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FINANCIAL SITUATION OF HOUSEHOLDS, NON-FINANCIAL CORPORATIONS AND GENERAL GOVERNMENT

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Figure 2.1

Financial situation of households, non-financial corporations and general government (a)



SOURCE: Banco de España.

a The green (red) shields denote the circumstances of the financial position of each sector that constitute strengths (vulnerabilities) should risks materialise. The strengths (vulnerabilities) reduce (increase) the likelihood of occurrence and the impact of the risks to financial stability.

2.1 Households

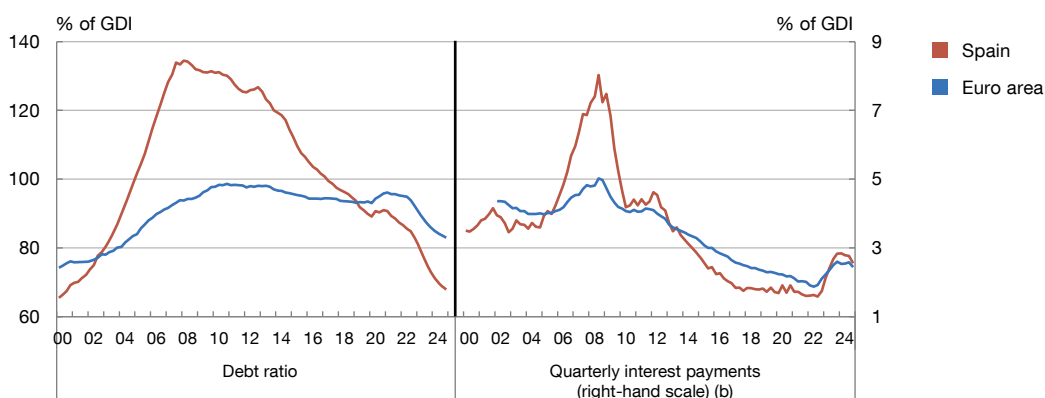
Household saving remained high in 2024 H2, driven by strong income momentum.

Wages, which are the largest component of household income, were driven by growth in employment and in compensation per employee in 2024 H2. In that period total household income grew, on average, by 7.6% year-on-year,¹ while real income per household rose by 3.2% year-on-year, surpassing its pre-pandemic (2019) level by 3.5% (Chart A.2.2.1.1 in Annex 2).² This income momentum meant that, despite the strength of private consumption, household saving remained high from a historical perspective, amounting to 13.8% of income in 2024 H2 (Chart A.2.2.1.2 in Annex 2).

1 Household income is measured using gross disposable income (GDI) in the National Accounts. This aggregate includes compensation of employees, gross operating surplus (GOS) (profits from households' activity as entrepreneurs), gross mixed income (obtained from self-employed activity), property income (such as net interest payments and dividends received) and net taxes paid (which are subtracted).

2 Real income is calculated by adjusting nominal values using the private consumption deflator. The year-on-year increase in the number of households at December 2024 was 0.9%.

Chart 2.1

The household debt ratio and interest burden have both declined**2.1.a Household debt ratio and interest burden as a percentage of GDI (a)**

SOURCES: ECB, Eurostat, INE and Banco de España. Latest observation: 2024 Q4.

a Seasonally adjusted data.

b Interest payments are quarterly cash flows (not adjusted for financial intermediation services indirectly measured) and, for consistency, the ratio is calculated using quarterly GDI.

The household debt ratio continued to decline. The debt-to-income ratio stood at 67.9% at end-2024, a level not seen since 2000 and 15 percentage points (pp) below that of the euro area (83%) (Chart 2.1).³

Real household wealth grew by 5.1% year-on-year in 2024 H2, a considerable increase.⁴ This growth was essentially driven by real estate and financial asset revaluation, while households' net investments recovered slightly in real terms (Chart A.2.2.1.3 in Annex 2).

Debt servicing payments began to decline somewhat in late 2024, after having doubled during the monetary policy tightening cycle. This decline and the growth in nominal income pushed the interest burden down slightly, to 2.6% of household income in 2024 Q4. This level is very similar to the euro area average (2.4%) and below the historical average for Spain (3.5%), but it is still above the low of 1.6% in 2021, prior to the monetary tightening cycle (Chart 2.1).

The proportion of indebted households that spend a large part of their income on interest payments and other essential expenses is estimated to have fallen in 2024 compared with 2022, according to the latest data available.⁵ The estimated share of indebted households with a high debt burden (over 40% of their income) has fallen by 1 pp since 2022, to 7.4% in 2024, more than 3 pp below the average for the period 2014-22. Among

³ Households' outstanding debt is seasonally adjusted.

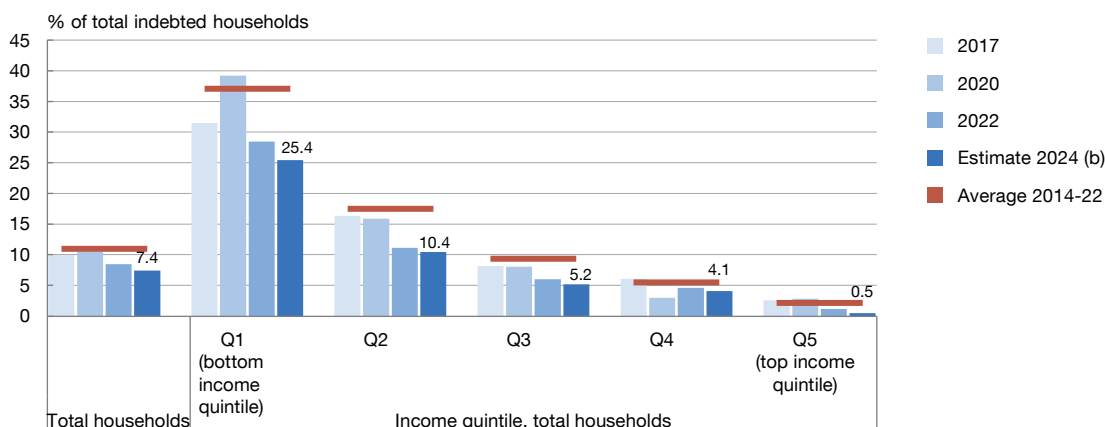
⁴ The wealth metric used is gross wealth (the value of all households' assets, not deducting liabilities), deflated using the private consumption deflator.

⁵ Estimated drawing on the latest [Spanish Survey of Household Finances](#) (EFF 2022), which is a biennial database, and the assumptions described in note b of Chart 2.2. Essential expenses include debt servicing, food and utility bills and rental of the main residence.

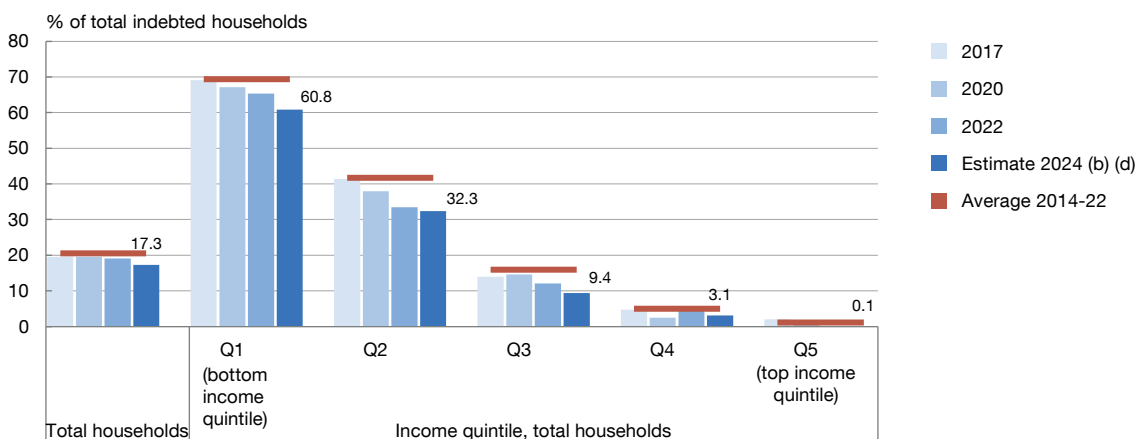
Chart 2.2

Households' debt burden is estimated to have eased in 2024 across all income levels, albeit more so among lower income households

2.2.a Indebted households whose debt burden amounts to over 40% of their income, by income quintile (a)



2.2.b Indebted households whose essential expenses amount to over 70% of their income, by income quintile (c)



SOURCE: Banco de España. Latest observation: 2022.

- a The debt burden is the ratio of debt payments (interest and repayment of principal) to gross household income.
b Estimated drawing on the EFF 2022, under the assumption that the change in 1-year EURIBOR (average for the year) between 2022 and 2024 (219 bp) is passed through in full to the cost of variable rate debt and that the level of debt remains constant and equal to the 2022 level. It is also assumed that household income rises in line with the National Accounts, distributed by income quintile in accordance with the household budget survey.
c Essential expenses include debt servicing, food and utility bills and rental of the main residence.
d Adding in the impact of inflation, updating the different components of essential expenses according to the harmonised index of consumer prices (HICP).

lower income households the decline is more significant (3.1 pp), down to 25.4%, more than 10 pp below their 2014-22 average (Chart 2.2.a). Moreover, the estimated proportion of indebted households that spend more than 70% of their income on essentials has also decreased, by 1.8 pp, compared with 2022, standing at 17.3% in 2024 (Chart 2.2.b). Contributing factors include higher household incomes, easing food inflation and lower utility prices (specifically, electricity, gas and other fuels).

The interest burden is expected to continue to decline in 2025. Information from banks' balance sheets indicates that between December 2024 and February 2025 the average cost

of outstanding household debt decreased by 11 bp to 4.2%. Given current interbank market rates and interest rate expectations, it is estimated that, between April and December 2025, the cost of 25.7% of the stock of variable rate mortgages will fall by between 50 bp and 100 bp, while the cost of 39.6% will drop by more than 100 bp.⁶ However, variable rate mortgage loans have decreased as a proportion of the outstanding mortgage stock with maturity over one year (from 72% in 2021 to 59% in March 2025). This pattern is expected to continue, owing to the predominance of fixed rate loans in new business, rendering households' debt burden less sensitive to future rate changes.

2.2 Non-financial corporations

Firms' gross operating profit (GOP) performed favourably in 2024 H2, albeit somewhat unevenly across sectors.⁷ Nominal GOP of the non-financial corporate sector rose by 6.2% year-on-year in 2024 H2, compared with 9.1% in H1.⁸ The strongest growth was in construction and real estate, wholesale and retail trade, hospitality, and other services (especially transportation and storage). By contrast, profit declined in the manufacturing sector (Chart A.2.2.2.1 in Annex 2).

Looking ahead, firms viewed the outlook positively in 2025 Q1, albeit subject to high uncertainty. According to the latest Banco de España Business Activity Survey (EBAE), firms reported steady turnover in 2025 Q1 and the outlook for Q2 was positive.⁹ However, the survey reflected firms' concerns about economic policy uncertainty, labour shortages and energy costs, although the proportion of firms affected by factors related to rising financial costs continued to decline. This survey round was conducted before trade tensions and uncertainty escalated in early April and thus does not reflect the possible weaker outlook associated with these recent developments.

Although the stock of firms' debt increased in 2024, it remained stable and at low levels in relation to profits. The debt-to-GOS ratio was virtually unchanged in 2024 H2, standing at 332% (Chart 2.3).¹⁰ This is very similar to the figure for the euro area (323%)

6 Estimated drawing on data from the Banco de España's Central Credit Register for March 2025 and the average April values for the interest rate futures curve. For more details on the methodology, see "Box 1. Monetary policy transmission to interest payments on the bank debt of households and firms". In *Report on the Financial Situation of Households and Firms. Second half of 2023*.

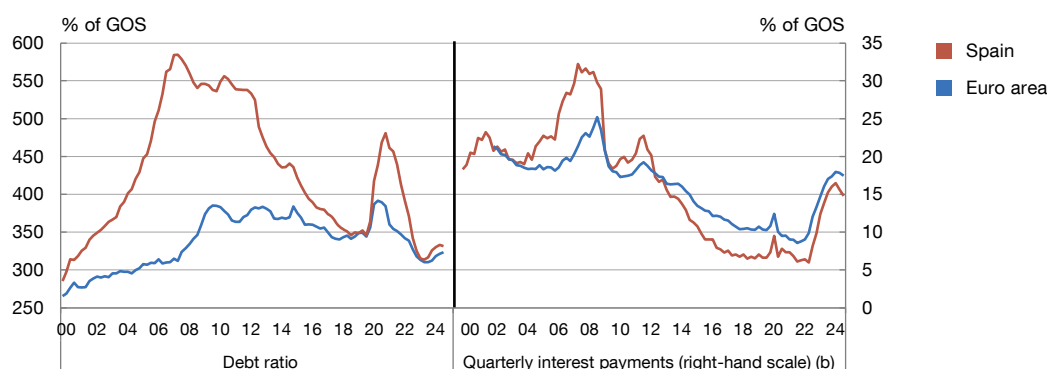
7 GOP (which is similar to GOS, used in the National Accounts) is profit obtained from firms' ordinary business activity, after payments to suppliers and other operating expenses and remuneration of labour. If positive, it can be used to pay tax or fund investments or to remunerate shareholders and financial creditors.

8 Combined information of the Spanish tax authorities (AEAT) and the Central Balance Sheet Data Office Quarterly Survey (CBQ).

9 Fernández Cerezo, Alejandro, and Mario Izquierdo. (2025). "The Banco de España Business Activity Survey: 2025 Q1". *Economic Bulletin - Banco de España*, 2025/Q1, 06.

10 In the National Accounts, GOS (similar to GOP) is a corporate profit measure defined as value added (the difference between the value of the goods and services produced and the goods and services consumed) at factor cost, less personnel costs. It is the balance available to firms to reward their shareholders and financial creditors, to pay taxes and, potentially, to finance all or part of their investment. GOS is used to construct the ratios in this section owing to its greater historical depth.

Chart 2.3

Spanish firms' debt-to-GOS ratio steadied in late 2024 and the ratio of interest payments to GOS began to decline**2.3.a Firms' debt ratio and interest burden as a proportion of GOS (a)**

SOURCES: ECB, Eurostat, INE and Banco de España. Latest observation: 2024 Q4.

a Seasonally adjusted data.

b Interest payments are quarterly cash flows (not adjusted for financial intermediation services indirectly measured) and, for consistency, the ratio is calculated using quarterly GOS.

and, from a historical perspective for Spain, is below the average since 2000 (428%). Meanwhile, Spanish firms' debt-to-GDP ratio amounted to 63.5% at end-2024, below the figure for the euro area (67.5%).

The ratio of interest payments to GOS in the business sector began to decline in 2024 H2. Interest payments decreased, down to 14.8% as a proportion of GOS in 2024 Q4, after reaching their peak for the last ten years (16.5%) in June 2024 (Chart 2.3).¹¹ The interest burden remained somewhat below that of the euro area (17.4%) and is close to the historical average since 2000 (16.4%), although it is still above its 2021 level of around 6%, prior to the monetary tightening cycle.

On CBQ data, the proportion of highly indebted firms fell in 2024, while that of those under high financial pressure held steady. Of all the firms in the CBQ sample, 17.4% had a high level of debt, a smaller proportion than in 2023 and below the historical average since 2007 (21.8%) (Chart 2.4).¹² Meanwhile, 14.5% of firms were under high financial pressure (i.e. with insufficient profit to meet interest payments), a very similar level to 2023 and also below the historical average (16.4%).

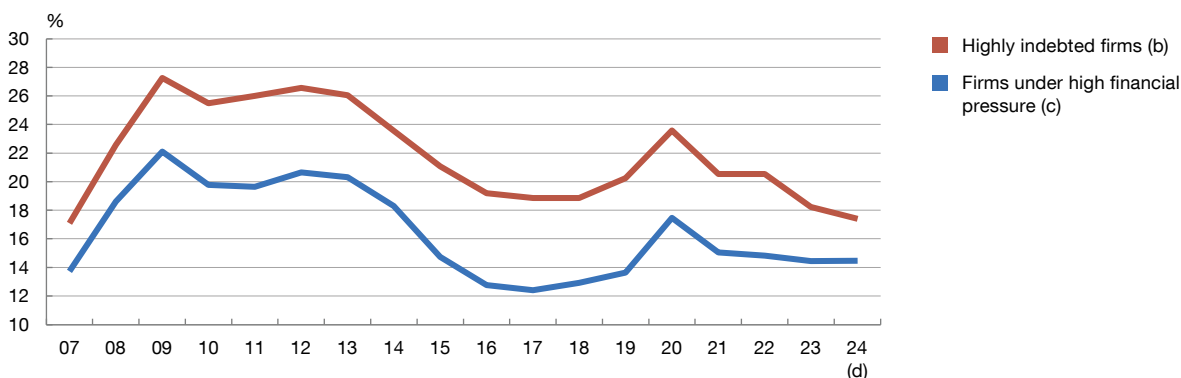
¹¹ Given the predominance of short-term maturity and variable rate loans in firms' bank debt (76% at end-2024), interest rate changes pass through to interest payments relatively quickly.

¹² Highly indebted firms are those whose net financial debt/(GOP + financial revenue) ratio is greater than 10 or that have positive net financial debt and zero or negative earnings. Net financial debt is defined as interest-bearing debt less cash and cash equivalents.

Chart 2.4

The proportion of highly indebted firms fell in 2024, while the proportion of those under high financial pressure held steady

2.4 a Proportion of highly indebted firms and of firms under high financial pressure on CBQ data (a)



SOURCE: Banco de España. Latest observation: 2024 Q4.

a Four-quarter averages. Excluding financial holding companies.

b Highly indebted firms are those whose net financial debt/(GOP + financial revenue) ratio is greater than 10 or that have positive net financial debt and zero or negative earnings. Net financial debt is defined as interest-bearing debt less cash and cash equivalents.

c Firms whose earnings (GOP + financial revenue) are not sufficient to meet interest payments.

d A common sample of firms is used for 2023 and 2024 to avoid spurious changes in the index owing to the smaller sample available for 2024.

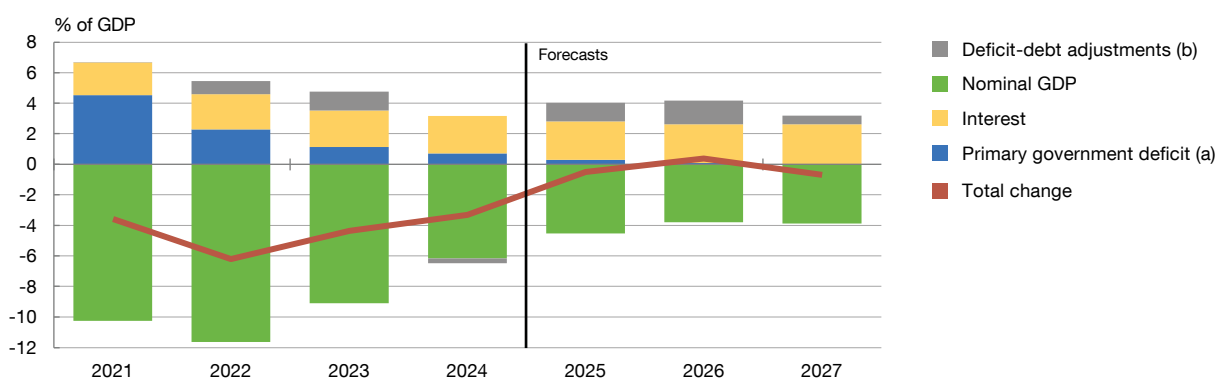
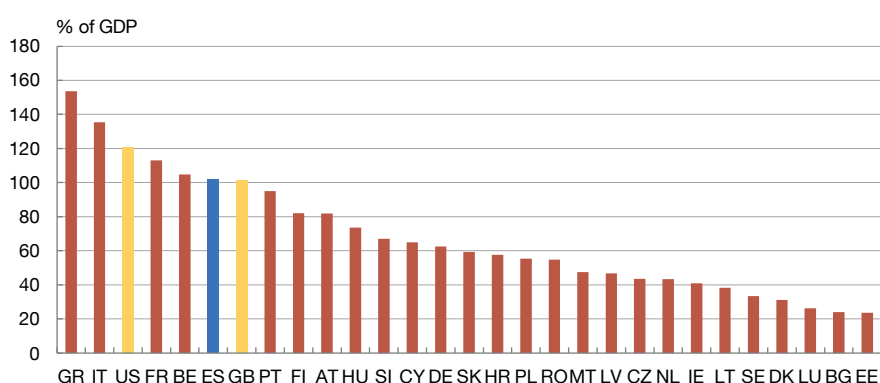
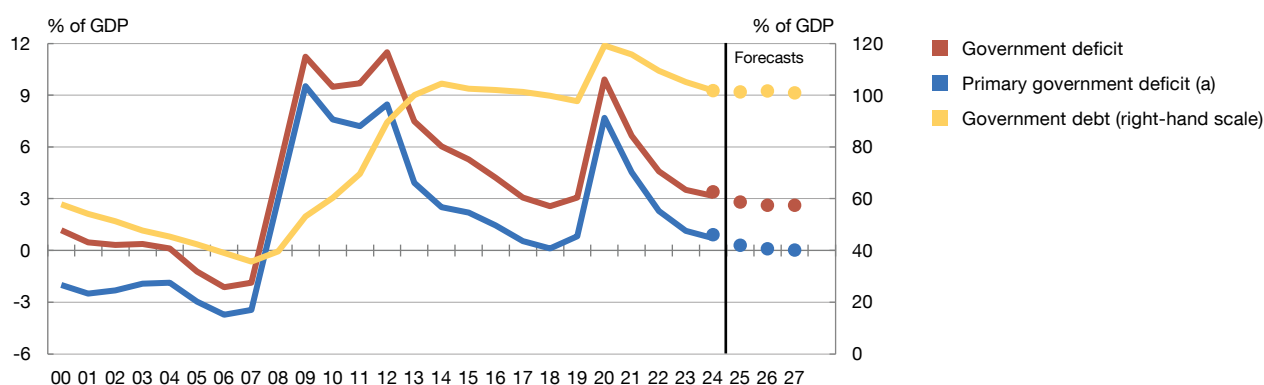
2.3 General government

Government debt and deficit levels remain high in terms of GDP, despite having declined in recent years. In 2024 the Spanish general government debt-to-GDP ratio fell again, to 101.8%. This decline (3.3 pp) in the year – similarly to the cumulative decline since 2020 (17.5 pp) – is underpinned by highly expansionary economic activity in nominal terms (Chart 2.5.a). However, the government debt-to-GDP ratio was still high by historical standards and 4.1 pp above its pre-pandemic level. Government debt in Spain is also high by international standards (Chart 2.5.b). In 2024 the deficit decreased by 0.3 pp, to 3.2% of GDP, but it remains high. This deficit figure includes a contribution of 0.4 pp associated with the catastrophic flash floods in Spain in October 2024.

The Medium-Term Fiscal-Structural Plan 2025-2028 (MTP) submitted by the Spanish Government and approved by the Council of the EU in January lacks concrete compliance measures. According to the Progress Report presented by the Government in April, net nationally financed primary expenditure¹³ rose by 4.1% in 2024, over the 2.6% limit initially recommended for Spain by the European authorities in 2023, but below the 5.3%

¹³ Net primary expenditure excludes interest payments, extraordinary expenditure, expenditure financed (or co-financed) by the EU and cyclical unemployment expenditure. Revenue from any new discretionary revenue measures is then subtracted from the resultant measure. For an analysis of the new European fiscal rules and the operational indicator, see Fernando López-Vicente and María de los Llanos Matea Rosa. (2024). *The 2024 European Semester and the Recovery and Resilience Facility*. *Economic Bulletin - Banco de España*, 2024/Q4, 01.

Chart 2.5

Spanish public finances are still a source of vulnerability**2.5.a Spanish debt-to-GDP ratio. Determinants of annual change****2.5.b Debt-to-GDP ratio. 2024****2.5.c General government. Financial position (c)**

SOURCES: Eurostat, IMF, Intervención General de la Administración del Estado (IGAE) and Banco de España. Latest observation: 2024 (2.5.a and 2.5.c). In 2.5.c for 2024, the line denotes the actual data and the dot the last previous estimate available.

a Excluding interest payments.

b Change in debt not owing to financing needs stemming from the government deficit, but to other factors such as purchase of financial assets, valuation changes or reclassifications.

c The dots denote the Banco de España's projections published on 11 March.

envisaged in the MTP. With the measures already approved, the Government understands that expenditure will again grow by 4.1% in 2025, over the limit set in the MTP (3.7%) but within the margin of flexibility allowed under the new fiscal rules. However, neither the MTP nor the accompanying Progress Report include information on the expected performance of public revenue and expenditure components beyond 2025, which reduces the MTP's usefulness as a medium-term fiscal planning tool. This issue was also highlighted by Spain's Independent Authority for Fiscal Responsibility (AIReF, by its Spanish initials) in its assessment of the Plan.¹⁴ Moreover, nor does the Progress Report provide sufficient information on the structural reforms implemented.

In the absence of fresh measures, the Banco de España considers that the government deficit-to-GDP ratio will continue to decline moderately in the coming years. The Banco de España's March projections, which were drawn up before the 2024 fiscal data were published, anticipated a deficit of 3.4% of GDP in 2024, which proved to be 0.2 pp higher than the actual figure.¹⁵ They also expected the deficit to decline, to 2.8% in 2025 and 2.6% in the period 2026-27 (Chart 2.5.c). Most of this projected decrease (close to 0.7 pp) between 2024 and 2027 is explained by the definitive disappearance of the temporary support measures deployed in response to the energy crisis and of the extraordinary expenditure recorded in 2024 as a result of court rulings and the floods in Valencia.

According to the Banco de España's projections, the government debt-to-GDP ratio will also decline slightly in the period 2025-27, although there are significant upside risks that become more intense beyond that horizon. The forecasts point to very low primary deficits and an average cost of debt that stays below nominal GDP growth; both these factors will remain conducive to a decline in the debt-to-GDP ratio up to 2027 (Chart 2.5.a).¹⁶ However, public expenditure pressures associated with population ageing, together with new expenditure needs for defence and for the digital and green transitions, pose a significant upside risk to debt ratios. Although some of these risks – such as those associated with population ageing – will become far more significant beyond the Banco de España's projection horizon, others, such as defence spending, could have a much more immediate impact.

Save in the event of stress episodes on sovereign debt markets, the interest burden is expected to rise marginally in the coming years. The policy rate cuts and the continuing narrow sovereign spread (see Section 4.2) have prompted a reduction in the Spanish Treasury's actual cost of financing at issue, from 3.4% in 2023 to 3.2% in 2024 (Chart A.2.2.3.1 in Annex 2). In 2025 Q1 this cost continued to fall, down to 2.9%. However, considering the upturn in euro area government debt yields in early March, the average cost of outstanding debt – which has risen from the low of 1.9% in 2019 to 2.4% in 2024 – is expected to increase further, to 2.6% in

¹⁴ Report on monitoring of 2025-2028 Medium-Term Structural-Fiscal Plan.

¹⁵ These projections are based on an inertia scenario that includes no new measures not yet approved.

¹⁶ In 2025 and 2026 this is expected to be partially offset by the increase in deficit-debt adjustments relating to loans under the Recovery, Transformation and Resilience Plan.

2027.¹⁷ The interest burden as a percentage of GDP is also expected to grow, from 2.4% in 2024 to 2.6% in 2027.

In a high debt environment, more adverse (upward) moves by yields at issue would have a significant impact on public finances. For instance, were short and long-term interest rates to be 1 pp higher than expected in 2025-27, the interest burden would be 0.4 pp of GDP higher in 2027.

Spain's high level of government debt renders growth more fragile and entails greater sensitivity to changes in financing conditions due to the about-turn in global economic policies. Public expenditure has made a significant contribution to GDP growth in Spain in the recent period, so compliance with the EU's fiscal rules may curb growth somewhat in the coming years. However, it should also bolster the sustainability of public finances and boost investor confidence. This is important in a setting in which financing conditions may tighten and may trigger more abrupt adjustments in government expenditure for a variety of reasons, such as an uptick in risk premia or monetary and fiscal policy developments worldwide (see Chapter 5).

¹⁷ Estimate based on financial market data at 10 April 2025.

