

REPORT ON THE FINANCIAL SITUATION OF HOUSEHOLDS AND FIRMS

First half of
2024

BANCO DE **ESPAÑA**
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Report

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Editorial

The information that has become available over the last six months continues to reflect favourable developments in households' financial situation. Vigorous economic activity and a strong labour market have once again underpinned growth in household income, via both job creation and increased compensation per worker. This growth in income, along with relatively sluggish consumption, has pushed up the saving rate to above-average levels.

Households' financial position has also been bolstered by the continuing downward path of their debt ratio, partly as a result of the stock of mortgage loans contracting, albeit at an increasingly moderate rate. Over a broader timescale, the share of debt held by the youngest households has diminished in favour of middle-aged households, owing largely to home ownership having become less affordable for younger households in recent years than it was for previous cohorts (see Box 1).

Despite the sound financial performance of households as a whole, the credit quality of loans granted to this sector has deteriorated somewhat. However, the share of troubled loans held by credit institutions stands close to pre-pandemic levels.

Turning to firms, profits have decelerated, weighed down by increased staff expenses and financial costs, against a backdrop of lower sales price growth and a higher average cost of debt. Nevertheless, financial developments in the corporate sector are proving highly uneven by activity, with services generally outperforming industry, in line with the composition of recent GDP growth in Spain.

In this setting, there has been a moderate increase in the proportion of vulnerable firms, but it remains at low levels by historical standards. The number of insolvency proceedings likewise increased in 2024 Q1 (driven, in part, by the fact that the new special insolvency procedure is more attractive to microfirms), although these continue to affect only a very small part of the business sector. By contrast, no significant deterioration has been observed in the quality of bank loans to this sector.

Financing conditions on the credit markets have improved somewhat, fuelled by market expectations of a less restrictive monetary policy stance in the coming quarters. However, despite the policy rate cuts agreed by the Governing Council of the European Central Bank in June, financing costs remain high by historical standards. Firms' increased difficulty in accessing credit during the recent period of monetary tightening appears to have had a negative, albeit small, impact on gross fixed capital formation (see Box 2). The latest indicators suggest that the contraction of credit supply and demand is coming to a halt, resulting in some recovery in financing flows to households and firms.

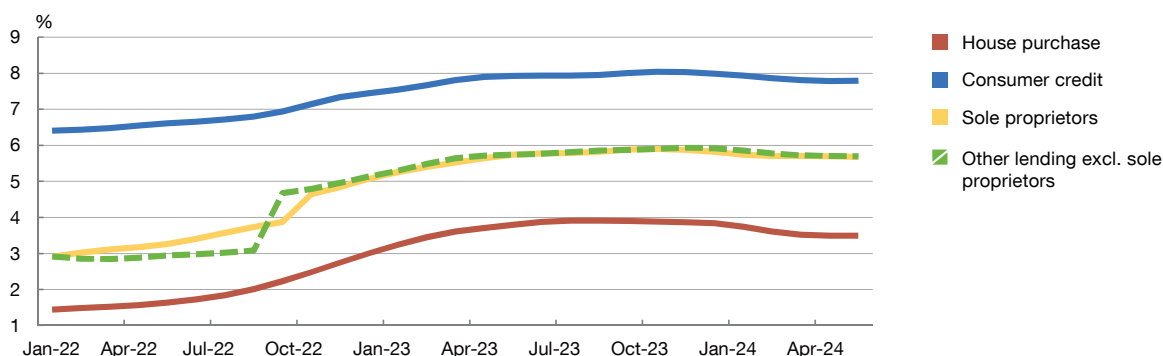
The macro-financial environment will largely determine the future course of the financial situation of households and firms. The Banco de España's latest macroeconomic projections, published in June 2024, predict, under the baseline scenario, that the Spanish economy will continue on its growth path. Together with the additional policy rate cuts anticipated by the markets for 2024 and 2025, this will tend to strengthen the financial position of households and firms. However, the materialisation of certain adverse macroeconomic scenarios could negatively affect the incomes of these sectors. Moreover, if the outlook for euro area inflation were to deteriorate, this could slow down the pace of monetary policy easing, leading to a lower than expected reduction in financial pressure on indebted agents.

1 The cost of new financing to households has eased somewhat in recent months, but remains high

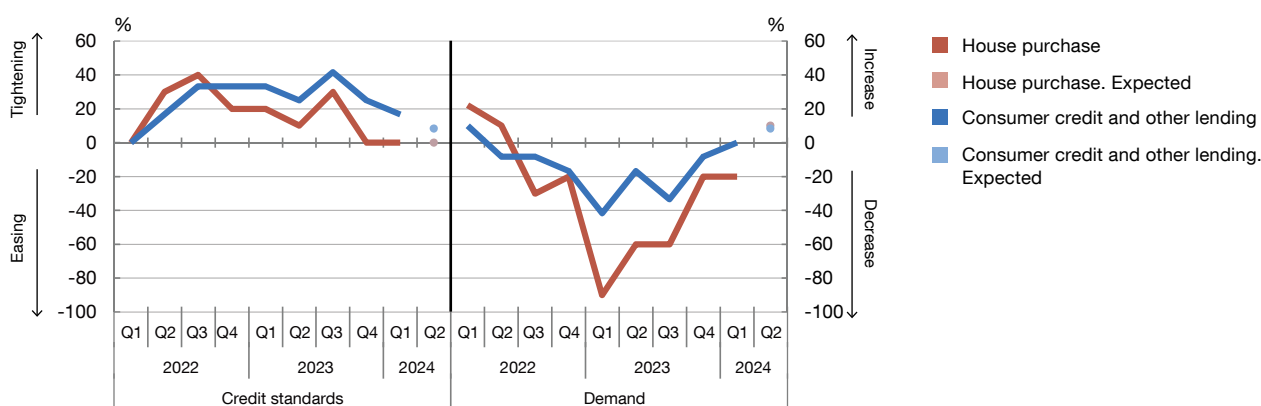
- Financial markets' expectations of a slight decline in the key interest rates in the euro area over the coming quarters, which have been tentatively borne out by the 25 basis point (bp) cut decided at the European Central Bank (ECB) Governing Council's June meeting, have led to a slight reduction in the cost of new bank loans since 2023 Q4. The decline was somewhat sharper in lending for house purchase, around 40 bp between October 2023 and May 2024 (see Chart 1.a).
- Likewise, according to the Bank Lending Survey (BLS), banks have stopped tightening their credit standards for loans to households for house purchase, while the tightening of standards for consumer credit and other lending has moderated (see Chart 1.b). At the same time, the fall in households' demand for funds has slowed and banks anticipate that such applications may start to increase in 2024 Q2.

Chart 1

1.a Cost of new bank loans to households (a)



1.b Change in credit standards and demand for bank loans to households in Spain. BLS (b)



SOURCE: Banco de España.

- a Bank rates are narrowly defined effective rates (NDEs), which exclude related charges, such as repayment insurance premiums and fees, and are adjusted seasonally and for the irregular component. Latest observation: May 2024.
- b Percentage of banks reporting a tightening (an increase in the case of demand) less percentage reporting an easing (a decrease in the case of demand).

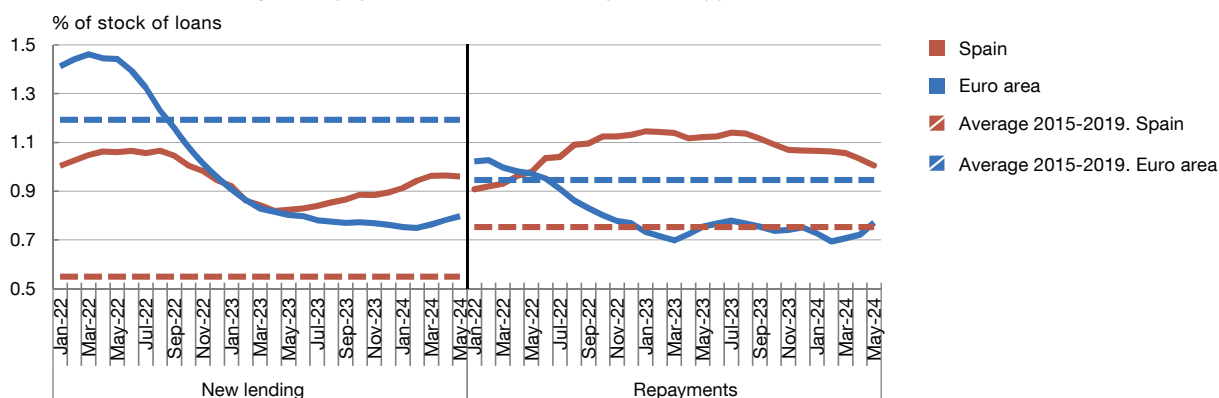


2 New lending for house purchase has remained rising, but the stock of debt has continued to decline owing to high repayments ...

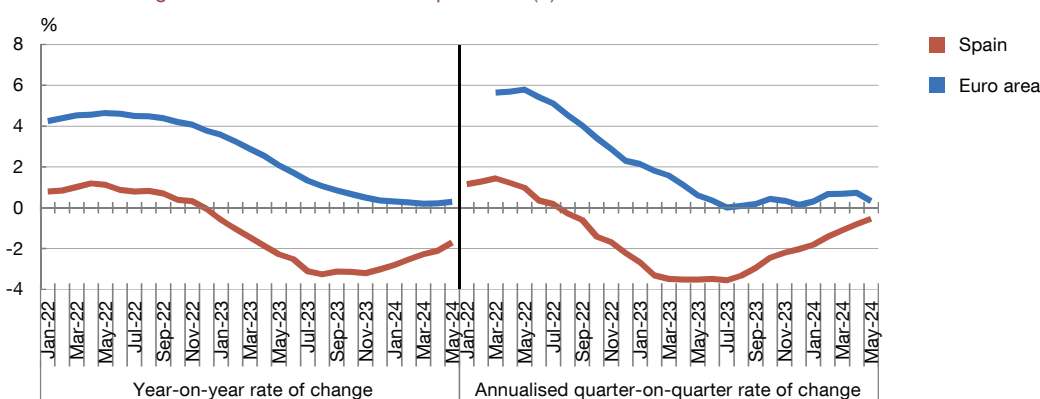
- New lending for house purchase in Spain has continued its recovery in the first few months of 2024 (see Chart 2.a), against a backdrop of **strong growth in employment income** and employment, and in which **financing conditions began to show some signs of moderation**. This recovery in new credit flows is at an earlier stage in the euro area.
- At the same time, Spanish households have continued to repay loans at relatively high levels in a high interest rate environment. This trend has not been mirrored in the euro area, where the stock of variable-rate mortgages is lower than in Spain.¹ As a result, the outstanding balance of mortgages has continued to fall in Spain, albeit at an increasingly slower rate (1.7% year-on-year in May), while in the euro area it is rising very moderately (see Chart 2.b).

Chart 2

2.a Volume of new lending and repayment of loans for house purchase (a)



2.b Outstanding balance of loans for house purchase (b)



SOURCES: ECB and Banco de España.

- a Three-month cumulative flows using monthly seasonally adjusted data. Excludes renegotiations of existing loans, but includes: i) refinancing; ii) restructuring, when the interest rate is no lower than market rate with a similar term and credit risk; iii) novations; iv) debtor subrogations; v) creditor subrogations; and vi) acquisitions of loans in which the borrower is not entitled to modify the terms as a result of the acquisition.
- b Data adjusted for seasonality and securitisation. In the euro area the adjustment for securitisation is only available from December 2021.



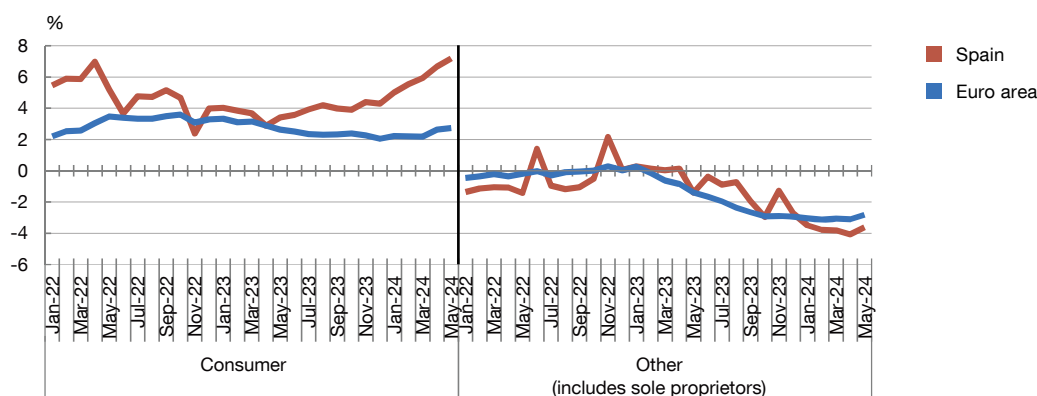
1 See page 6 of the [Report on the financial situation of households and firms. Second half of 2023](#).

3 ... and consumer credit has remained buoyant

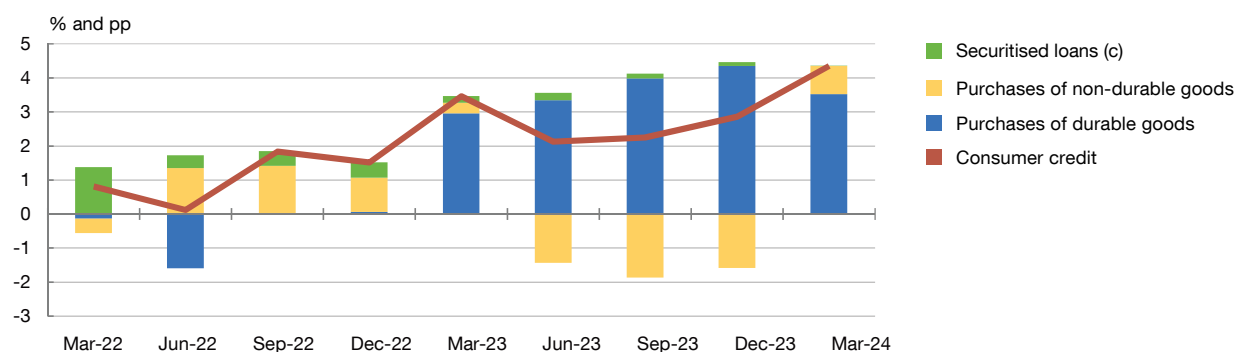
- The stock of consumer credit has picked up in recent months, reaching year-on-year growth of 7.2% in May, widening the gap to the euro area, where the pace of growth remains below 3% (see Chart 3.a). By type of loan, the momentum since 2023 has been driven by lending for the purchase of durable goods, although purchases of non-durable goods have also made a positive contribution in 2024 Q1 (see Chart 3.b). This change occurred in an environment of robust increases in nominal spending on consumer durables (this type of expense is the sort of consumption most likely to be financed with credit) which, in four-quarter cumulated terms, rose by 8% year-on-year in 2024 Q1.
- The stock of other lending (which covers loans to sole proprietors) continued to fall up to May, in both Spain and the euro area, although the rate of decline has slowed.

Chart 3

3.a Outstanding balance of consumer and other lending. Year-on-year rates of change (a)



3.b Outstanding balance of consumer credit by purpose. Rates of change and contributions (b)



SOURCES: ECB and Banco de España.

- Data adjusted for seasonality and securitisation. In the euro area the adjustment for securitisation is only available from 2023.
- Year-on-year rates of change calculated on outstanding amounts, meaning that they are affected by reclassifications and write-offs/write-downs. As a result, they differ from those shown in Chart 3.a, which are calculated as the net flow in the period divided by the outstanding balance at the beginning of the period.
- Loans that have been derecognised by the originating credit institution and transferred, either to securitisation special purpose entities or another type of assignee (but continue to be administered by a monetary financial institution) or to Sareb (the asset management company for assets arising from bank restructuring). No information is available to assign a purpose to them.

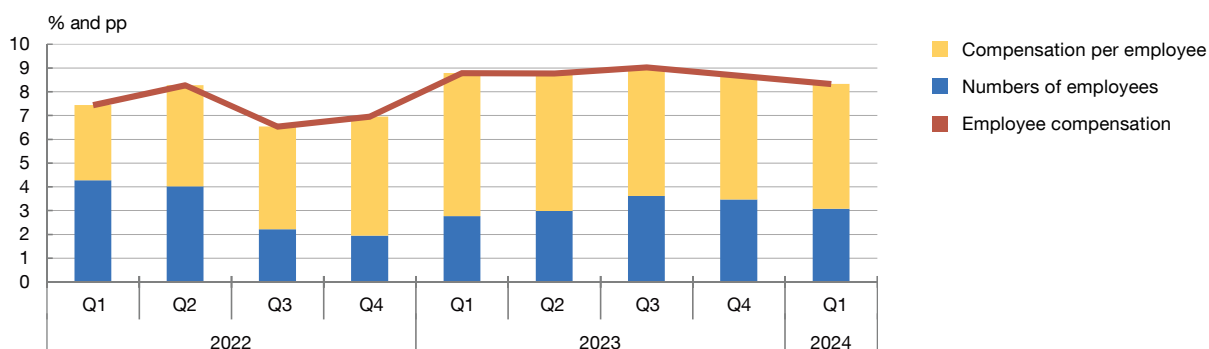


4 In early 2024, household income continued to increase on the back of employment and wage growth ...

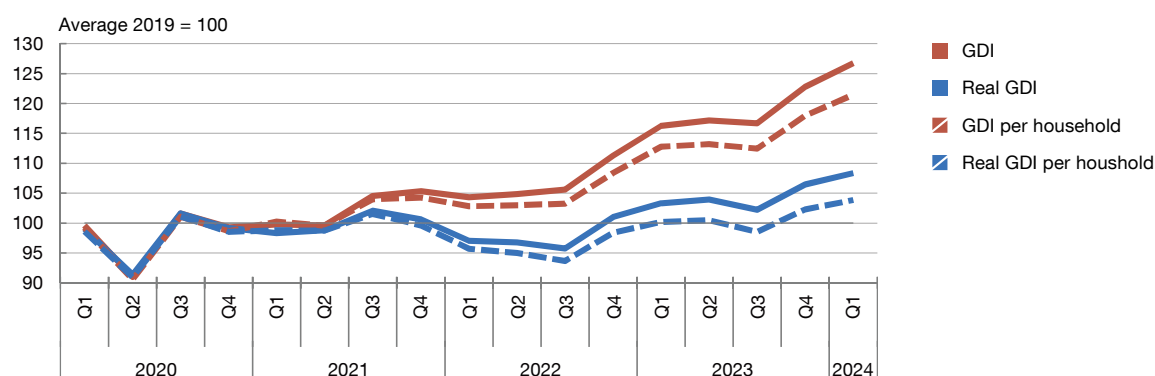
- Employment income continued to rise vigorously in 2024 Q1, by 8.3% year-on-year, although slightly below end-2023 levels (8.7%). This increase was the result of favourable developments in both the number of employees and nominal earnings per employee (see Chart 4.a).
- Year-on-year growth in households' gross disposable income (GDI) stood at 9.1% in 2024 Q1 (4.9% in real terms) an increase which is also partly driven by the rising number of households. Real GDI per household in 2024 Q1 stood nearly 4% higher than its level in 2019 (see Chart 4.b).
- Robust job creation in recent years appears to be helping alleviate income inequality. The Spanish National Statistics Institute's (INE) Survey of Income and Living Conditions shows a fall in income inequality² in 2022 (latest available figure) for the second consecutive year, standing below the levels recorded prior to the global financial crisis.

Chart 4

4.a Employee compensation. Year-on-year rates of change and contributions



4.b Household GDI (a)



SOURCES: INE and Banco de España.

a Seasonally adjusted series. The private consumption deflator is used for series shown in real terms.



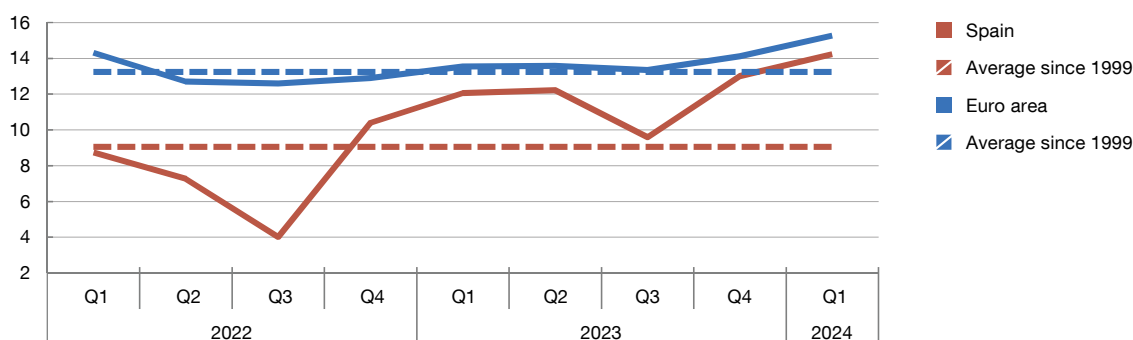
2 This fall can be seen whether inequality is measured on the basis of the disposable income ratio of the top 20% of earners relative to the bottom 20% or using the Gini coefficient.

5 ... which, together with the relative slack in consumption, helped the saving rate to remain above its historical average

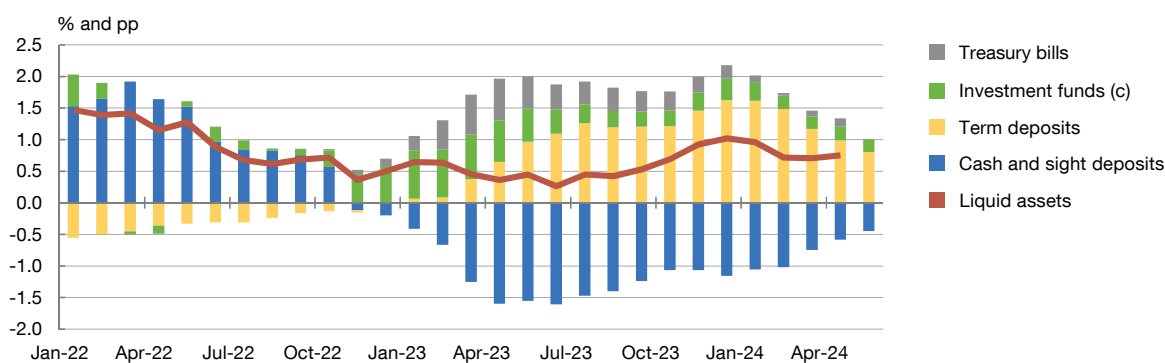
- The household saving rate rose in Spain and the euro area, to 14.2% and 15.3%, respectively, of GDI in 2024 Q1, above their historical averages (see Chart 5.a).
- The proportion of cash and overnight deposits in Spanish households' portfolio of liquid assets continued to fall up to May (see Chart 5.b). New term deposits, which were remunerated at 2.6% in May (50 bp below the euro area average, but 253 bp above their end-2021 level, when remuneration was practically zero prior to monetary policy tightening), account for a large share of net investments. In contrast, Treasury bills appear to have lost their lustre somewhat after their interest rate dropped slightly, to 3.4% at one year in May, from their peak of 3.9% in October 2023.

Chart 5

5.a Household saving rate (a)



5.b Liquid assets. Quarter-on-quarter rate of change and contributions (b)



SOURCES: Eurostat, INE and Banco de España.

a Seasonally adjusted data.

b Seasonally adjusted data. Quarter-on-quarter rate of change calculated as net flows divided by the outstanding balance, which excludes the price effects of investment funds since December 2021. The latest figures date from May 2024, apart from Treasury bills and total liquid assets, which date from April.

c Net subscriptions (excluding valuation effects).

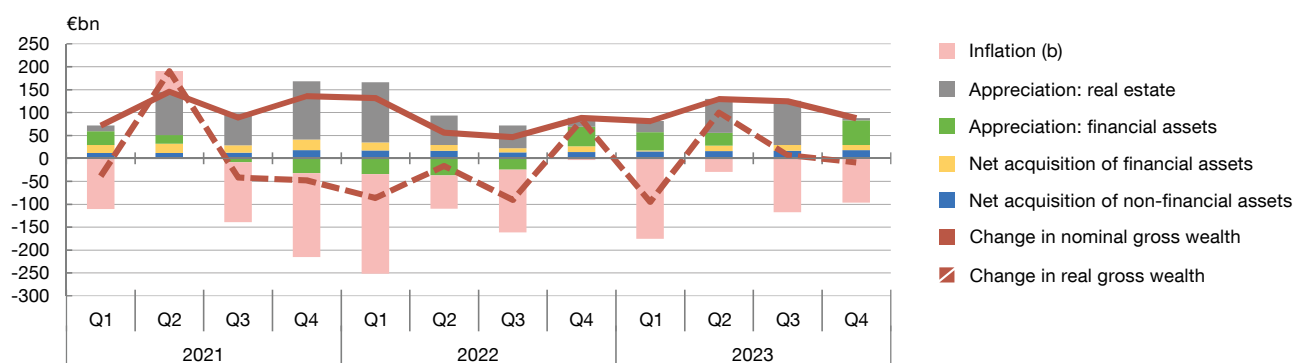


6 Asset appreciation has once again helped drive up nominal wealth, although real wealth appears to have barely changed

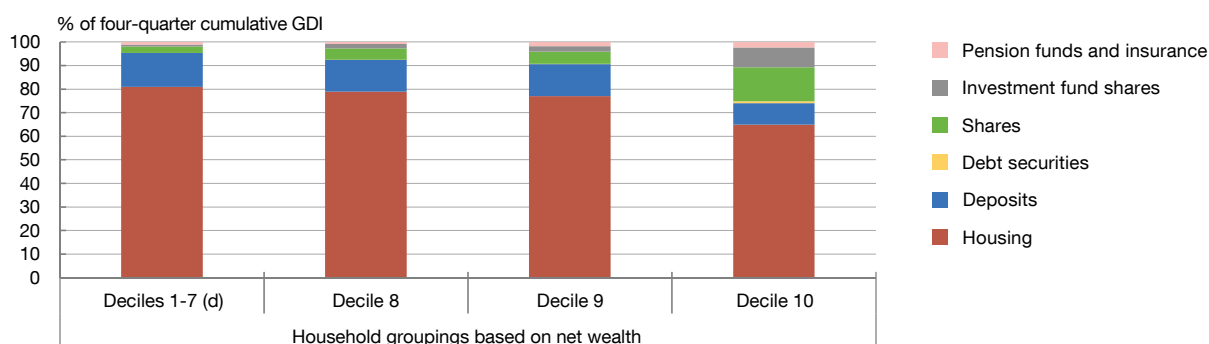
- Gross household wealth continued to rise in 2023 H2, underpinned by the appreciation of both financial assets and real estate and, to a lesser extent, by net asset purchases (see Chart 6.a). Real wealth, however, appears to have remained virtually unchanged. The favourable asset price developments continued in 2024 Q1, with the IBEX 35 climbing by 9.6% and house prices by 2.4% since 2023 Q4.
- Asset appreciation has uneven effects on the financial situation of households, given the differences in the level of their wealth and portfolio composition (see Chart 6.b). According to the **Distributional Wealth Accounts**, although housing makes up the main component across all household groups, financial assets (excluding bank deposits) account for a larger share of the total assets of the wealthiest households. For instance, the wealthiest 10% of households hold 26% of their wealth in shares, investment fund shares and debt securities, compared with 4.8% in the case of those below the 70th net wealth percentile.

Chart 6

6.a Gross wealth. Quarterly change by component (a)



6.b Composition of asset portfolios by instrument based on net wealth. Distributional Wealth Accounts. 2023 Q4 (c)



SOURCES: ECB and Banco de España.

a Seasonally adjusted flows.

b Proxied by the consumption deflator.

c Experimental statistic published by the ECB on the distribution of wealth among households. The chart shows the financial asset portfolio of households at end-2023, distributed among household groups according to their net wealth and including detailed information from the Household Finance and Consumption Survey for 2021.

d The first seven deciles are grouped because the distribution is highly similar for all of them.

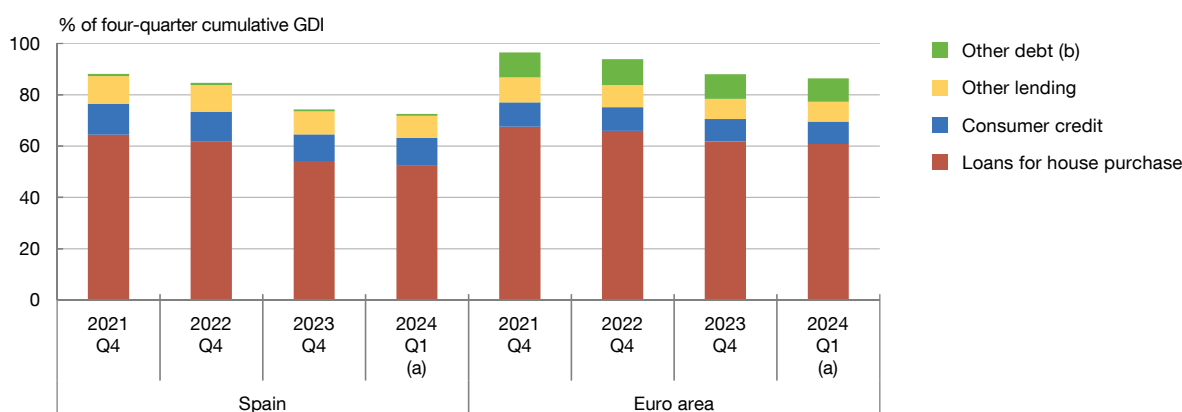


7 The household debt ratio has continued to decline ...

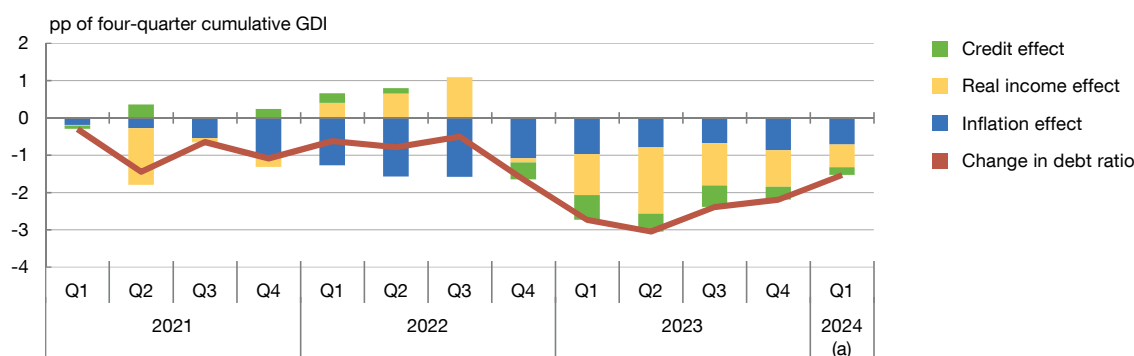
- The household debt ratio decreased to 72% of GDI in 2024 Q1, its lowest level since end-2001 and 14 percentage points (pp) below the euro area average (see Chart 7.a).³ In both Spain and the euro area, deleveraging has been strongest within loans for house purchase.
- In Spain the debt ratio has decreased over the last two years primarily on account of the inflation-linked erosion of the real value of debt and also, since end-2022, higher real incomes and a contraction in the stock of loans (see Chart 7.b). Over a broader timescale, the decline in indebtedness among Spanish households also reflects the fact that home ownership has become less affordable for younger households than it was for previous cohorts (see Box 1).

Chart 7

7.a Household debt ratio



7.b Breakdown of quarterly change in debt ratio (c)



SOURCES: INE, ECB and Banco de España.

- a Estimated drawing on bank loans to households.
- b Loans received from non-residents in each area.
- c Seasonally adjusted outstanding amount.



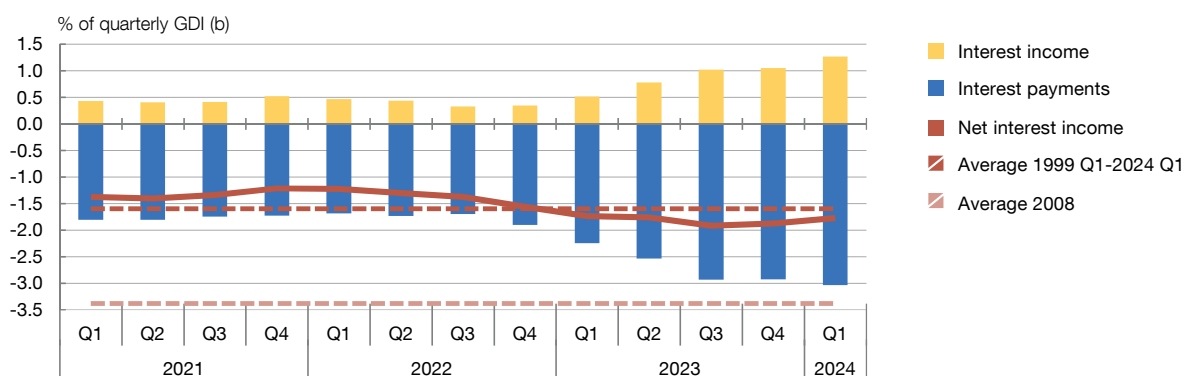
³ In 2024 Q1 this ratio stood at 46% and 53% of GDP in Spain and the euro area, respectively.

8 ... but the interest burden rose slightly relative to income in 2024 Q1

- Nevertheless, the net interest burden (interest payments less interest income) has fallen below 2% of GDI, due to an increase in interest income. This net interest burden is around 20 bp higher than the average recorded since 1999, but 160 bp lower than the peak levels of 2008 (see Chart 8.a).
- The average cost of the outstanding amount of household loans has remained virtually unchanged in recent months, standing at 4.6% in May 2024. According to the simulations conducted using the Central Credit Register (CCR) and market interest rate expectations at end-May, the cost of 26% of outstanding mortgages in March 2024 could decrease by 50-80 bp between March and December 2024 owing to the lower reference interest rates on floating-rate loans.⁴

Chart 8

8.a Households' net interest burden (a)



SOURCES: INE and Banco de España.

- a Seasonally adjusted interest income and payment flows prior to the allocation of financial intermediation services indirectly measured (FISIM).
 b GDI is seasonally adjusted and excludes net interest income after the allocation of FISIM.



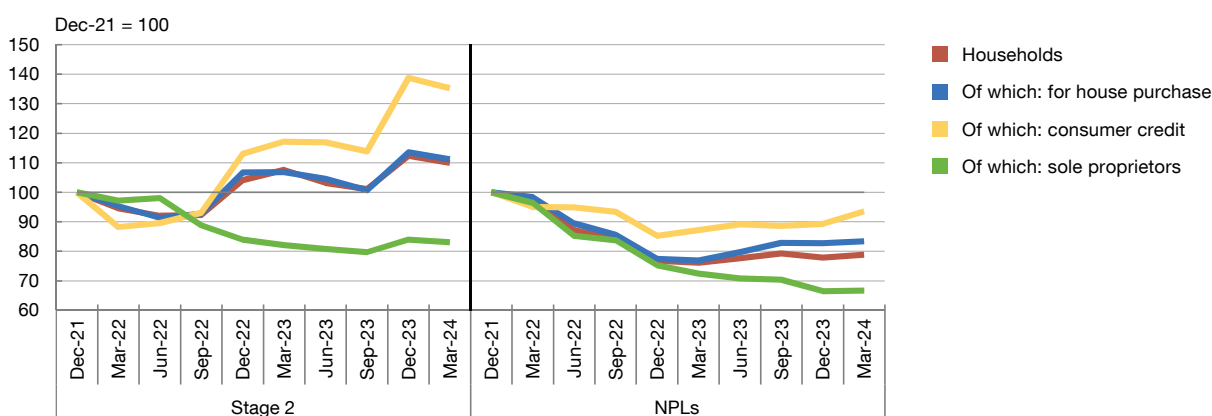
⁴ See "Box 1. Monetary policy transmission to interest payments on the bank debt of households and firms", in *Report on the financial situation of households and firms. Second half of 2023* for more information on the calculation methodology used.

9 The credit quality of household loans has deteriorated somewhat since September 2023

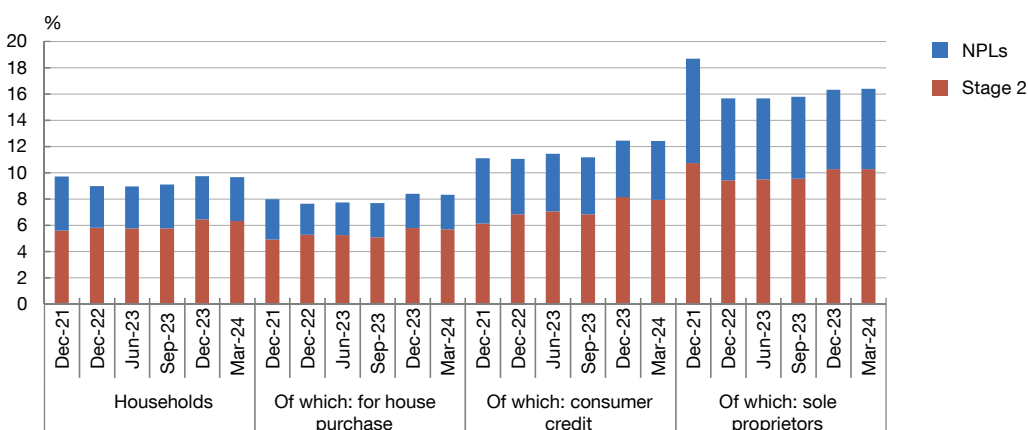
- Troubled loans to households grew by 5.3% between September 2023 and March 2024 (chiefly in 2023 Q4), owing to a rise in Stage 2 loans (which account for 65% of troubled loans), and despite a slight decrease in non-performing loans (NPLs) (see Chart 9.a). The increase in troubled loans was observed across the board, but was sharper in consumer credit, with declines recorded only in other lending (which includes sole proprietors).
- The troubled loan ratio stood at 9.7% in March (see Chart 9.b), a rise of 0.6 pp from 2023 Q3 and similar to end-2019 levels. This increase was attributable to the Stage 2 ratio, which rose to 6.3%, while the NPL ratio held stable at 3.3%. These ratios are 1.2 pp higher and lower, respectively, than their pre-pandemic levels.

Chart 9

9.a Stage 2 and non-performing loans to households (a) (b)



9.b Stage 2 loan and NPL ratios. Households (a) (b)



SOURCE: Banco de España.

a Aggregate of deposit institutions and specialised lending institutions (SLIs).

b NPLs and Stage 2 loans refer to the gross carrying amount of troubled assets in banks' portfolios. Loans are classified as non-performing when they are in default (there are amounts more than 90 days past due) or when there are indications that the loan is unlikely to be paid (e.g. the equity of a firm is negative). Loans are classified as Stage 2 when their credit risk has increased significantly since initial recognition, but they do not meet the requirements to be classified as non-performing. They generally include those with amounts more than 30 days past due.

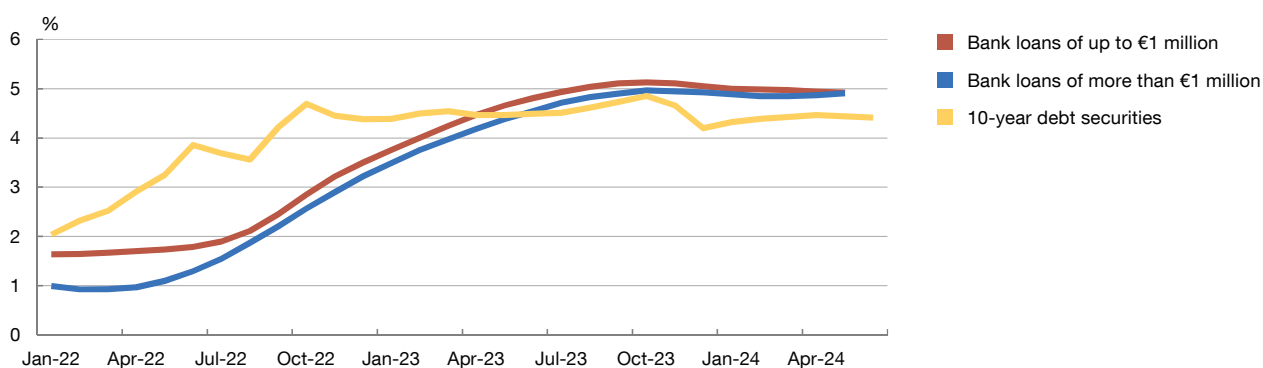


10 The cost of new financing to firms has fallen slightly since last autumn ...

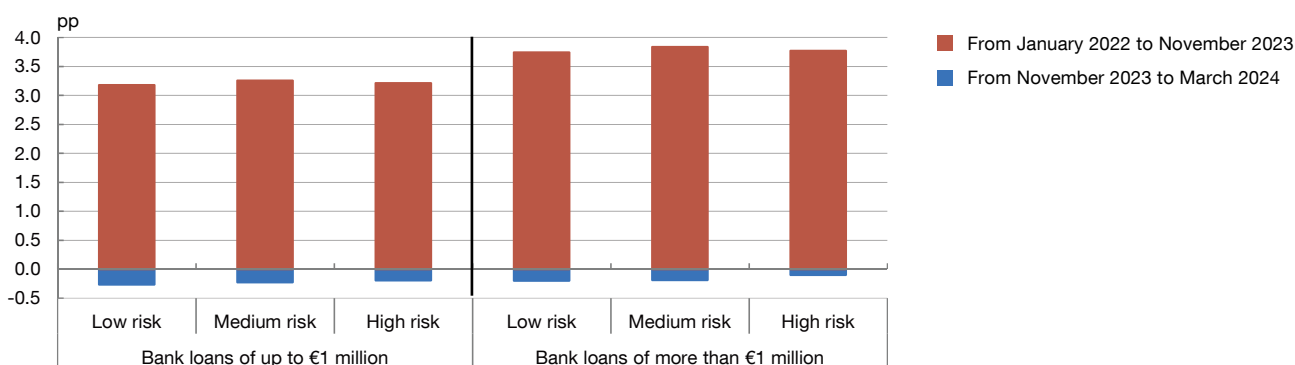
- As in the case of household loans, average interest rates on new lending to firms have declined slightly, in line with the fall in market reference rates amid expectations of cuts to key ECB interest rates.
- In May the lending rate on loans of up to €1 million had dropped 21 bp from the peaks observed in autumn 2023, while in the case of larger loans, it had fallen by 6 bp. Although the average cost of long-term debt security issuances has risen since early 2024, in June it was still around 40 bp below its October 2023 peak (see Chart 10.a).
- Interest rates on new lending have declined across all loan sizes and firms' risk profiles. The increases in such costs during the recent period of monetary policy tightening were also broad-based and of a similar magnitude across the different segments, although they were somewhat higher for larger loans (see Chart 10.b).

Chart 10

10.a Cost of new financing to NFCs (a)



10.b Change in the cost of new bank financing to NFCs by credit risk and loan size (b)



SOURCE: Banco de España.

a Bank rates are narrowly defined effective rates (NDEs), i.e. they exclude related charges and are adjusted seasonally and for the irregular component. Latest observation: May 2024 (bank rates) and June 2024 (debt securities).

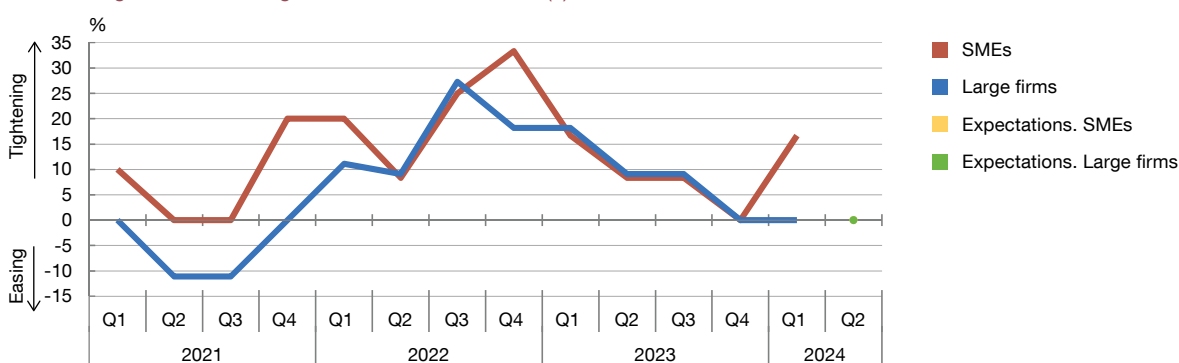
b Drawing on the Central Credit Register (CCR) and Central Balance Sheet Data Office integrated database (CBI) following Roberto Blanco, Elena Fernández, Miguel García-Posada and Sergio Mayordomo (2023), "An estimation of the default probabilities of Spanish non-financial corporations and their application to evaluate public policies", Documentos Ocasionales - Banco de España, 2319. A firm is considered to have low credit risk if its probability of default is lower than or equal to 1%, medium credit risk if it is higher than 1% but lower than or equal to 3% and high credit risk if it is higher than 3%.

11 ... and the deterioration in firms' access to credit appears to have stopped

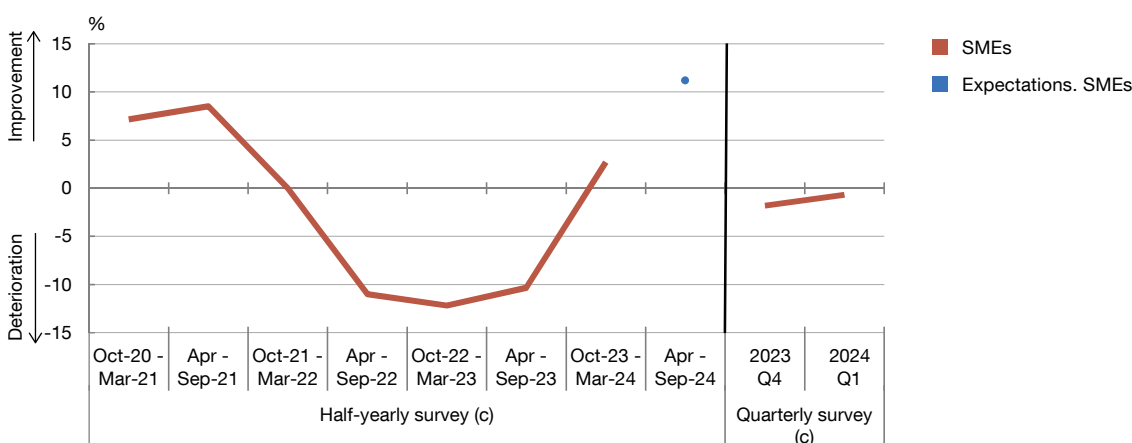
- According to the BLS, credit standards remained unchanged between January and March 2024 both for firms as a whole and for large firms (for the second consecutive quarter), but lending to small and medium-sized enterprises (SMEs) continued to tighten somewhat (see Chart 11.a).
- However, according to the Survey on the Access to Finance of Enterprises (SAFE) in the euro area, SMEs' perception of the availability of bank credit remained broadly stable in Q1, in contrast to the deterioration they had reported in previous editions (see Chart 11.b).
- Constraints on access to credit for some firms during the recent period of monetary policy tightening appear to have continued to hamper investment among the SMEs affected, slightly more so than before the pandemic (see Box 2).

Chart 11

11.a Change in bank lending standards for NFCs. BLS (a)



11.b Change in perceived bank loan availability among Spanish firms. SAFE (b)



SOURCES: ECB and Banco de España.

- a Percentage of banks reporting a tightening less percentage of banks reporting an easing. The percentage is zero for the expectations of both SMEs and large firms.
- b Percentage of SMEs reporting an improvement less percentage of SMEs reporting a deterioration.
- c The survey is conducted every quarter as of 2024. The results of the quarterly survey cannot be compared with those of the half-yearly survey, since both the firm samples and the time frames are different.

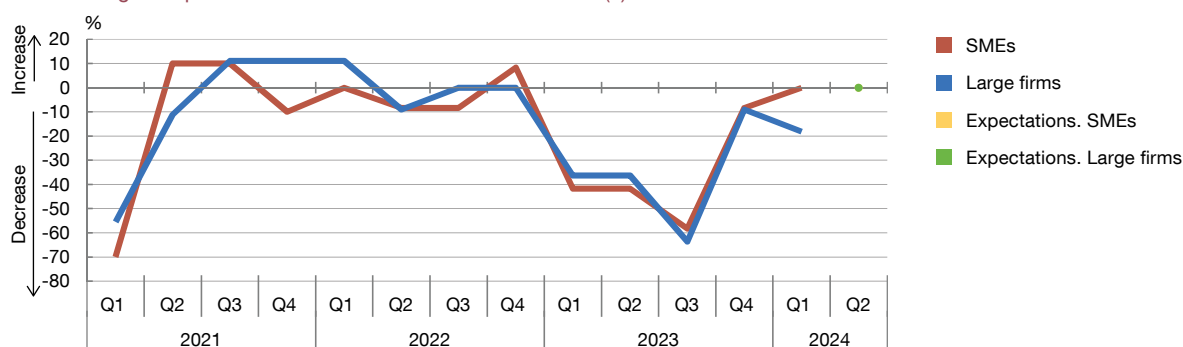


12 Meanwhile, demand for bank credit no longer appears to be declining, but it remains weak

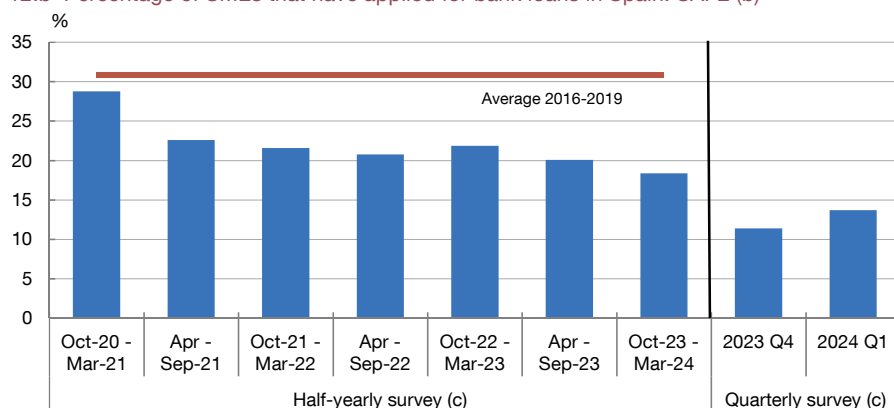
- According to the BLS, in 2024 Q1 demand for loans remained unchanged for SMEs and decreased slightly for large firms (see Chart 12.a). For 2024 Q2, the BLS envisages loan applications to remain stable across all firm sizes.
- Based on the responses of the banks surveyed, the weakness of demand is mainly due to the negative impact of higher interest rates, as well as to lower financing needs (for fixed asset investment, inventories and working capital), fewer mergers and corporate restructuring processes and the use of internal financing.
- Unlike the BLS, the SAFE shows a slight increase in the percentage of SMEs that applied for bank loans in 2024 Q1. Nevertheless, between October 2023 and March 2024, this percentage stood at historically low levels (see Chart 12.b).

Chart 12

12.a Change in Spanish NFCs' demand for bank loans. BLS (a)



12.b Percentage of SMEs that have applied for bank loans in Spain. SAFE (b)



SOURCES: ECB and Banco de España.

- a Percentage of banks reporting an increase less percentage of banks reporting a decrease. The percentage is zero for the expectations of both SMEs and large firms.
- b As a percentage of SMEs for which bank loans (including subsidised loans) are relevant. Firms are classified as such if they have used bank financing in the past or are considering using it in the future.
- c The survey is conducted every quarter as of 2024. The results of the quarterly survey cannot be compared with those of the half-yearly survey, since both the firm samples and the time frames are different.

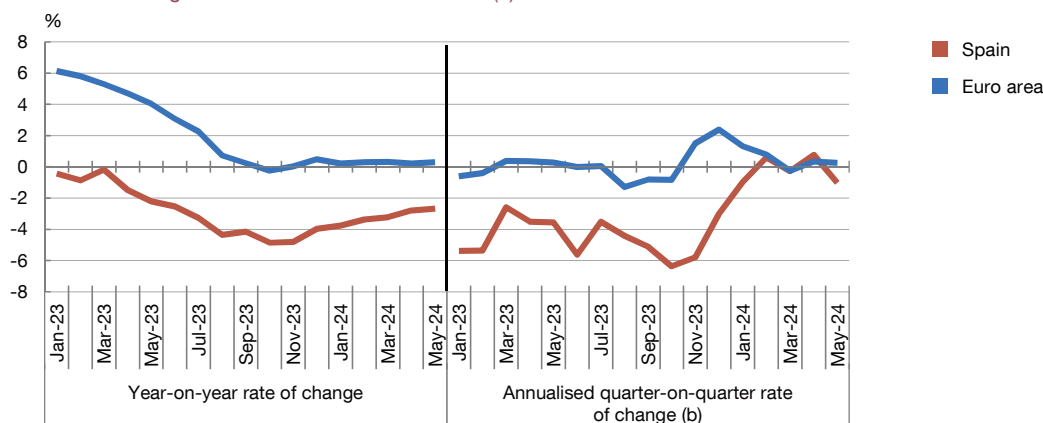


13 Against this background, the financing raised by Spanish firms has stopped decreasing

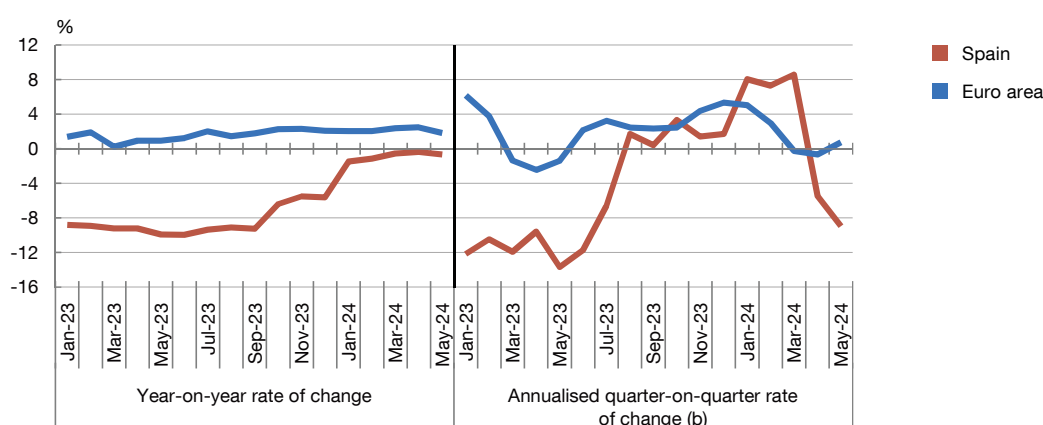
- The Financial Accounts of the Spanish Economy show that in 2023 Q4 the total balance of financing raised by firms rose slightly compared with the previous quarter. Financing indicators point to a continuation of this trend in 2024 Q1.
- New bank loans to firms in Spain have gained momentum in 2024 and, for the first time since September 2022, the outstanding balance of such credit has posted a quarter-on-quarter growth rate close to zero, although it continued to decline in year-on-year terms (see Chart 13.a). These developments come amid a **slight improvement in financing conditions** and a **halt to the decline in credit demand by SMEs**. In the euro area there has been little change in the stock of bank loans.
- The year-on-year drop in the balance of financing raised by Spanish firms through bond issuance has also moderated, with the rate of decline remaining very low since the beginning of 2024 (see Chart 13.b).

Chart 13

13.a Outstanding balance of bank loans to NFCs (a)



13.b Outstanding amount of debt securities issued by NFCs (c)



SOURCES: ECB and Banco de España.

a Securitisation adjusted data.

b Seasonally adjusted data.

c The data for Spain include issuances by non-resident subsidiaries, but the euro area data do not (they do include issuances within the euro area when the parent and the subsidiary are domiciled in different countries).



14 In 2024 Q1 turnover remained broadly stable in year-on-year terms, with some sectoral heterogeneity, ...

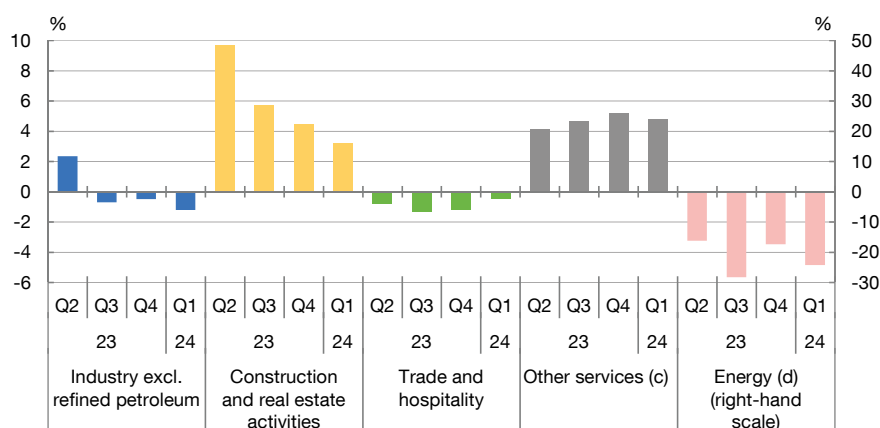
- Nominal turnover fell by 0.6% year-on-year in 2024 Q1, according to the combined information of the Spanish tax revenue service (AEAT) and the Central Balance Sheet Data Office Quarterly Survey (CBQ) (see Chart 14.a).
- Turnover in construction and real estate activities, hospitality (grouped with trade in Chart 14.b) and other services grew at a notable year-on-year rate. Growth in the latter two cases is in line with the significant **contribution of tourism to GDP growth in 2024 Q1**. By contrast, turnover declined in industry, trade (influenced by fuel retailers) and, above all, energy, with the decline in prices lying behind the drops in the latter two sectors.
- The **Banco de España Business Activity Survey (EBAE)** points to an increase in turnover in Q2 relative to Q1, albeit uneven across sectors.

Chart 14

14.a Turnover of NFCs. Year-on-year rate of change. AEAT and CBQ (a) (b)



14.b Turnover of NFCs. Year-on-year rate of change. AEAT and CBQ (a)



SOURCES: AEAT (VESGEP) and Banco de España.

- a Rates calculated drawing on calendar effect adjusted AEAT data. The data for the electricity, gas, steam and air conditioning supply and the manufacture of coke and refined petroleum products sectors are from the CBQ.
- b The following sectors are not included: education, health, public administration and financial and insurance activities.
- c Includes transportation and storage; information and communication; social, cultural, recreational and other services; and other services for production.
- d Includes mining and quarrying, and electricity, gas and water.

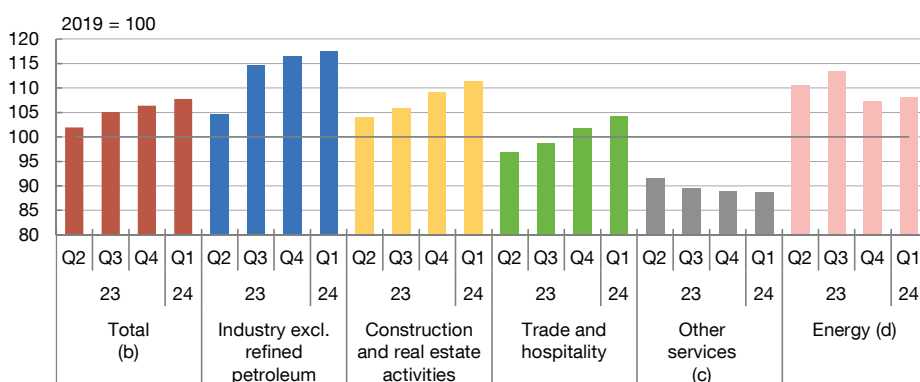


15 ... while the margin on sales rose on average, but declined slightly in terms of GVA

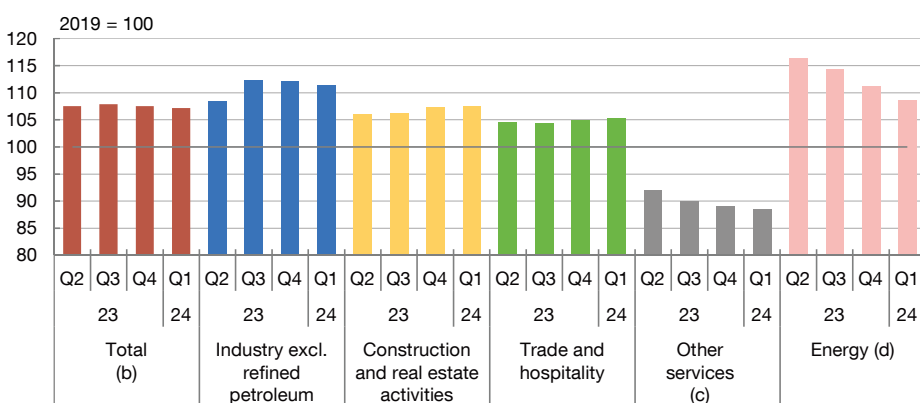
- In 2024 Q1 the margin on sales was higher than in the previous quarter both for firms overall and in most of the sectors analysed (see Chart 15.a).
- The modest increase in the margin on sales was compatible with the slight decrease in the margin on gross value added (GVA) in the same period (see Chart 15.b). This shows that the weight of personnel costs continued to grow somewhat between January and March at the expense of profits. In this vein, National Accounts data also show a slight decline in gross operating surplus (GOS) as a percentage of GVA in the market economy.
- In any event, the AEAT and CBQ data display sectoral heterogeneity, with modest increases in the margins on GVA in trade, hospitality and construction and real estate activities, and decreases in industry (excluding refined petroleum products), other services and, to a greater extent, energy.

Chart 15

15.a Margin on sales. NFCs. AEAT and CBQ data (a)



15.b Margin on GVA. NFCs. AEAT and CBQ data (e)



SOURCES: AEAT (Observatorio de Márgenes Empresariales) and Banco de España.

a Defined as GOP (calculated as $Turnover - Procurements - Wages$) / $Turnover$. Four-quarter moving sum.

b The following sectors are not included: education, health, public administration, recreation, financial and insurance activities and other services. The information comes from the AEAT, except that relating to electricity, gas, steam and air-conditioning supply, and to coke and refined petroleum products, which comes from the CBQ.

c Includes transportation and storage; information and communication; professional, scientific and technical activities; and administrative and support service activities.

d The energy sector includes mining and quarrying activities, and electricity, gas and water.

e Defined as GOP ($Turnover - Procurements - Wages$) / GVA ($Turnover - Procurements$). Four-quarter moving sum.

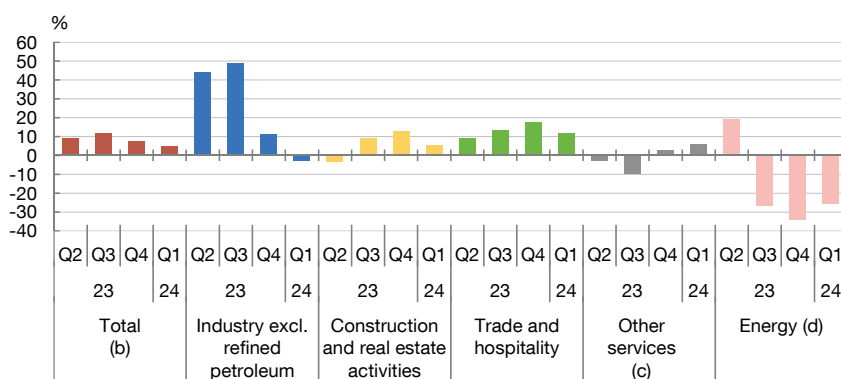


16 Against this backdrop, firms' profits decelerated once again, albeit unevenly by sector

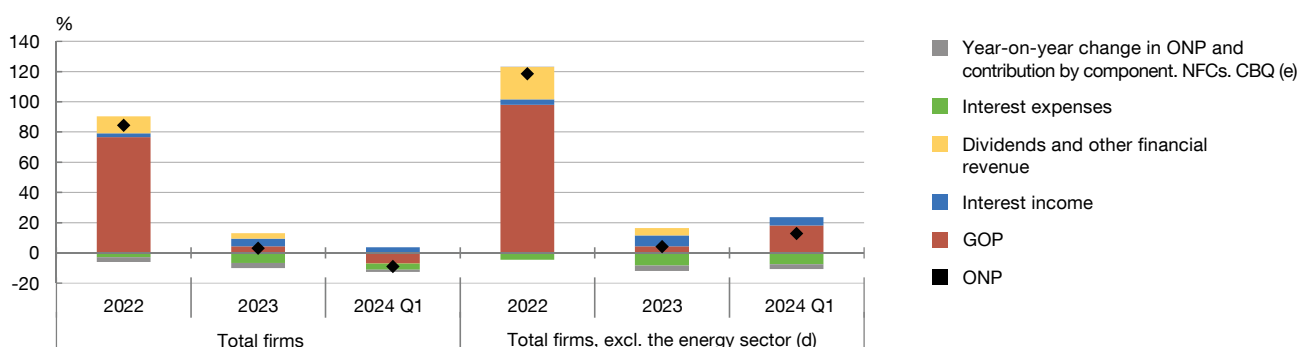
- Gross operating profit (GOP) grew by 4.9% year-on-year in nominal terms between January and March 2024, prolonging the slowing trend of the previous quarters (see Chart 16.a). GOP increased most notably in hospitality, and also grew in trade, construction and real estate activities and other services, while it declined in industry (excluding refined petroleum products) and, especially, in energy.
- In 2024 Q1 financial costs continued to contribute negatively (-4.1 pp) to the year-on-year change in the ordinary net profit (ONP) of the CBQ sample, albeit less than in 2023 on average (-6.8 pp). The contribution of interest income was slightly positive and dividend income remained stable. All of this led to ONP falling by 9.1% year-on-year (see Chart 16.b). Excluding the energy sector, ONP would have increased by 12.8%.

Chart 16

16.a GOP. NFCs. Year-on-year rate of change. AEAT and CBQ (a)



16.b Year-on-year change in ONP and contribution by component. NFCs. CBQ (e)



SOURCES: AEAT (Observatorio de Márgenes Empresariales) and Banco de España.

- GOP is calculated as Turnover – Procurements – Wages. Calendar effect adjusted.
- The following sectors are not included: education, health, public administration, recreation, financial and insurance activities and other services. The information comes from the AEAT, except that relating to electricity, gas, steam and air-conditioning supply, and to coke and refined petroleum products, which comes from the CBQ.
- Includes transportation and storage; information and communication; professional, scientific and technical activities; and administrative and support service activities.
- The energy sector includes mining and quarrying activities, and electricity, gas and water.
- ONP is defined as GOP plus net financial revenue less net depreciation, impairment and operating provisions. Not calendar effect adjusted. Does not include holding companies.

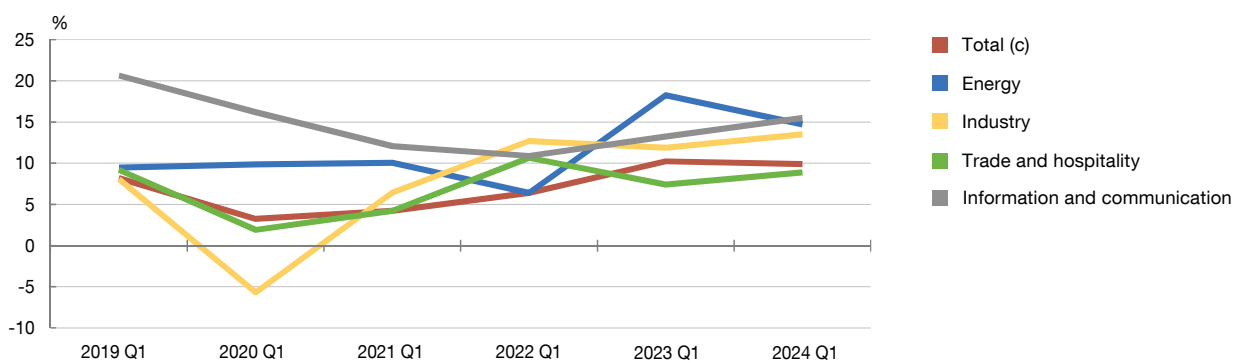


17 In early 2024, CBQ firms' profitability remained relatively steady (with the exception of the energy sector), as did their liquidity buffers

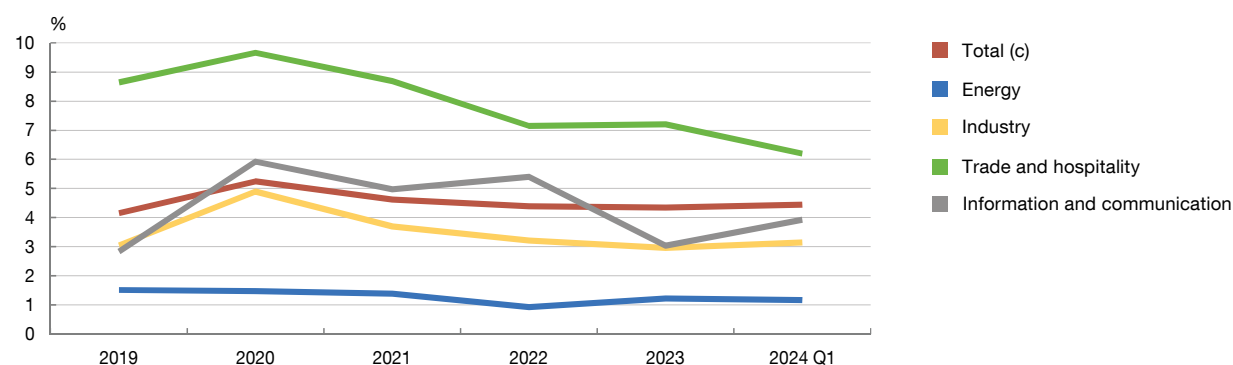
- The return on equity of the CBQ sample stood at 10.1% in 2024 Q1, 0.2 pp lower than in 2023 Q1 (see Chart 17.a).
- The sectoral breakdown shows that the slight decrease observed in the total sample was strongly driven by the fall in profitability in the energy sector, while it increased in the other sectors (industry, trade, hospitality and information and communication).
- According to the CBQ, firms' average liquidity⁵ held practically stable between January and March 2024 at somewhat above 2019 levels. By sector, there was a drop in trade and hospitality, an increase in information and communication and no significant change in energy and industry (see Chart 17.b).

Chart 17

17.a ROE. NFCs. CBQ (a) (b)



17.b Liquidity ratio. NFCs. CBQ (b) (d)



SOURCE: Banco de España.

a Ratio defined as ONP / Own funds.

b Holding companies are not included.

c In addition to the sectors shown in the chart, the total includes transportation and storage, activities with limited coverage (for example, construction) and other services, which can lead to the total levels of some indicators being lower than the sum of the other sectors depicted.

d Ratio defined as Cash and cash equivalents / Total assets.



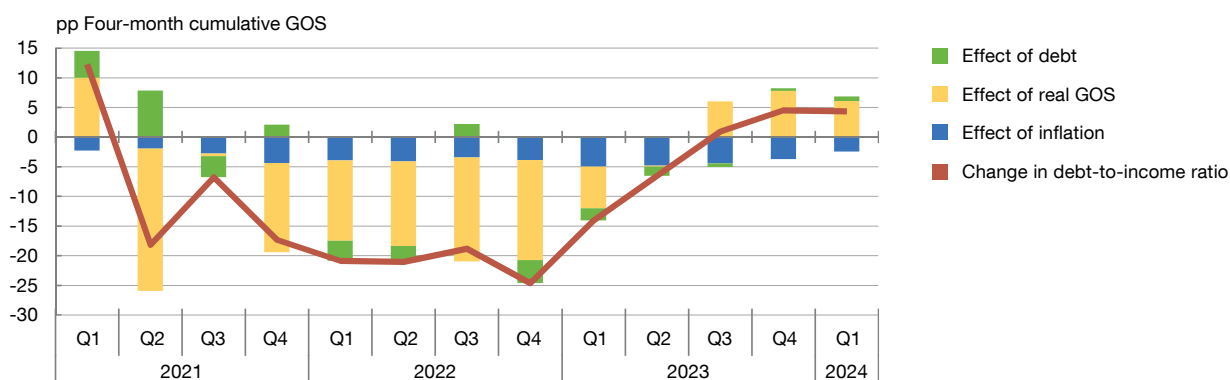
⁵ Defined as cash and cash equivalents divided by total assets.

18 The debt-to-operating surplus ratio is no longer falling since mid-2023 ...

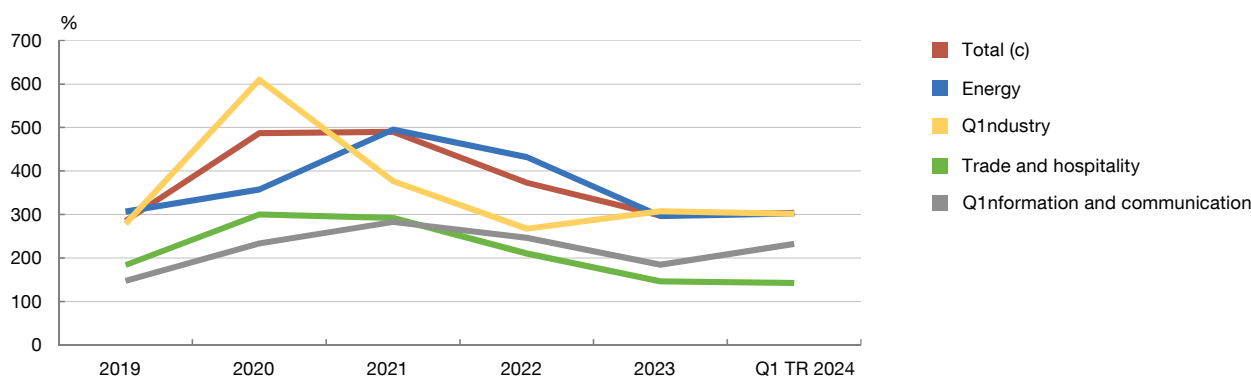
- The aggregate ratio of debt to GOS rose in 2023 Q4 and 2024 Q1, interrupting the downward trend it had followed since mid-2021 (see Chart 18.a). Falling real income and, more recently, slightly higher debt led to a moderate increase in this ratio. However, in terms of GDP, the ratio has continued to decline, to 64.2% in 2024 Q1, a level not seen since 2002 and 3.4 pp lower than the euro area average.
- In the period January-March 2024, the average ratio of debt to ordinary profit (GOP plus financial revenue) for CBQ firms remained stable at the 2023 average (see Chart 18.b). By sector, the ratio increased moderately in information and communication, decreased slightly in trade and hospitality and remained largely unchanged in energy and industry.

Chart 18

18.a Quarter-on-quarter change in the debt-to-income ratio. NFCs. (a)



18.b Debt-to-income ratio, by sector. NFCs. CBQ (b)



SOURCES: INE and Banco de España.

a Balance of seasonally adjusted outstanding debt. Excluding loans between NFCs resident in Spain. 2024 Q1 is an estimation.

b Interest-bearing borrowing / (GOP + Financial revenue). Excluding holding companies.

c In addition to the sectors shown in the chart, the total includes transportation and storage, activities with limited coverage (for example, construction) and other services, which can lead to the total levels of some indicators being higher than the sum of the sectors depicted.

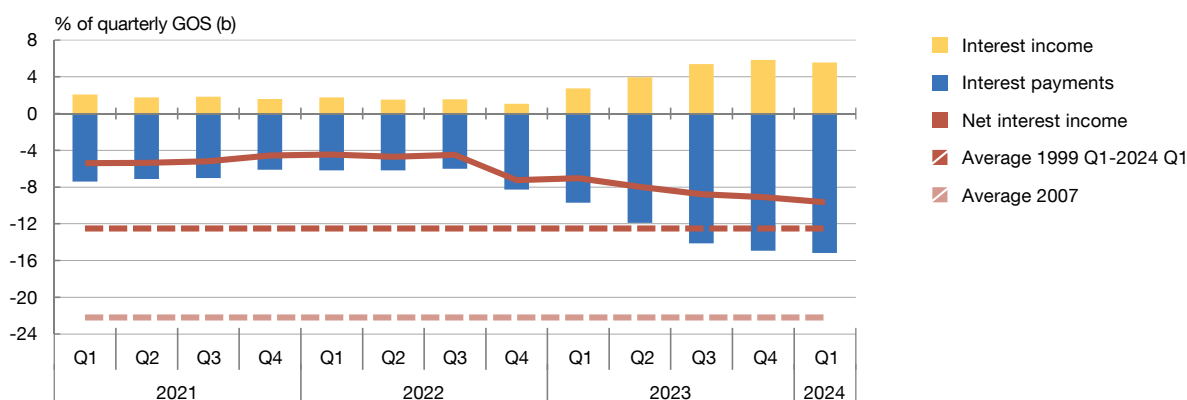


19 ... and the debt burden as a share of GOS has continued to rise, albeit remaining below the historical average

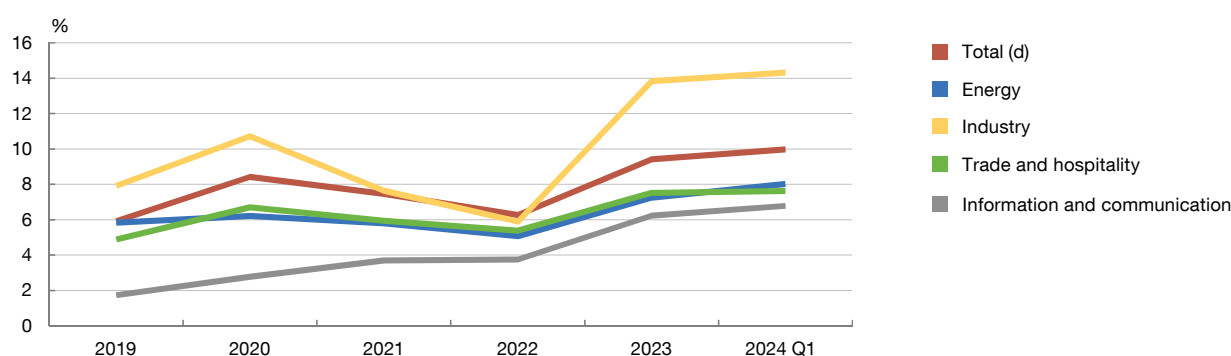
- The corporate sector's aggregate net interest burden as a share of GOS rose by 0.5 pp in 2024 Q1, to stand at 9.6% (see Chart 19.a). This increase was due to higher debt servicing costs and a slight decline in interest income, despite the rise in nominal GOS. Nonetheless, the net interest burden is low by historical standards (3 pp and 13 pp below the average since 1999 and the 2007 peak, respectively).
- By sector, the CBQ shows an all-round increase in the average debt burden ratio (the ratio of interest expenses to ordinary profit) in the first three months of 2024, compared with the average for the previous year (see Chart 19.b).
- Based on simulations carried out using the CCR and market interest rate expectations at end-May, around 31% of firms' outstanding loans at March 2024 will become between 50 bp and 80 bp cheaper between March and December 2024.⁶

Chart 19

19.a NFCs' interest burden (a)



19.b Firms' gross debt burden, by sector. CBQ (c)



SOURCES: INE and Banco de España.

a Seasonally adjusted interest income and payment flows prior to the allocation of FISIM.

b GOS excludes net interest income after assigning FISIM.

c Interest on borrowed funds / (GOP + Financial revenue). Excluding holding companies.

d In addition to the sectors shown in the chart, the total includes transportation and storage, activities with limited coverage (for example, construction) and other services.

⁶ See footnote 4.

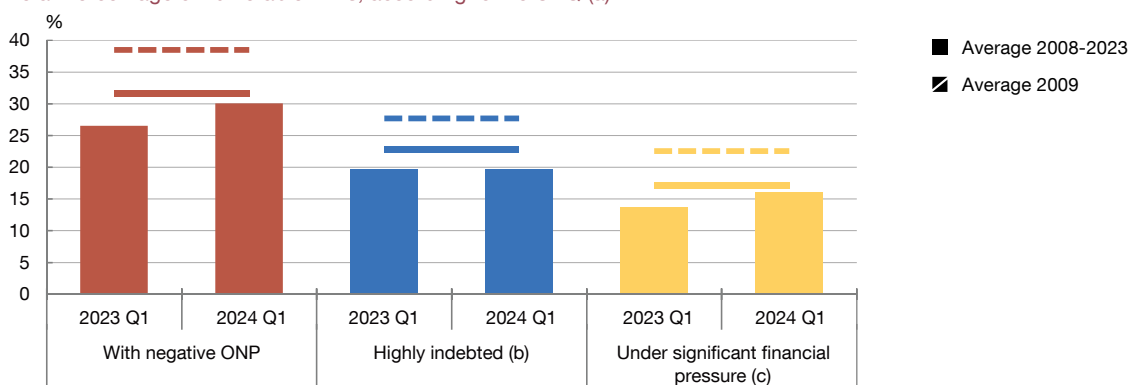


20 The percentage of vulnerable firms in the CBQ sample rose slightly in 2024 Q1 ...

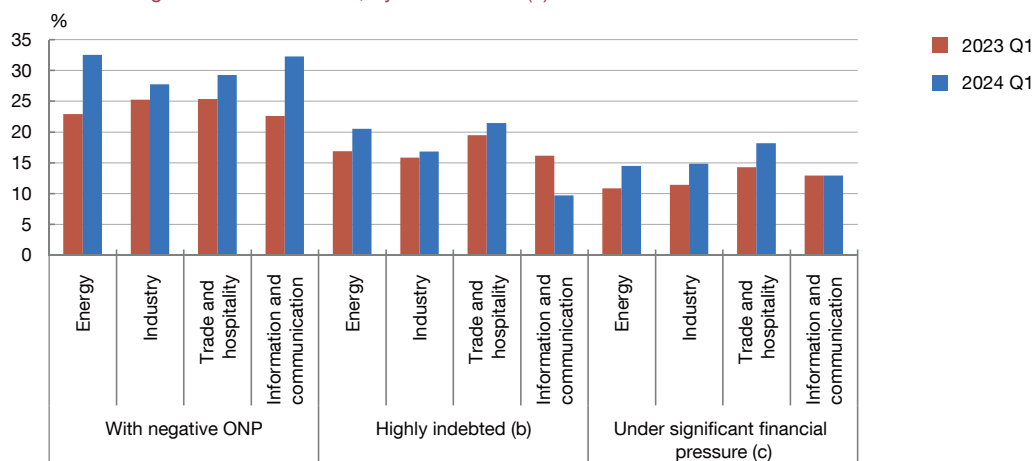
- The percentage of vulnerable firms in 2024 Q1 was up on the same period of 2023, in terms of both those with negative ONP (up 3.5 pp, to 30%) and those under significant financial pressure (up 2.3 pp, to 16%), while the proportion of highly indebted firms remained unchanged (see Chart 20.a). Nonetheless, in all these cases the figures remain below the average since 2008. The upturn in the proportion of vulnerable firms is in keeping with the slight worsening of the credit ratings assigned by the Banco de España's in-house credit assessment system (ICAS BE) over the past year.⁷
- This increase took place across almost all of the sectors analysed (see Chart 20.b), against a backdrop of weaker profits, weighed down by the rise in personnel and financial costs.

Chart 20

20.a Percentage of vulnerable firms, according to the CBQ (a)



20.b Percentage of vulnerable firms, by sector. CBQ (a)



SOURCE: Banco de España.

a Excluding holding companies.

b Net financial debt is defined as interest-bearing borrowing less cash and cash equivalents. Firms are classified as highly indebted if their ratio of Net financial debt / (GOP + Financial revenue) is higher than 10 or if they have positive net financial debt and zero or negative earnings.

c Firms under significant financial pressure are proxied as those whose earnings do not cover their interest expenses.



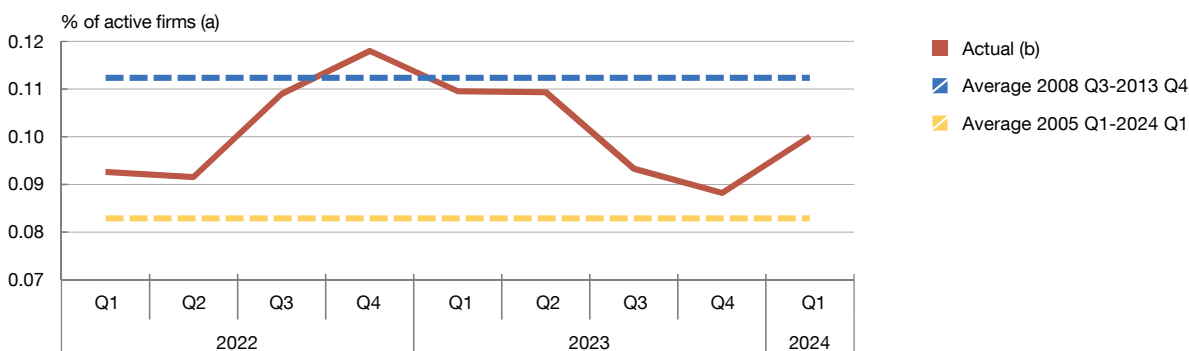
7 Sergio Gavilá, Lola Morales and Rafael Vivó. (2024). "The role of loans and the ICAS BE in the Eurosystem's collateral framework in 2024". *Boletín Económico - Banco de España*. Forthcoming.

21 ... and insolvencies rose. However, net business creation remained robust

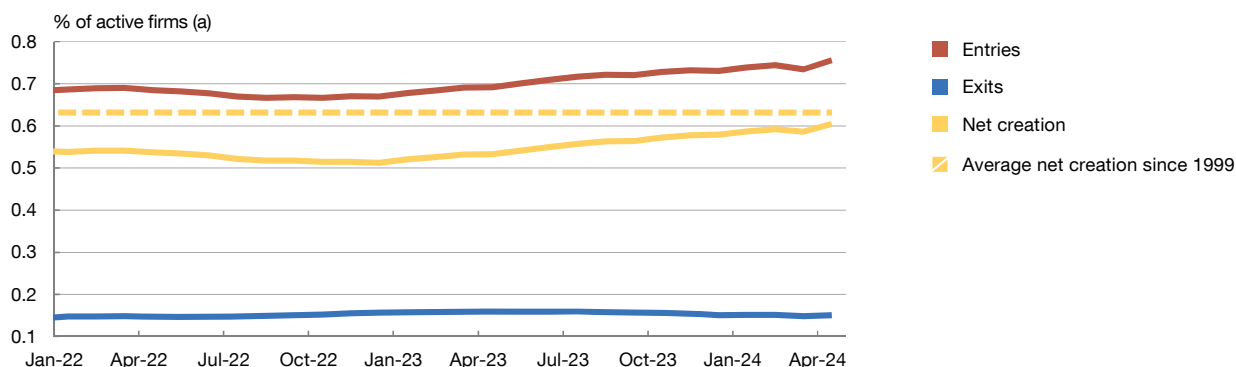
- The number of non-financial corporation (NFC) insolvencies (on a four-quarter moving average basis) increased between January and March (see Chart 21.a). Thus, the insolvency rate (as a percentage of active firms) stood at 0.1%, above the average since 2005 but below the figure observed during the economic crisis of 2008-2013. This trend was shaped by both the worsening financial position of some firms and the fact that the new special insolvency procedure (less costly and faster than the general procedure) is more attractive to microfirms. This procedure has become increasingly popular since it was first introduced on 1 January 2023.
- Net business creation remained robust, thanks to a rise in new entries and, to a lesser extent, a decline in the number of exits (see Chart 21.b). Net business creation as a share of total active firms stood at 0.6% in April 2024 (on a twelve-month moving average basis), drawing close to the average since 1999.

Chart 21

21.a Number of NFC insolvencies



21.b Firm entries, firm exits and net creation of NFCs (c)



SOURCES: INE and Colegio de Registradores.

- a The figure for total active firms is drawn from the central business directory (DIRCE) and is the sum of (i) public limited companies, (ii) private limited companies, (iii) general partnerships, (iv) limited partnerships, (v) common properties and (vi) cooperative societies.
- b Four quarter moving averages. Shown as a percentage of the average active firms since 2022.
- c Latest figure: April 2024. 12-month moving averages. The series of firm entries, firm exits and net creation (entries less exits) is shown as a percentage of the number of active firms at 1 January of each year.

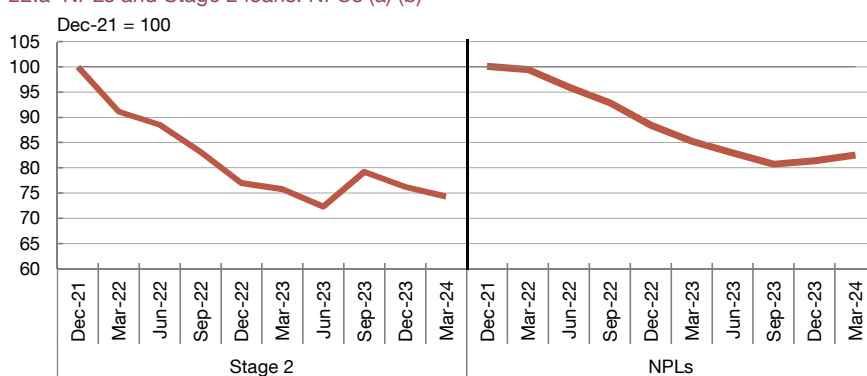


22 Troubled loans to firms continued to fall, although there has been an uptick in NPLs

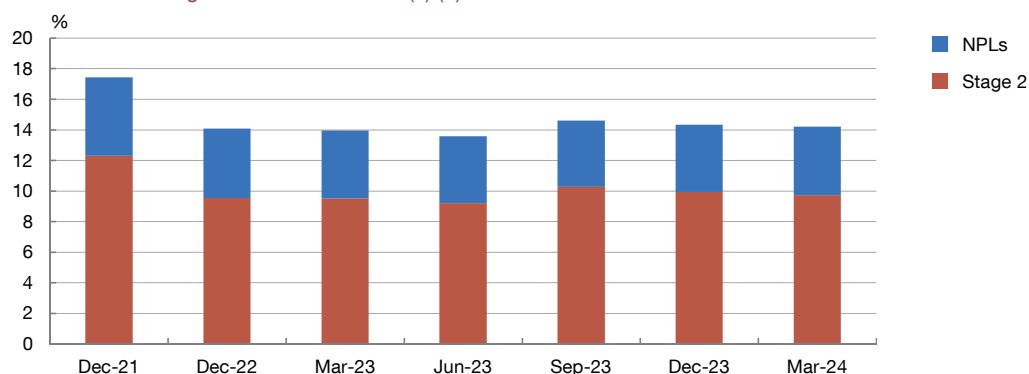
- At March 2024 troubled loans to firms stood 3.6% below their 2023 Q3 level, thanks to the decline in Stage 2 loans (which account for 68% of outstanding troubled loans) and despite the rise in NPLs (see Chart 22.a).
- The troubled loans ratio stood at 14.2% in March, 0.4 pp lower than in September 2023 (see Chart 22.b) and 0.3 pp up on the end-2019 figure. This decline was due to the reduction in the Stage 2 ratio (down 0.5 pp to 9.7%) and despite the slight rise in the NPL ratio (up 0.1 pp to 4.5%), interrupting the downward trend of recent years. These ratios were 1.9 pp higher and 1.6 pp lower, respectively, than their pre-pandemic levels.

Chart 22

22.a NPLs and Stage 2 loans. NFCs (a) (b)



22.b NPL and Stage 2 loan ratios. NFCs (a) (b)



SOURCE: Banco de España.

a Aggregate of deposit institutions and SLIs.

b NPLs and Stage 2 loans refer to the gross carrying amount of troubled assets in banks' portfolios. Loans are classified as non-performing when they are in default (there are amounts more than 90 days past due) or when there are indications that the loan is unlikely to be paid (e.g. the equity of a firm is negative). Loans are classified as Stage 2 when their credit risk has increased significantly since initial recognition, but they do not meet the requirements to be classified as non-performing. They generally include those with amounts more than 30 days past due.



Box 1

DEBT FOR PURCHASE OF MAIN RESIDENCE: DEVELOPMENTS ANALYSED BY AGE GROUP

Household debt for purchase of main residence¹ is usually closely linked to the household's stage in the life cycle. A household will typically incur debt when young, allowing future income to be leveraged for the house purchase. The propensity to borrow depends, in any case, on households' preferences with regard to owning or renting, as well as home ownership affordability and access to credit. Middle-aged indebted households tend to generate savings, which they use to gradually pay off their debt. That said, changes in their financial situation or household size could lead to increased debt in some cases. Households generally reach old age with the bulk of their debt paid off, although there are financial instruments that allow them to borrow money against the value of their home.² Accordingly, the demographic structure of a country influences the household sector's degree of indebtedness.

In line with the life cycle theory, the Spanish Survey of Household Finances (EFF, by its Spanish initialism) shows, in each of its waves up to 2011, a high concentration of debt for purchase of main residence in the group of households under 45 years of age,³ with a percentage close to or above 70% (see Chart 1). However, later waves of the EFF show a marked decline in the share of debt held by this group of households, falling to 42% of the total in 2022 (the latest wave available). The decline is particularly marked for the youngest household group, those under 35.⁴

This trend could reflect the decline in the proportion of young households in Spain, against the backdrop of a secular fall in fertility since the mid-1970s and an increase in the age at which young people leave the family home, together with the ageing of the baby boom generation (those aged 47-62 in 2022).⁵ Households below the age of

45 accounted for 25% of the population in 2022, according to the EFF, compared with 37% in 2002 (see Chart 2).

However, the decline in the share of debt held by young households also reflects their lower propensity to borrow, relative to previous cohorts, which is largely linked to home ownership becoming less affordable for these young households.⁶ While the share of households with debt for purchase of main residence has remained relatively stable at around 28% since 2014 for the population as a whole, developments have been uneven across age groups (see Chart 3). For instance, this share has fallen considerably among young households, particularly the very youngest. In 2022 40% of households under 45 had a loan related to their main residence, compared with more than 50% towards the end of the period 2000-2010.⁷ By contrast, the share of households between the ages of 45 and 54 with real estate debt rose from 32% in 2011 to 42% in 2022.

Moreover, as Chart 4 shows, among indebted households, the average amount of outstanding debt per household decreased by 25% in real terms⁸ between 2014 and 2022. This decline is relatively broad-based across age groups, except for the oldest households, although the volume of debt for purchase of main residence is very small in this latter group.

These age group-related developments have shaped indebtedness in the sector as a whole. According to the aggregate credit indicators, households' debt for house purchase decreased by more than 25 percentage points of gross disposable income (GDI) between 2014 and 2022 in Spain, while it increased slightly in the euro area, resulting in a convergence in levels of this type of debt between the two areas (see Chart 5).⁹ The EFF shows a

1 The main residence accounts for more than 40% of gross household wealth according to the latest wave of the Spanish Survey of Household Finances.

2 For example, a reverse mortgage allows those over 65 to receive periodic payouts that only come due after their death. Unlike a normal mortgage, the debt grows with time.

3 A household's "age" refers to the age of the reference person, i.e. the person who is most familiar with the household's finances and responds to the survey.

4 Note that only a small percentage of households are under 35, so the findings of the EFF may be less precise for this age bracket.

5 This covers those born between 1960 and 1975.

6 See the analysis and discussion in Banco de España. (2024). "Chapter 4. The Spanish housing market: recent changes, risks and affordability problems". In Banco de España, *Annual Report 2023*, pp. 208-272.

7 This is exemplified by the fact that around 50% of younger households owned their main residence in 2022, compared with more than 70% between 2002 and 2011. For more detailed analysis, see, for example, Clodomiro Ferreira, Julio Gálvez and Myroslav Pidkuyko. (2024). "Housing Tenure, Consumption and Household Debt: Life-Cycle Dynamics during a Housing Bust". Documentos de Trabajo, Banco de España. Forthcoming.

8 Unless otherwise indicated, debt is expressed in real terms and indexed to 2022, as reported in EFF results, and with the consumer price index (CPI) as a deflator.

9 Note that, based on Financial Accounts of the Spanish Economy data and breakdowns of bank lending by purpose, the aggregate housing debt ratio started to decline earlier, from 2010 onwards.

Box 1

DEBT FOR PURCHASE OF MAIN RESIDENCE: DEVELOPMENTS ANALYSED BY AGE GROUP (cont'd)

similar decline in housing-related debt in this period, largely driven by the reduction in debt for purchase of main residence, but also shaped by a lower level of debt for purchase of other real estate properties.

We analyse the process of debt reduction in Spain by age group, with a focus on debt for purchase of main residence, drawing on data from the various waves of the EFF between 2014 and 2022. The real debt of each age group is expressed as the product of “average nominal debt per indebted household”, “proportion of indebted households”, “number of households” and

“price deflator” as illustrated by the following expression:

$$\sum_{i=1}^N \text{debt}_i \text{ (total debt)} = \frac{\sum_{i=1}^N \text{debt}_i \times \text{CPI}}{\text{number of indebted households}} \times \frac{\text{number of indebted households}}{\text{number of households}} \times \text{number of households} \times \frac{1}{\text{CPI}}$$

where debt_i is the outstanding amount at constant 2022 prices of the debt for purchase of main residence of each household i in that age group. The change in debt for each

Chart 1
Debt for purchase of main residence and distribution by age group (a)

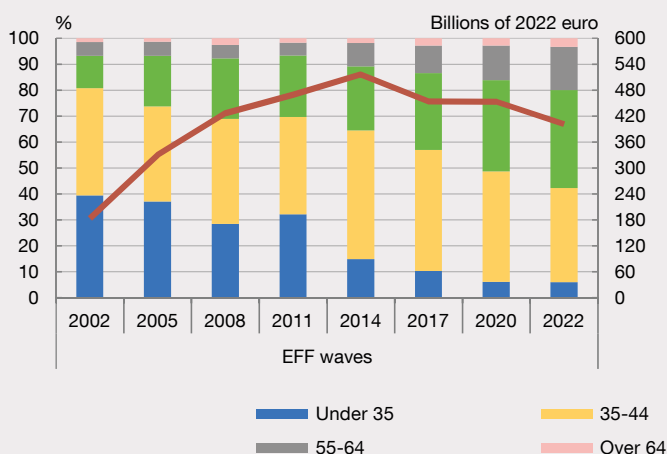


Chart 2
Number of households and distribution by age group

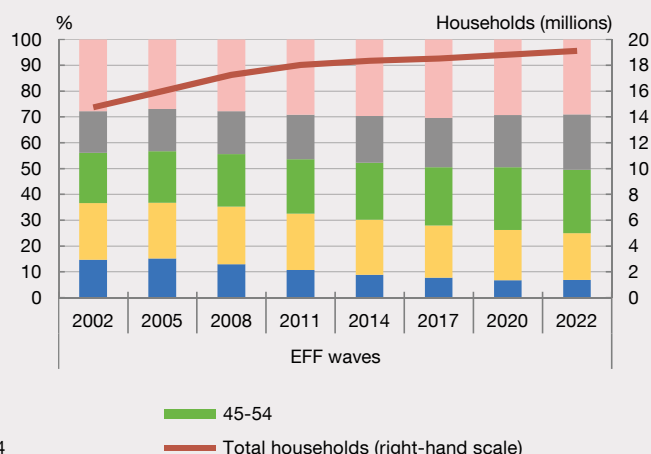


Chart 3
Debt for purchase of main residence. Percentage of indebted households

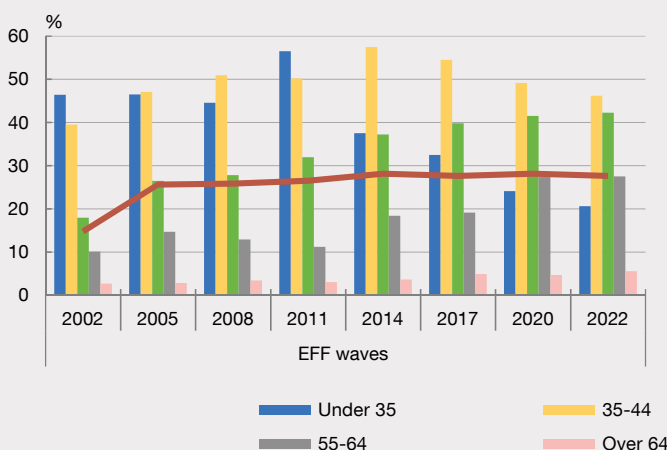
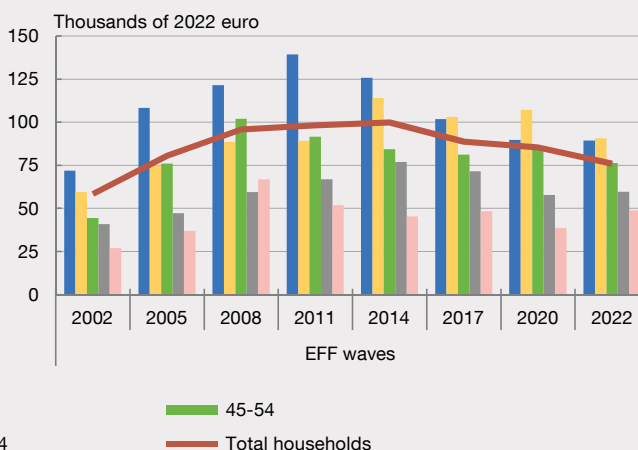


Chart 4
Debt for purchase of main residence. Average per indebted household (a)



SOURCE: Banco de España.

a Debt shown in real terms in 2022 euro with the CPI as a deflator.

Box 1

DEBT FOR PURCHASE OF MAIN RESIDENCE: DEVELOPMENTS ANALYSED BY AGE GROUP (cont'd)

age group between 2014 and 2022 is decomposed approximately into these four factors on the basis of changes in each component between the different survey waves.¹⁰ This decomposition, in real terms, is presented by aggregating the changes between waves for three age groups (see Chart 6).

For young households, aged under 45, the decomposition indicates that all factors have contributed to debt reduction, although the smaller proportion of indebted households made the largest contribution. The lower proportion of indebted households in this age group is directly related to the deterioration in home ownership affordability for young households, which has driven a shift in the housing market from the purchase segment to the rental segment.¹¹ The rest of the decline is shared

equally between the other three components. Inflation has significantly cut the debt's real value. Inflation for the period as a whole stands above 17%, but most of it was concentrated between the last two survey waves (2020 and 2022), when it was over 12%. The effect of the fall on the number of young households is not purely demographic in nature, since empirical evidence¹² shows that access to and cost of financing also influence household formation. Lastly, part of the decline in the average debt could be explained by the use of the extraordinary savings accumulated during the pandemic for the early repayment of loans.¹³

The volume of real aggregate debt of middle-aged households – between 45 and 64 – rose between 2014 and 2022 as a result of both the higher number of

Chart 5
Loans for house purchase

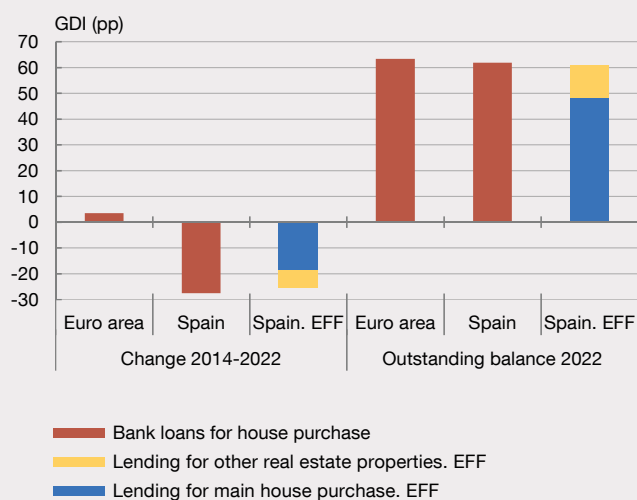


Chart 6
Change in real debt between 2014 and 2022 by age group. EFF. Main residence (a)



SOURCES: EFF and Banco de España.

a The real total debt of each age group is expressed as the product of the average nominal debt of indebted households, the proportion of indebted households, the number of households and the inverse of the price deflator (proxied by the CPI). Each factor's contribution is approximated drawing on its logarithmic change.

10 These changes are calculated with a logarithmic approximation that ensures that the components add up to the total.

11 For more details, see Banco de España. (2024). "Chapter 4. The Spanish housing market: recent changes, risks and affordability problems". In Banco de España, *Annual Report 2023*, pp. 208-272..

12 See Nuno Martins and Ernesto Villanueva. "Does High Cost of Mortgage Debt Explain Why Young Adults Live with their Parents?". *Journal of the European Economic Association*, 7(5), pp. 974-1010 and the Box "Changes in the loan-to-price ratio and property market dynamics". In Banco de España. (2020). "The housing market in Spain: 2014-2019". *Documentos Ocasionales*, 2013, Banco de España.

13 See Pana Alves and Carmen Martínez-Carrascal. (2023). "The accrual and use of the excess savings built up by Spanish households since the onset of the pandemic". *Economic Bulletin - Banco de España*, 2023/Q2, 08.

Box 1

DEBT FOR PURCHASE OF MAIN RESIDENCE: DEVELOPMENTS ANALYSED BY AGE GROUP (cont'd)

households (due to the progressive concentration of the baby boom generation in that age group) and the increasing share of those with debt. The higher participation in the credit market in this age group reflects the ageing of cohorts that borrowed to purchase housing during the real estate boom of the 2000s. This is partly due to the lengthening of mortgage maturities that was seen in the run-up to the global financial crisis. The average nominal debt of indebted households has remained broadly unchanged in this age group, but inflation has contributed significantly to the decline in the real value of the debt.

There has been little change in the level of aggregate debt in the group of households aged over 65, with each factor's contribution being practically neutral. This is testimony to the negligible level of real estate debt in this

group, as those that acquired debts when they were younger have paid them back by the time they reach this age.

In summary, over the past few years there has been a significant decline in the debt for purchase of main residence, particularly among younger households. This reflects two factors. First, the ageing of the baby boom generation, which appears to have resulted in the recent cohorts of households aged 45 to 64 having more debt. Second, it is the result of a sharp drop in the participation of younger households in the credit market, driven by the more pronounced home ownership affordability difficulties for this group. A further effect is associated with the fall in the number of young households – a factor that appears also to be partly linked to housing affordability difficulties (whether to buy or to rent).

Box 2

THE IMPACT OF CREDIT CONSTRAINTS ON SMEs' INVESTMENT DURING THE RECENT PERIOD OF MONETARY POLICY TIGHTENING

Business investment is a driving force of economic activity and influences firms' productivity and growth. Given that the investment decisions of firms depend on, among other factors, the availability of financial resources, difficulties in obtaining external financing can adversely impact investment when a firm's internal financing is insufficient to fund their investment projects.¹ This box analyses how constraints on Spanish firms' access to bank financing can impact their propensity to invest in fixed assets, using anonymised granular data from the Survey on the Access to Finance of Enterprises (SAFE).

The analysis focuses on small and medium-sized enterprises (SMEs). According to estimates, in 2022 these enterprises accounted for just over 39% of total gross fixed capital formation² in Spain.³ Large firms are excluded since they are underrepresented in the SAFE and because, for confidentiality reasons, the survey provides no information on their sector of activity, which is an important factor for explaining differences both in investment and in financing constraints. Furthermore, the SME segment is particularly relevant for the purposes of this box. First, these firms typically face greater credit constraints.⁴ Second, according to the latest wave of the Banco de España Business Activity Survey, conducted in 2024 Q2, investment by SMEs – particularly micro-enterprises (those with fewer than 10 employees) and small firms (10-49 employees) – has lagged behind that of large firms over the past year. This trend is expected to continue over the next 12 months.⁵

The analysis focuses in particular on the period from April 2022 to March 2024, which was marked by monetary

policy tightening and weak investment.⁶ Specifically, it compares developments in investment and credit constraints during this period with those observed before the pandemic (between October 2017 and September 2019),⁷ a period characterised by robust investment and historically low bank lending costs. It is important to note that this box is not intended to analyse the effect of higher borrowing costs on investment; rather, the focus is on the impact of bank credit constraints. While the SAFE provides qualitative information on developments in interest expenses (increase, no change, decrease), it offers no information on the magnitude of these changes, which would be crucial for such analysis. However, to the extent possible, efforts are made to take this effect into account in order to isolate the impact associated with financing constraints.

Chart 1 shows the propensity of Spanish SMEs to increase fixed asset investment, measured as the net percentage of SMEs reporting that they have raised such investment (the percentage of those reporting an increase less the percentage of those reporting a decrease in the last six months). The average percentage for the period April 2022 to March 2024 was 8.4 pp⁸ lower than that for the pre-pandemic period. A similar decline (8.9 pp) was observed in the euro area. This reduction in Spanish SMEs' propensity to increase fixed asset investment owes both to a higher average percentage of SMEs that have reduced investment (2.1 pp) and, in particular, to the lower average percentage of firms that have increased investment (6.3 pp).

1 See, for example, Miguel García-Posada (2019). "Credit constraints, firm investment and employment: Evidence from survey data". *Journal of Banking & Finance*, Vol. 99, pp. 121-141.

2 Estimated based on the sample of more than 775,000 firms included in the Banco de España's Central Balance Sheet Data Office integrated database (CBI) in 2022.

3 For a detailed analysis of business investment in Spain between the onset of the pandemic and 2022, see Miguel Ángel González-Simón, Blanca Jiménez-García and Carmen Martínez-Carrascal. (2024). "A disaggregated analysis of business investment since the outbreak of the pandemic". *Economic Bulletin - Banco de España*, 2024/Q2, 04.

4 Numerous studies have found a negative relationship between business size and the likelihood of credit constraints. See, for example, Fabio Schiantarelli. (1996). "Financial constraints and investment: methodological issues and international evidence". *Oxford Review of Economic Policy*, 12(2), pp. 70-89.

5 Alejandro Fernández Cerezo and Mario Izquierdo. (2024). "Banco de España Business Activity Survey: 2024 Q2". *Economic Bulletin - Banco de España*, 2024/Q2, 05.

6 According to National Accounts data, the business investment rate (defined as the ratio of gross fixed capital formation to gross value added) of non-financial corporations decreased from 23.9% in 2022 Q2 to 21.7% in 2023 Q4.

7 A period covered by four waves of the SAFE is selected to ensure the same number of waves in each period.

8 Throughout this box, comparisons between the pre-pandemic period and the monetary tightening period are drawn by contrasting the arithmetic mean of the net percentages from the four SAFE waves conducted during each period.

Box 2

THE IMPACT OF CREDIT CONSTRAINTS ON SMEs' INVESTMENT DURING THE RECENT PERIOD OF MONETARY POLICY TIGHTENING (cont'd)

Chart 1
SMEs' fixed asset investment (a)

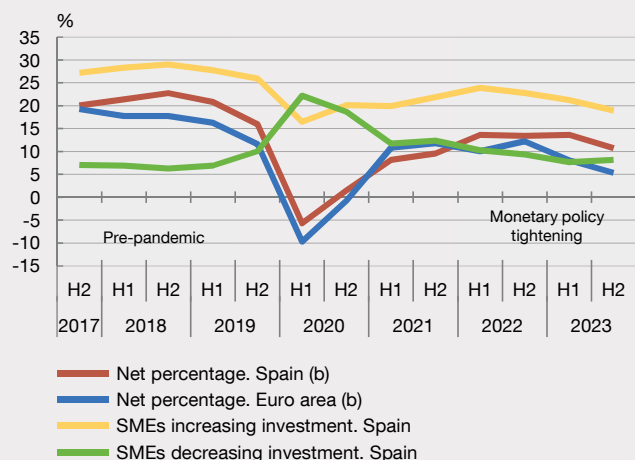


Chart 2
SMEs experiencing bank credit constraints (a) (c)

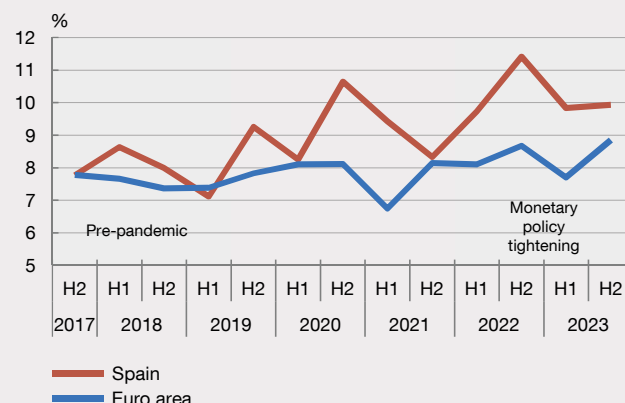


Chart 3
Investment of Spanish SMEs, by access to financing (a) (d)

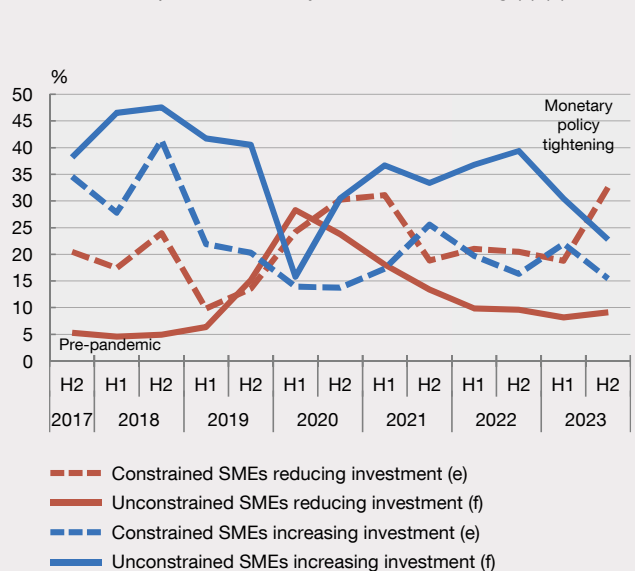
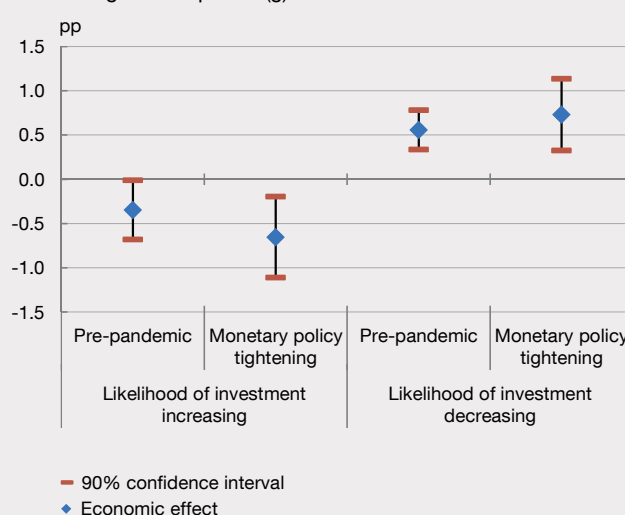


Chart 4
Economic effect (with confidence intervals) of bank credit constraints on the likelihood of investment increasing or decreasing in each period (g)



SOURCES: ECB and Banco de España.

- a "2017 H2" denotes the October 2017 to March 2018 wave, "2018 H1" denotes the April to September 2018 wave, and so on.
- b The percentage of firms reporting an increase in fixed asset investment in the past six months less the percentage reporting a decrease.
- c The percentage of SMEs for which bank loans (including subsidised loans) are relevant.
- d The percentage of SMEs classified as constrained or unconstrained.
- e A firm is considered bank credit constrained if any of the following four circumstances applies: (i) it did not apply for a loan in the past six months for fear of rejection, (ii) it applied for a bank loan in the past six months and received less than 75% of the requested amount, (iii) it refused a loan offer because the cost was too high and (iv) its application was rejected by the bank.
- f A firm is considered to face no bank credit constraints if it applied for a loan in the past six months and received 75% or more of the requested amount.
- g Effects obtained by estimating two linear probability models using a sample of Spanish SMEs (classified as constrained and unconstrained during the periods 2017 H2 to 2019 H1 and 2022 H1 to 2023 H2) taken from the SAFE. The dependent variable in the first model (first and second bars) is a binary variable that takes the value of 1 if investment increases and 0 otherwise, while in the second model (third and fourth bars) it is a binary variable that takes the value of 1 if investment decreases and 0 otherwise. The explanatory variable of interest is a binary variable that indicates whether the firm is bank credit constrained or not. The first and third bars indicate the coefficient and confidence interval of the regressor multiplied by the proportion of credit constrained firms during the pre-pandemic period. The second and fourth bars indicate the coefficient and the confidence interval of the regressor multiplied by the proportion of constrained firms during the period of monetary policy tightening. The control variables are described in footnote 12.

Box 2

THE IMPACT OF CREDIT CONSTRAINTS ON SMEs' INVESTMENT DURING THE RECENT PERIOD OF MONETARY POLICY TIGHTENING (cont'd)

To analyse developments in bank financing constraints, an indicator is constructed based on the responses of SMEs that consider bank financing to be a relevant source of funding.⁹ This indicator refers to bank loans, which are more closely associated with investment projects than credit facilities, which are typically used to finance inventories and working capital. According to this indicator, a firm is considered constrained if at least one of the following four circumstances applies: i) its financing application was rejected, ii) it received less than 75% of the requested amount, iii) it refused the bank's offer because the cost was too high, or iv) it didn't apply for a loan for fear of rejection (discouraged borrowers).¹⁰ Conversely, a firm is deemed to face no bank credit constraints if it applies for a loan and receives 75% or more of the requested amount. The average percentage of bank credit-constrained SMEs was somewhat higher in the period April 2022 to March 2024 than in the pre-pandemic period, with the difference being more pronounced in Spain (2.3 pp) than in the euro area (0.8 pp) (see Chart 2).

Chart 3 shows the change in the percentage of Spanish SMEs that increase or decrease investment, distinguishing between those that are experiencing bank credit constraints (constrained firms) and those that are not (unconstrained firms). During both the pre-pandemic period and the more recent period, the average percentage of SMEs that increased their investment was lower for the constrained group (31.4% and 18.4%, respectively)¹¹ than for the unconstrained group (43.5% and 32.3%, respectively). Similarly, in both periods the average percentage of SMEs that decreased investment was higher for constrained firms (17.9% and 23.2%, respectively) than for unconstrained firms (5.3% and 9.2%, respectively). Furthermore, in the period October 2023 to March 2024, the average percentage of constrained SMEs that reduced their investment rose significantly (by 13.8 pp to 32.6%), while the percentage of unconstrained SMEs that lowered their investment rose only slightly (by 0.9 pp to 9.1%).

For a more formal analysis of the link between business investment and bank credit constraints, two linear probability models are estimated. These models are applied to a sample of Spanish SMEs that consider bank financing to be relevant and whose internal funds were insufficient to cover their investment expenses during the two periods analysed. The dependent variable is binary; in the first model it takes a value of 1 if investment increases and 0 otherwise, while in the second it takes a value of 1 if investment decreases and 0 otherwise. In both models, the explanatory variable of interest (also binary) indicates whether the firm is constrained or not. Variables that measure different firm characteristics, such as sector, size and economic expectations, are included as control variables.¹² In order to calculate the economic effect of bank credit constraints on the likelihood of an increase or decrease in investment, the coefficient of the explanatory variable of interest is multiplied by the share of constrained firms (out of the total number of SAFE SMEs) in each of the two periods. However, this approach cannot be used to estimate a causal link between credit constraints and investment, only associations between the two, since investment opportunities cannot be fully captured.

The results show that a constrained SME is substantially less likely to raise its investment than an unconstrained one in both periods. From a statistical standpoint, the likelihoods are of a similar magnitude in the pre-pandemic period and in the monetary tightening period. However, given that a higher share of SMEs were constrained in the more recent period (6.9%) than in the pre-pandemic period (5.1%), the adverse economic effect on investment would be 0.3 pp greater in the more recent time window (see Chart 4, first and second bars). Specifically, credit constraints in that period would have reduced the percentage of SMEs that raised their investment by 0.7 pp, compared with a reduction of 0.4 pp in the pre-pandemic period.

In addition, a constrained SME is substantially more likely to reduce its investment than an unconstrained SME in both

9 A source of financing is considered "relevant" when the firm indicates that it has used it in the past or is considering using it in the future.

10 The definition of constrained firm aligns with that used in the European Central Bank's SAFE.

11 These figures are obtained by calculating the arithmetic mean of the percentage of constrained SMEs that increased investment in the respective sets of SAFE waves (four during the pre-pandemic period and four during the monetary tightening period).

12 In particular, binary variables are included indicating whether the general or firm-specific outlook has deteriorated and whether interest expenses have increased, along with other variables that control for the firms' most pressing problems (access to finance, finding customers, competition, labour and production costs and availability of skilled staff). Firm characteristics (turnover, age, legal form, ownership structure and export activity) are also included as control variables, along with sector-size-time fixed effects, for which there are four sector categories (industry, construction, wholesale or retail trade and other services), size is measured by the number of employees and time corresponds to each wave of the SAFE.

Box 2

THE IMPACT OF CREDIT CONSTRAINTS ON SMEs' INVESTMENT DURING THE RECENT PERIOD OF MONETARY POLICY TIGHTENING (cont'd)

periods. Again, the magnitude of the result is statistically similar in both of the time sub-samples. However, given that the proportion of constrained SMEs in the monetary tightening period is 1.8 pp higher than in the pre-pandemic period, the adverse economic effect on investment would be 0.2 pp larger in the more recent period (see Chart 4, third and fourth bars). Specifically, credit constraints in the latter window would have increased the percentage of SMEs that reduced their investment by 0.7 pp, compared with 0.6 pp in the pre-pandemic period.

Similar results are found for the euro area, where, during the period of monetary policy tightening, credit constraints

reduced the percentage of SMEs that raised their investment by 0.6 pp and increased the percentage of SMEs that reduced it by 0.4 pp.

In conclusion, the evidence presented in this box suggests that bank credit constraints contributed negatively to Spanish SME's propensity to invest both during the pre-pandemic period and, to a greater extent, during the recent period of monetary tightening. In any event, the impact on the percentage of firms that have increased or reduced their investment has been limited in both periods given the relatively small proportion of SMEs that experienced bank financing constraints.

ANNEX 1

Databases used in the report

Central Balance Sheet Data Office Quarterly Survey (CBQ)

Description: Contains data from the unconsolidated balance sheets and income statements of non-financial corporations. It is biased towards larger firms and has low coverage of some sectors.

Institution: Banco de España.

Frequency: Quarterly.

Data type: Quantitative.

Sample size: Around 1,000 firms (802 in 2024 Q1, representing 11.02% of gross value added according to National Accounts data).

Update: Three months after the reference quarter.

Further information: <https://www.bde.es/wbe/en/noticias-eventos/actualidad-banco-espana/el-resultado-ordinario-neto-de-las-empresas-disminuyo-en-el-primer-trimestre-de-2024.html>

Central Credit Register (CCR)

Description: A register of virtually all financial institutions' credit claims, guarantees and exposures in general vis-à-vis their customers, allowing transaction-level monitoring of credit risk. It contains information on the natural or legal persons party to the transactions, along with details of the terms and conditions and associated guarantees.

Institution: Banco de España.

Frequency: Monthly.

Data type: Quantitative.

Sample size: Virtually all exposure transactions of the institutions operating in Spain.

Update: The month after the end of the reference month.

Further information: <https://www.bde.es/wbe/en/publicaciones/informes-memorias-anuales/memoria-cir/>

Distributional Wealth Accounts (DWA)

Description: Experimental statistics produced by the European System of Central Banks to provide distributional information on household wealth drawing on financial account data and adding the non-financial assets in National Accounts. The statistics draw on the detailed data gathered in the Household Finance and Consumption Survey (HFCS) by the European Central Bank (ECB), involving around 80,000 households.

Institution: ECB.

Frequency: Quarterly.

Data type: Quantitative.

Sample size: Population.

Publication: Five months after the reference quarter.

Further information: <https://data.ecb.europa.eu/data/datasets/DWA/data-information>

Financial Accounts of the Spanish Economy (FASE)

Description: These are part of the system of national accounts and provide information on the resident institutional sectors' financial positions and the transactions and other flows that explain the changes in those positions (revaluations and other changes), broken down by instrument type and by counterparty sector.

Institution: Banco de España.

Frequency: Quarterly.

Data type: Quantitative.

Sample size: Population.

Publication: Three months and ten days after the reference quarter.

Further information: <https://www.bde.es/webbe/en/estadisticas/temas/cuentas-financieras.html>

Central Business Register (DIRCE)

Description: The DIRCE provides information on firms (mainly business entities and sole proprietors) operating in Spain, broken down by basic variables such as legal form, economic activity, size and geographical location. The information published refers both to all active firms at a given moment in time and all new registrations, deregistrations and already registered firms in a given year.

Institution: National Statistics Institute (INE).

Frequency: Annual.

Data type: Quantitative.

Sample size: More than 3 million firms.

Publication: December (the time reference for the data is 1 January).

Further information: https://www.ine.es/dyngs/INEbase/en/operacion.htm?c=Estadistica_C&cid=1254736160707&menu=ultiDatos&idp=1254735576550

Survey on Income and Living Conditions (SILC)

Description: Survey addressed to Spanish households following criteria harmonised for all European Union countries. It gathers data on income, housing and living environment ,

working and living conditions, education and training and risk of poverty or social exclusion.

Institution: National Statistics Institute (INE).

Frequency: Annual.

Data type: Quantitative.

Sample size: Around 13,000 households and 35,000 people.

Publication: April of the year after the reference year.

Further information: https://www.ine.es/dyngs/INEbase/en/operacion.htm?c=Estadistica_C&cid=1254736176807&menu=ultiDatos&idp=1254735976608

Bankruptcy Proceedings Statistics (BPS)

Description: The statistics provide information on bankruptcy applications by non-financial corporations, sole proprietors and individuals. The firms are broken down by variables such as sector of activity, geographical location (region), number of employees, turnover, age and legal form. There is also a breakdown by bankruptcy type (voluntary filing, involuntary or “subsequent” (concurso consecutivo)) and by procedure class (special for microfirms, ordinary, express/no bankruptcy estate).

Institution: INE (to 2020 Q4) and Association of Registrars (from 2021 Q1).

Frequency: Quarterly.

Data type: Quantitative.

Sample size: Population.

Publication: Two months after the reference quarter.

Further information: INE: https://www.ine.es/dyngs/INEbase/en/operacion.htm?c=Estadistica_C&cid=1254736177018&menu=ultiDatos&idp=1254735576550

Association of Registrars: https://www.registradores.org/actualidad/porta-estadistico-regis-tral/estadisticas-concursales#portlet_com_liferay_journal_content_web_portlet_JournalContentPortlet_INSTANCE_92PKQIzgTNBS

Survey of Household Finances (EFF)

Description: A survey of households resident in Spain that provides detailed information on the households' income, assets, debt and expenditure. The EFF is an official survey undertaken by the Banco de España and included in the National Statistics Plan, complementing the aggregated data in the FASE. To ensure that the study is representative, the randomly selected sample includes respondents from all economic strata and benefits from the cooperation of the INE.

Institution: Banco de España.

Frequency: Biennial. Triennial between 2002 and 2020

Data type: Quantitative.

Sample size: Around 6,000 households. There is a panel component, whereby households are included for up to five waves, and oversampling of wealthy households.

Publication: Two years after the reference year.

Further information: https://app.bde.es/efs_www/home?lang=EN

Survey on the Access to Finance of Enterprises (SAFE)

Description: A pan-European survey of non-financial corporations, the majority of which are small and medium enterprises (SMEs). It provides information on recent developments in the firms' financial situation, their need for and sources of external financing, and their perception regarding the availability of external financing.

Institution: ECB and European Commission.

Frequency: Quarterly since 2024 (previously half-yearly).¹ The survey covers all euro area countries for three quarters of the year (the ECB round), while in the remaining quarter it covers all EU Member States plus some neighbouring countries (the Common round)

Data type: Mainly qualitative.

Sample size: Around 11,000 firms and between 1,300 and 1,500 Spanish firms, depending on the round.

Publication: Approximately 15 days after the last month of the reference period.

Further information: https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/index.en.html

Bank Lending Survey (BLS)

Description: Survey addressed to a representative sample of euro area credit institutions providing regular information on credit standards, the terms and conditions for new loans, loan demand, the factors affecting loan supply and demand and the share of rejected applications for loans. Banks are asked questions about lending to non-financial corporations and households separately, with the household segment broken down into loans for house purchase and consumer credit and other lending. Questions focus on changes in the last three months and expectations for the next three months.

Institution: Eurosystem (national central banks and the ECB).

Frequency: Quarterly.

Data type: Qualitative.

Sample size: Around 150 euro area banks.

Publication: The month after the end of reference quarter: January, April, July and October.

¹ In the wave published in April 2024, half of the firms answered the questions based on the previous quarter (i.e. 2024 Q1) and the other half answered based on the usual six-month period (i.e. October 2023-March 2024). The data of a pilot survey covering 2023 Q4 are also included in this report.

Further information: https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/index.en.html

Mercantile Companies Statistics

Description: Information on firm entries and exits in Spain. The entries statistics provide both the number of businesses born and the share capital (subscribed and paid up), broken down by geographical location (province) and legal form . Exits are broken down by geographical location (province) and type of winding-up (voluntary, merger, etc.). Entries and exits are shown as a percentage of total active businesses, broken down by core business.

Institution: INE.

Frequency: Monthly.

Data type: Quantitative.

Sample size: Population.

Publication: Two months after the reference month.

Further information: https://www.ine.es/dyngs/INEbase/en/operacion.htm?c=Estadistica_C&cid=1254736177026&idp=1254735576550&menu=ultiDatos

Interest Rate Statistics

Description: The statistics provide information on reference rates (EURIBOR, €STR and others) and the interest rates applied by monetary financial institutions (MFIs) to households and non-financial corporations (APR and NDER), in terms of outstanding amounts and new bank lending. They also include indicators for the interest rates negotiated on Spanish and international money and securities markets (government debt and other securities).

Institution: Banco de España.

Frequency: Monthly (reference rates, interest rates applied by MFIs, together with their corresponding outstanding amounts and new bank lending) and daily (money and securities market).

Data type: Quantitative.

Sample size: Population/representative sample.

Publication: Daily information: following day. Monthly information: the second day of each month, with a lag of one month for reference rates and around one month for other data.

Further information: <https://www.bde.es/webbe/en/estadisticas/temas/tipos-interes.html>

Statistics on Sales, Jobs and Wages in Large Enterprises and SMEs (VESGEP)

Description: The statistics compile data on firms that operate in Spain in the common tax regime territory, providing aggregate information on large firms' and SMEs' turnover, exports,

procurement, imports, employment and wages, for 22 economic sectors. The data are drawn from the tax returns for VAT and withholdings on labour income.

Institution: Agencia Estatal de Administración Tributaria (AEAT).

Frequency: Quarterly.

Data type: Quantitative.

Sample size: More than 1 million firms.

Publication: The second month of the quarter following the reference quarter.

Further information: https://sede.agenciatributaria.gob.es/Sede/en_gb/datosabiertos/catalogo/hacienda/Informe_Ventas_Empleo_y_Salarios_en_Grandes_Empresas_y_Pymes.shtml

Quarterly Statistics of the Observatorio de Márgenes Empresariales (Profit Margins Watchdog)

Description: The statistics provide aggregate data on non-financial corporations' turnover, exports, procurement, imports, wage bill and gross operating profit, with a broad sectoral breakdown (NACE Rev. 2 divisions). The data are drawn from tax returns for VAT, withholdings on labour income and corporate income tax.

Institution: AEAT.

Frequency: Quarterly.

Data type: Quantitative.

Sample size: Around 1 million firms.

Publication: The second month of the quarter following the reference quarter.

Further information: https://sede.agenciatributaria.gob.es/Sede/en_gb/estadisticas/observatorio-margenes-empresariales/observatorio-margenes-empresariales.html

Liquidity and Financing Indicators

Description: The liquidity indicators provide data on the financial asset holdings of non-financial corporations and households, as well as non-profit institutions serving households in cash, deposits, credit institution securities and investment funds. The financing indicators provide data on these two sectors' liabilities, together with data for the general government, linked to lending by resident and non-resident credit institutions and to the issuance of debt on financial markets. The financing drawn down by households is broken down by final use (house purchase, consumer credit and other lending).

Institution: Banco de España.

Frequency: Monthly.

Data type: Quantitative.

Sample size: Population.

Publication: One month after the reference month.

Further information: <https://www.bde.es/webbe/en/estadisticas/temas/cuentas-financieras.html>

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