declining, as a percentage of GDI, by 0.5 pp to 24%. The volume of the other liabilities as a percentage of GDI was virtually unchanged at just over 8%.

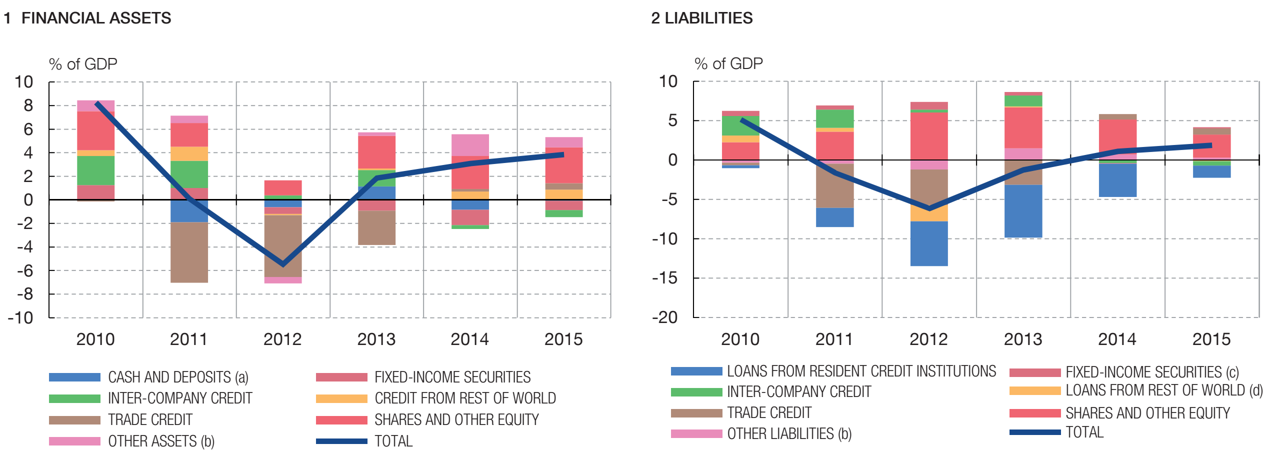
As in recent years, the decline in households' liabilities, together with the growth in their gross financial assets, translated into a further gain in households' net financial wealth, which reached 179% of GDI, 4 pp more than in 2014 (see Chart 3.4).

Firms' financial flows and balance sheets

FINANCIAL FLOWS

Net investment in financial assets by non-financial corporations rose again in 2015 for the third consecutive year, underpinned, among other factors, by the recovery in corporate earnings, up to the equivalent of 3.8% of GDP, the highest level recorded since 2010 (see Chart 4.1).

FINANCIAL FLOWS, NON-FINANCIAL CORPORATIONS CHART 4



SOURCES: INE and Banco de España.

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

Firms' financial investment decisions followed a similar pattern to that observed in 2014. Thus, financial investment was again concentrated on equities (3% of GDP) and, to a lesser extent, on investment funds (0.8% of GDP). By contrast, firms reduced their holdings of fixed-income securities for the fourth consecutive year, divesting the equivalent of 0.8% of GDP. The flow of trade credit extended was again positive (0.6% of GDP) and higher than in 2014 (0.2% of GDP), against a backdrop of recovery in economic and business activity. However, this figure was slightly lower than trade credit on the liabilities side, so in net terms, trade credit flows posted a debit balance equivalent to 0.2% of GDP. Moreover, inter-company financing flows, which are recognised in an identical amount on the liabilities side, were again negative (-0.6% of GDP), and slightly higher, in absolute terms, than in 2014 (-0.3% of GDP). Lastly, the balance of non-financial corporations' bank deposits was practically unchanged, as the increase in sight accounts was similar to the decline in term deposits.

On the liabilities side, including both debt and equity claims, non-financial corporations' net financing flows were positive for the second consecutive year, in an amount equivalent to almost 2% of GDP (compared with 1.1% in 2014). By instrument, transactions in shares and other equity were the main source of financing for the fifth consecutive year, although the volume of funds obtained through this channel was the lowest recorded in the period (2.9% of GDP), in a setting in which the net negative financing flows channelled through other instruments were also the lowest in the last five years. Funding was obtained through the issuance of listed shares (1.8% of GDP) and through other equity (1.6% of GDP), while there was net cancellation of unlisted shares (0.4% of GDP) for the first time in the last ten years. In the case of borrowed funds, bank credit received from resident institutions was again negative in net terms, although the absolute figure was much lower than in 2014 (-1.5% of GDP compared with -4.2%). In addition, as a result of the low cost of obtaining funds through fixed-income securities, net issuance of those securities (including those issued by resident financial subsidiaries of non-financial corporations) was positive (0.2% of GDP), after being slightly negative in 2014, while by contrast, net financing obtained through loans from the rest of the world was slightly negative (-0.2% of GDP).

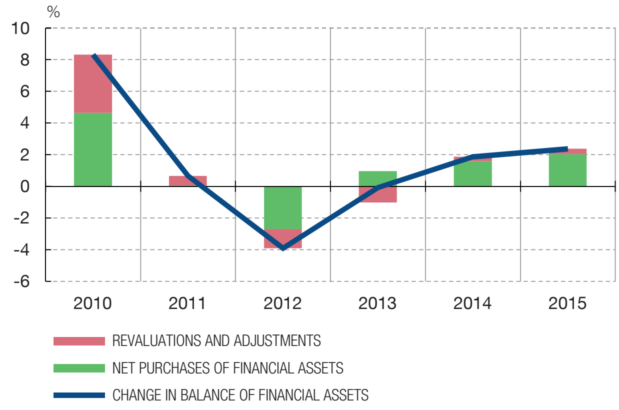
BALANCE OF FINANCIAL ASSETS AND LIABILITIES

As a result of net investment in financial instruments by non-financial corporations, and the small increase in the value of their assets (0.4%), the corporate sector's gross financial

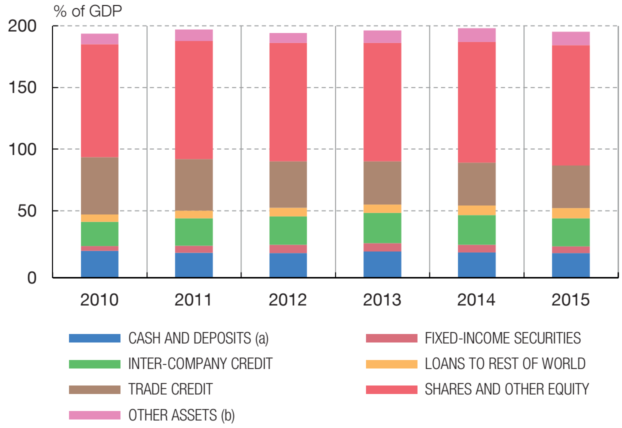
BALANCE OF FINANCIAL ASSETS AND LIABILITIES, NON-FINANCIAL CORPORATIONS

CHART 5

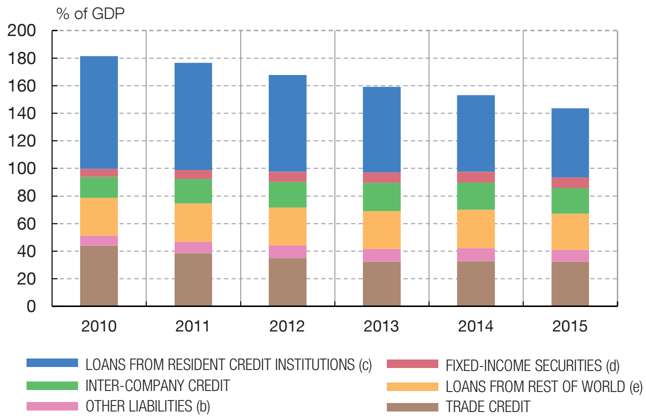
1 GROSS FINANCIAL WEALTH
Contributions to y-o-y growth



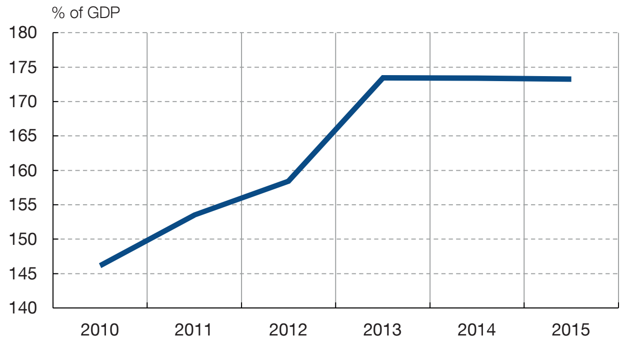
2 PORTFOLIO STRUCTURE



3 DEBT CLAIMS



4 OWN FUNDS



SOURCES: INE and Banco de España.

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

wealth grew for the third consecutive year and at a stronger pace than in the two previous years (2.4%; see Chart 5.1).

The composition of the financial portfolio of non-financial corporations was virtually unchanged on 2014 (see Chart 5.2). Shares and other equity continued to be the main component, growing as a proportion of the total assets by 0.6 pp to 50%; unlisted equity continues to constitute the bulk of this figure (82%). By contrast, the corporate sector's inter-company financing declined by 0.5 pp as a proportion of the total to 9.4%, while trade credit held steady at 18%, fixed-income securities at 3% and the balance of more liquid instruments (cash and deposits) at 10%.

Non-financial corporations' debt claims fell by 9 pp as a percentage of GDP in 2015 to 144% (see Chart 5.3). By component, the proportion of bank loans from resident institutions continued to decline, for the sixth consecutive year, down to 35%, 1 pp less than in 2014. By contrast, the proportion of trade credit increased by 1 pp to 22%. The proportion of loans from the rest of the world and securities other than shares – a source of funding used by a small percentage of large corporations – was practically unchanged at 18% and 5%, respectively. Likewise, the proportion of inter-company financing held steady around 13%. In consequence, the debt ratio (essentially bank loans from resident institutions, loans from the rest of the world and fixed-income securities) fell by 7 pp in 2015, amounting to 86% of GDP, 32 pp below the all-time high recorded in mid-2010.

The own funds of non-financial corporations rose by 3.8%, as a result both of the funds obtained and the increase in value of the instruments that make up that funding. Most of the increase came from listed shares, which rose by 15.6%. Given that the growth in own funds was similar to nominal GDP growth, the own funds to GDP ratio scarcely changed, remaining slightly above 173% (see Chart 5.4).

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