



Household and non-financial corporate accounts for 2022

Statistical revisions have confirmed initial assumptions over the impact of the pandemic on household and corporate accounts. In the case of households, their favourable performance in light of the pandemic was even better than originally anticipated, while in the case of corporates, not only did they bear the brunt of pandemic economic fallout, but their performance was indeed worse than anticipated.

María Jesús Fernández

Abstract: The pandemic has had a relatively limited impact on the aggregate level of household finances in Spain with the sector's GDI recovering to 2019 levels by 2021. The household sector also set aside a significant savings buffer, which following official statistics revisions, turned out to be even higher than initially estimated at 137 billion *versus* 94 billion euros. In the case of the corporate sector, revised figures show that the negative impact of the pandemic on corporate income was actually stronger than originally anticipated. Indeed, between 2020 and 2021, the non-financial corporations generated a net lending position of 12.2 billion euros, instead of the initially reported surplus of

close to 78 billion euros. As a result, the original conclusion drawn that the household sector's accounts had held up remarkably well in 2020-2021, in contrast to the impairment sustained by the business sector, not only remains valid, but rather the contrast between the two sectors' performances is starker than originally thought. In 2022, however, the corporate sector's finances fared better than those of the household sector, fully recovering from the hit taken in 2020. Nevertheless, corporate profits (after tax) have increased by less compared to pre-pandemic levels than household income (+1.4% *vs.* +4.7%), partly due to lower growth in their pre-tax income and partly due to the relatively bigger

increase in the effective tax rate sustained by the corporate sector- a major topic of debate at present.

Introduction

2022 was the first full year without pandemic-related restrictions. Although tourism recovered sharply, the onset of an energy crisis as a result of the war in Ukraine further fuelled the inflationary pressures that emerged in 2021, prompting monetary policy tightening. Against that backdrop, Spanish GDP registered growth of 5.5%, extending its recovery after the sharp contraction of 2020, albeit without revisiting 2019 levels in real terms. In the job market, the trend in the number of people in work (and social security contributors), which continued to register strong momentum, rising above pre-pandemic levels, contrasted with that in the number of hours work, which continued to trail that benchmark.

Growth in employment was the main driver of household income

Before analysing the household sector's accounts in 2022, it is important to note that the figures for 2020 and 2021, analysed by Fernández (2022), have sustained considerable corrections with respect to the numbers originally published by Spain's Official Statistics Office (INE), considerably changing some of the conclusions drawn at the time. Specifically, gross disposable income (GDI) in the household sector recovered more intensely than initially estimated (already topping pre-pandemic levels in nominal terms in 2021), and the savings generated were higher than first reported, as were, by extension, the surplus savings accumulated between 2020 and 2021: 137 billion euros *versus* an initially estimated 94 billion euros. Note, however, that the rampant inflation of the last two years has eroded that pool of savings by around 10% in real terms. On the other hand, the 2021 gross fixed capital formation (GFCF) figure was revised significantly downwards. As a result, the conclusion reached at the time on the basis of the figures at hand that all of the savings accumulated in 2021 went to investments no longer holds. In fact, only a small percentage

of those surplus savings was invested. As a result, the households sector's net lending position was also substantially higher than initially indicated (64 billion euros higher over the two years). That surplus was used to purchase financial assets but not to repay debt, which increased for the first time in 12 years.

Turning to 2022 (Table 1), the employee compensation earned by Spanish households increased by 6.5% thanks to growth in employment and, to a lesser degree, growth in average compensation per wage-earner. Property income received by households increased by 27.2%, fuelled by the recovery in dividends collected, which did not revisit the record level of 2019 but were higher than in previous years. Household interest income (before the allocation of FISIM) decreased by 14%. Lastly, social benefits collected decreased by 0.8% due to the elimination of most of the aid related with COVID-19.

Taxes paid on income and property increased by 16.4%, which is well above the growth in pre-tax income (measured in national accounting terms), implying a significant increase in the effective tax rate. Social security contributions increased in line with the growth in the related tax base. In 2020, contributions decoupled from the growth in wages (which fell as a result of the pandemic while social security payments by households increased slightly) due to specific measures taken at the time, mainly subsidisation of the contributions due for workers put on furlough. In 2022, however, with those measures virtually all eliminated, the effective rate implied by social security contributions over wage compensation was considerably higher than in the years before the pandemic.

As a result of all these factors, household GDI increased by 3.6% in 2022 to 4.7% above 2019 levels, the lowest nominal rate of growth among the European countries for which these figures are available. Household consumption, meanwhile, increased by 11.5%, which is higher than in 2019 in nominal terms but still lower in real terms. The fact the nominal spending outpaced disposable income drove a reduction in gross savings

Table 1 **Non-financial accounts - households and NPISHs**

Millions of euros

	2019	2020	2021	2022	2022 vs. 2021 (%)	2022 vs. 2019 (%)
Employee compensation received	581,867	557,979	588,104	626,370	6.5	7.6
Household gross operating surplus and mixed income	212,694	193,422	206,039	217,857	5.7	2.4
Social benefits received	215,561	248,569	248,732	246,823	-0.8	14.5
Property income received	51,909	43,308	43,370	55,170	27.2	6.3
Current transfers received	81,891	82,643	96,470	99,779	3.4	21.8
Total income received	1,143,922	1,125,921	1,182,715	1,245,999	5.4	8.9
Property income paid	5,451	4,170	3,680	7,534	104.7	38.2
Social benefits paid	173,380	174,358	184,192	193,496	5.1	11.6
Current transfers paid	78,030	76,472	91,696	94,937	3.5	21.7
Income and property tax	106,149	105,250	113,829	132,496	16.4	24.8
Gross disposable income	780,912	765,671	789,318	817,536	3.6	4.7
Nominal consumption	714,535	627,300	678,755	756,862	11.5	5.9
Gross savings (plus net capital transfers)	62,718	134,734	109,792	57,538	-47.6	-8.3
Gross capital formation	43,423	40,761	52,156	59,291	13.7	36.5
Net lending (+) /borrowing (-) position	19,295	93,973	57,636	-1,753	-	-
Memorandum item:						
Household borrowings	707,545	700,386	704,211	702,788	-0.2	-0.7
As a % of GDI	90.6	91.5	89.2	86.0	-	-

Sources: INE and Bank of Spain.

to 58.46 billion euros, just over half of the year-earlier figure, as was expected given that the 2021 figure was abnormally high due to the pandemic-related restrictions that persisted for much of the year. The savings generated in 2022 were equivalent to 7.2% of GDI, which is

a little higher than the 2014-2019 average of 6.8%. Spanish households –as a whole– were therefore able maintain their healthy saving rate (even saving a little more than before the pandemic) despite high inflation, thanks largely to the growth in employment (the key

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driver of the growth in income), at the cost of a full recovery in consumption in real terms. At any rate a saving rate of 7.2%, only slightly above pre-pandemic levels, no longer denotes surplus savings on top of the buffer built up in the two previous years.

Having increased in 2021, GFCF increased further in 2022, to 59.29 billion euros, which is higher than the savings figure, so that the household sector generated a small net borrowing requirement of 1.75 billion euros. Ideally, the household sector should generate a net lending position, but so long as the deficit is one-off and small in scale, it is not a concern in terms the build-up of potential imbalance. Moreover, it is important to consider the surplus savings accumulated in prior years. In fact, despite the deficit, the household sector deleveraged, having increased their borrowings the year before. As a percentage of their GDI, household borrowings fell to 86%, the lowest reading since 2002 and also below the eurozone average.

The volume of investments by households in 2021 and 2022 was higher than the figures reported prior to the pandemic but that increase in investing activity by comparison with previous levels only represents, on aggregate, 23% of the surplus savings generated in 2020 and 2021. The bulk of those savings was therefore channelled into financial assets.

Corporate earnings recovered from the pandemic in 2022

The non-financial corporations' financial statements for 2020 and 2021 have also undergone considerable corrections: the drop in gross operating surplus (GOS) in 2020 was higher than initially estimated and the recovery in 2021, weaker. That, coupled with different trends in other components of these enterprises' gross disposable income, means that their aggregate GDI for the two years was actually 61.5 billion euros lower than commented on in Fernández (2022). Between 2020 and 2021, the non-financial corporations generated a net lending position of 12.2 billion euros, instead of the initially reported surplus of close to 78 billion euros. As a result, the conclusion drawn at the time that the household sector's accounts had held up remarkably well in 2020-2021, in contrast to the impairment sustained by the business sector, not only remains valid, but rather the contrast between the two sectors' performances is starker than originally thought. Indeed, household GDI in 2021 was 1.1% higher than in 2019 (and not 2.8% lower), while corporate profits after taxes (to make the figures comparable with household GDI, in both cases using national accounting figures), were 19.5% below that threshold (and not 14.2% lower).

Turning to 2022 (Table 2), the sector's GOS increased a sharp 24.3% to rise 6.7% above pre-pandemic levels, one of the lowest gaps with respect to 2019 levels in Europe, with

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“ Turning to 2022, the Spanish corporate sector’s GOS increased a sharp 24.3% to rise 6.7% above pre-pandemic levels, one of the lowest gaps with respect to 2019 levels in Europe, with only France lagging further behind. ”

only France lagging further behind. The non-financial corporations’ gross profit ratio (GOS over gross value added, GVA) was 42.2%, which is slightly higher than in 2019, but lower than the ratio observed every year between 2012 and 2018. It is worth highlighting the sharp increase recorded in the fourth quarter, which is when the bulk of that growth was concentrated. As

for net property income, interest payments increased considerably while interest income fell, albeit offset by growth in other sources of income, including dividends. Corporate profits, *i.e.*, entrepreneurial income before the payment of dividends and taxes, increased by 24.4%, thus recovering last year from the contraction sustained at the onset of the health crisis.

Table 2 **Non-financial accounts - non-financial corporations**

Millions of euros

	2019	2020	2021	2022	2022 vs. 2021 (%)	2022 vs. 2019 (%)
Gross value added	655,976	564,380	610,687	696,672	14.1	6.2
Compensation of employees	378,512	354,325	374,389	402,228	7.4	6.3
Gross operating surplus	275,683	214,168	236,638	294,087	24.3	6.7
Interest, dividend and other income received	51,896	43,550	38,818	52,230	34.6	0.6
Interest paid	11,408	9,590	8,662	14,356	65.7	25.8
Entrepreneurial income	316,171	248,128	266,794	331,961	24.4	5.0
Income tax paid	18,508	16,974	22,861	28,467	24.5	53.8
Other net income	-10,103	-10,065	-12,325	-12,003	–	–
Entrepreneurial income after tax	287,560	221,089	231,608	291,491	25.9	1.4
Dividends paid	84,754	72,453	68,475	82,381	20.3	-2.8
Gross disposable income	202,806	148,636	163,133	209,110	28.2	3.1
Gross capital formation	186,211	150,123	161,245	171,396	6.3	-8.0
Capital transfers, net	2,764	4,101	7,698	7,629	-0.9	176.0
Net lending (+) /borrowing (-) position	19,359	2,614	9,586	45,343	373.0	134.2
Memorandum item:						
Consolidated debt of non-financial corporations	903,111	955,130	978,136	957,626	-2.1	6.0
As a % of GDP	72.5	85.4	81.0	72.2	–	–

Sources: INE and Bank of Spain.

“ Note that the remarkable increase in tax collection in the last two years, which has jumped from 35.2% of GDP in 2019 to 38.4% in 2022, and the possible explanatory factors, are a major topic of debate at present. ”

Corporate income tax payments increased very much in line with their profits. Unlike what happened in the household sector, where the effective tax rate increased in 2022, in the business sector it was in 2021 when tax payments increased by proportionately more than profits, driving the effective rate to well above pre-pandemic levels, where it stayed in 2022. Note that the remarkable increase in tax collection in the last two years, which has jumped from 35.2% of GDP in 2019 to 38.4% in 2022, and the possible explanatory factors, are a major topic of debate at present (García-Miralles and Martínez Pagés, 2023; Government of Spain, 2023). The substantial increase in the effective tax rate paid by Spanish corporations means that although their GOS was 6.7% higher in 2022 than in 2019, their after-tax profits (before dividend payments) were only 1.4% higher.

The non-financial corporations' gross disposable income, measured as their profits after the payment of tax and dividends, which is equivalent to their savings, increased by more than their GFCF, giving rise to a net lending position of 45.34 billion euros, significantly above the 2021 surplus of 9.59 billion euros. Note that the significant growth in capital transfers received compared to long-run levels may be related with the receipt of the NGEU funds.

Some of that net lending position was used by the corporations to repay debt, following nominal growth in borrowings during the

previous three years, especially in 2020. However, nominal borrowings at year-end 2022 remained higher than at year-end 2019. Relative to GDP, on the other hand, the non-financial corporations' consolidated debt fell to the lowest level since 2003, at 72.2%.

Conclusions

As noted at the time, the pandemic had a relatively limited impact on household finances in Spain (on aggregate), with the sector's GDI recovering to 2019 levels by 2021. The household sector also set aside a significant savings buffer, which following official statistics revisions, turned out to be even higher than initially estimated. It was corporate income that bore the brunt of the economic fallout from the pandemic. In light of the revised figures, that impact was higher than initially calculated.

In 2022, however, the corporate sector's finances fared better than those of the household sector, fully recovering from the hit taken in 2020 (Exhibit 1). Nevertheless, corporate profits (after tax) have increased by less compared to pre-pandemic levels than household income (+1.4% *vs.* +4.7%), partly due to lower growth in their respective pre-tax income and partly due to the relatively bigger increase in the effective tax rate sustained by the corporate sector. Note, lastly, that the growth figures are always cited in nominal terms. Both sectors' purchasing power, however, remains below pre-pandemic levels.

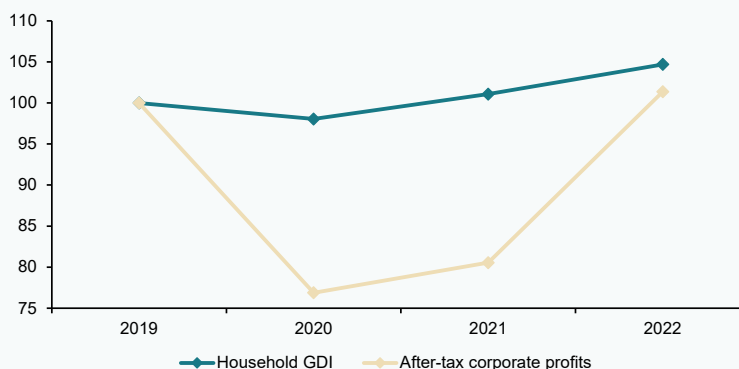
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“ Despite differences in leverage ratios, the narrow divergence in credit spreads across regions is no doubt influenced by the existence of a state guarantee. ”

Exhibit 1

Household gross disposable income and after-tax profits of non-financial corporations

Nominal volumes, rebased: 2019 = 100



Source: Author's own elaboration based on INE data.

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María Jesús Fernández. Senior Economist at Funcas