

**28.09.2021**

**The challenges facing Spanish non-financial corporations**

3rd Regional Family Firm Congress-AMEFMUR

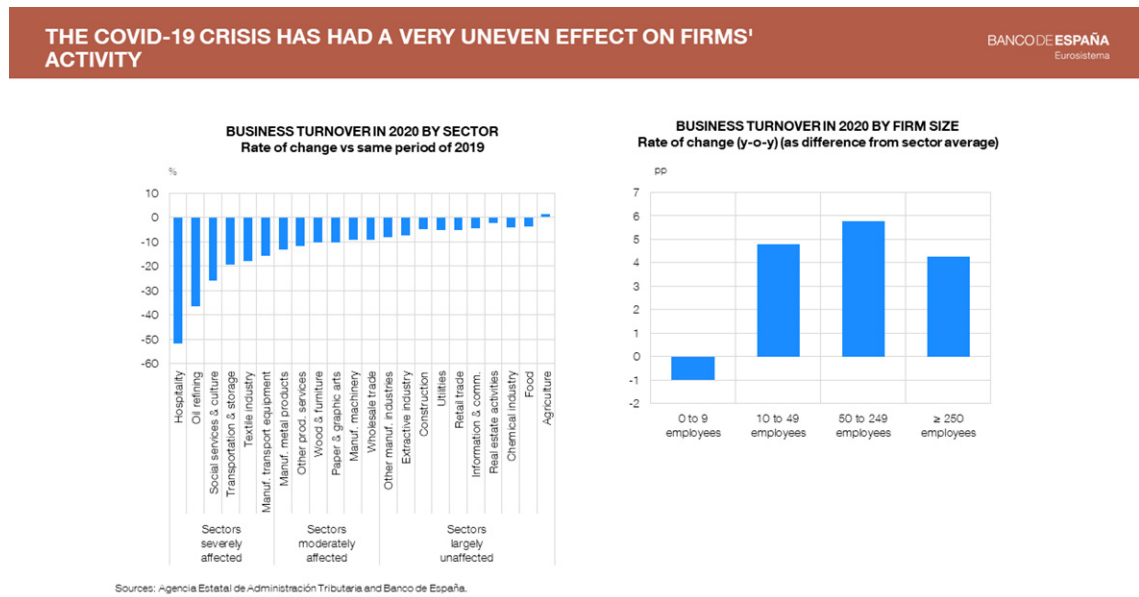
Pablo Hernández de Cos  
Governor of the Banco de España

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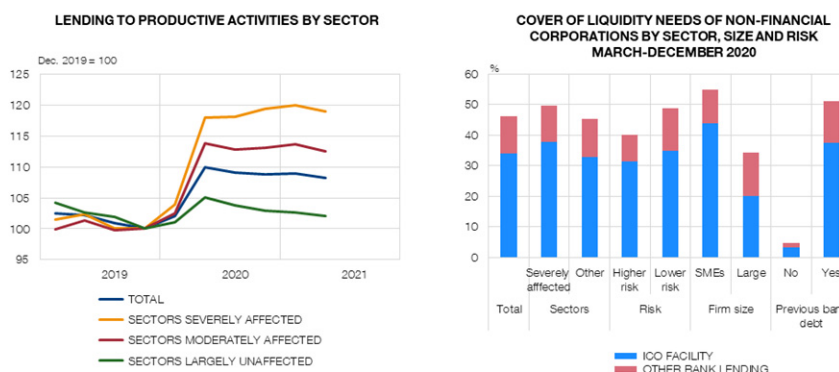
Mr. President of the Autonomous Community of Murcia, Mr. President of the Regional Assembly of Murcia, Mr. Delegate of the Government, Mr. Regional Minister of Economics, Finance and Digital Administration, honourable authorities, and ladies and gentlemen, good morning.

Let me begin by thanking the Murcia Family Firm Association and its president, José María Tortosa, for their kind invitation to participate in this Murcia Region Family Firm AVANZA forum. My address will focus on the impact of the crisis on the business sector, the main uncertainties associated with the recovery and the challenges ahead.

### The effects of the pandemic on the business sector



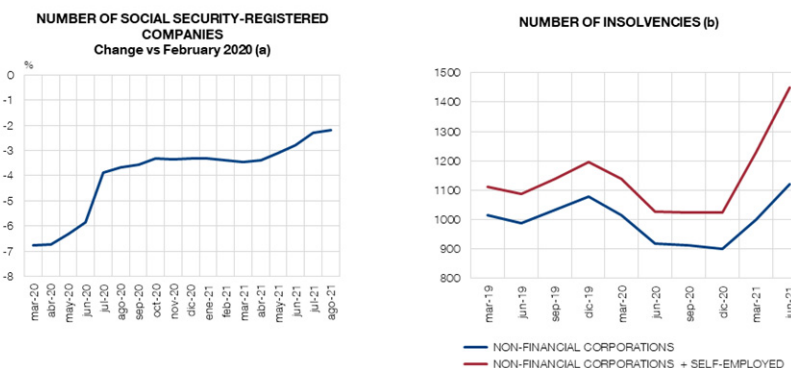
As is well known, the COVID-19 pandemic has impacted business activity with unprecedented force, albeit with differing intensity across sectors and firms of different sizes. By way of illustration, within each sector micro-firms saw their revenues decline in 2020 by 5-7 percentage points more than larger companies.



Source: Banco de España.

The measures applied by the authorities have significantly alleviated these effects and contributed to curbing the rise in liquidity needs. But given the scale of the shock, these needs increased substantially, in particular in the sectors most afflicted by the crisis.

The financing requirements that emerged have broadly been covered through the resort to debt and, in particular, to bank loans. And, once again, public support measures have proven crucial in smoothing access to this financing. The measures include most notably the monetary stimuli introduced by the European Central Bank and the public guarantee programmes managed by ICO (the Official Credit Institute). The ECB measures have managed to maintain very favourable financing conditions for all economic agents and have prevented financial fragmentation. In turn, the public guarantee programmes have provided for access to credit for those companies normally experiencing greater difficulties here, such as smaller firms and those with a higher risk profile.<sup>1</sup>

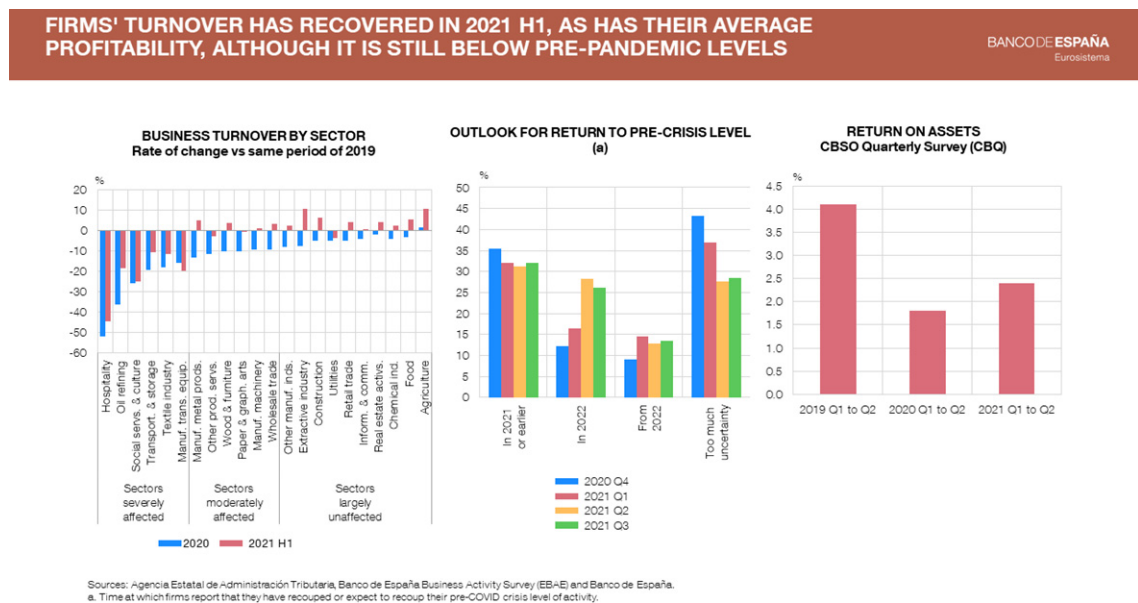


Sources: Ministerio de Trabajo y Economía Social and INE.  
a. Seasonally adjusted series.  
b. Four-quarter moving average.

<sup>1</sup> For further details, see [Chapter 3, Annual Report 2020](#), Banco de España.

As a result, economic policies have helped stave off a wave of bankruptcies and massive company closures. Thus, while at the start of the pandemic there was a fall of close to 7% in the number of Social Security-registered companies, this decline has subsequently eased, standing in August 2021 at 2% below pre-pandemic levels. Compared with previous crises, the initial decline in the number of active firms was comparatively swifter, and centred on March 2020; but it has also been less durable and acute, reflecting the special characteristics of the current episode.<sup>2</sup>

The information on the number of firms under insolvency proceedings showed a decline in 2020, although that was strongly influenced by the moratorium on such proceedings approved last year and which will be in force at least until late 2021. This year we have seen a rise in the number of insolvency proceedings, markedly so in the case of sole proprietorships. The number of proceedings involving non-financial corporations in the first half of 2021 stands somewhat above the 2019 figures, but is less than half of the peak number reached in 2013 when the economy was in recession. Conversely, the number of insolvency proceedings affecting sole proprietorships has stood in recent quarters at levels far above those of the 2012-13 recession. But I should stress that this does not reflect a greater worsening of these firms' financial situation in the current circumstances compared with that in 2012-13; rather, it is essentially the outcome of the reform of insolvency-related procedures for individuals introduced in 2015 in order to encourage their use, which was very limited. Following this reform their use has increased, but it remains limited when compared with other EU countries.



Turning to more recent developments, information from the Spanish tax authorities shows that, in the first half of 2021, most sectors recouped their pre-pandemic turnover levels. Yet in the sectors most affected by the crisis, revenues were still clearly below 2019 levels, although some pick-up is also perceptible. Indeed, in recent months the increase in output has been comparatively more marked in some of the sectors, essentially in services. On the

<sup>2</sup> Thus, for instance, in the 2008-2013 recession the number of active firms fell by around 16%, although the decline was progressive.

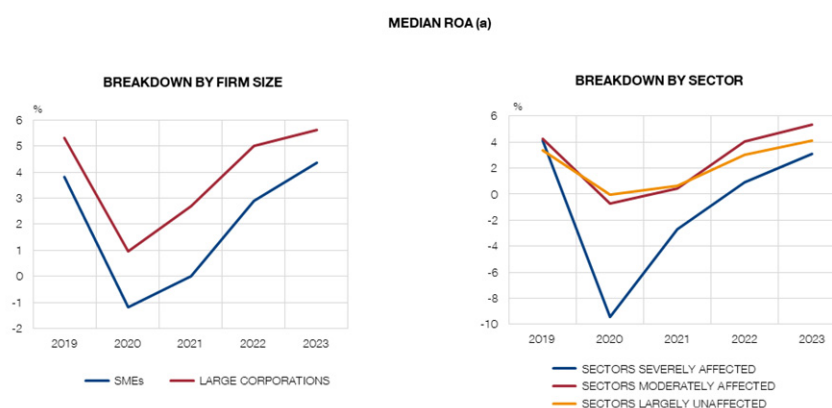
contrary, recent developments have been somewhat less favourable in some industrial sectors, whose activity has been affected by shortages in specific goods used in the productive process, such as semiconductors and plastics.

The results of the latest edition of the Banco de España Business Activity Survey show that firms expect a further recovery in activity and employment in the third quarter of this year, which will be across the board and more marked in the sectors affected by the crisis.<sup>3</sup>

This survey also points to an improvement in the medium-term outlook. Specifically, an appreciable increase in firms expecting to recoup their pre-crisis level of activity in 2022 is observed, rising currently to close to 60% of respondents.

**BUSINESS PROFITABILITY IS ESTIMATED TO HAVE FALLEN OFF SHARPLY IN 2020. A GRADUAL RECOVERY IS EXPECTED AS FROM 2021**

BANCO DE ESPAÑA  
Eurosystem



Source: Banco de España.  
a. Return on assets (ROA) = (Ordinary Net Profit + Financial Costs) / Assets net of non-interest-bearing borrowing. Results based on microsimulations consistent with the baseline macroeconomic scenario of the Banco de España March 2021 projections.

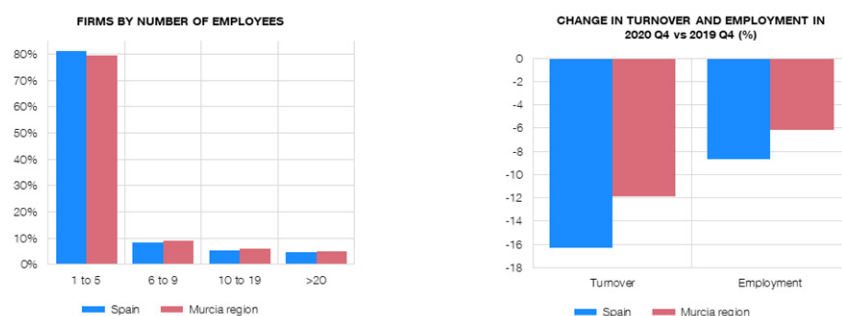
The sharp decline in activity in 2020 caused a marked and widespread fall-off in profitability levels. And once again, this was more marked in the sectors hardest hit by the crisis and in smaller firms.<sup>4</sup>

The Central Balance Sheet Data Office Quarterly Survey reveals that there was an estimated increase in firms' average profitability in the first half of 2021, although this was still clearly below pre-pandemic levels.<sup>5</sup> Looking ahead, firms' profitability is expected to continue gradually improving, in parallel with the economic recovery.

<sup>3</sup> For more details, see M. Izquierdo (2021), *Encuesta a las empresas españolas sobre la evolución de su actividad: septiembre de 2021*, Notas Económicas, Banco de España.

<sup>4</sup> For more details, see *Chapter 3, Annual Report 2020*, Banco de España.

<sup>5</sup> For more details, see Á. Menéndez and M. Mulino (2021), *Results of non-financial corporations to 2021 Q2*, Analytical Articles, Banco de España.



Sources: DIRCE (Central Companies Directory) and Banco de España (EB-E).

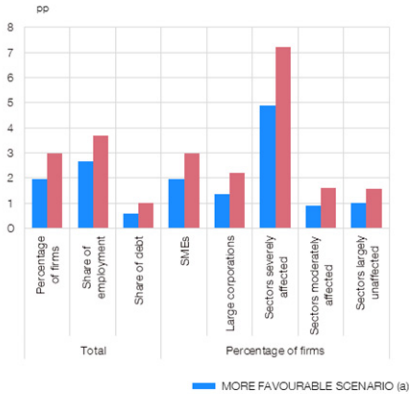
In the case of the Murcia region’s productive system, its firms have also felt the sharp impact of the crisis, albeit – overall – somewhat less acutely than the country as a whole. Drawing on the information in the aforementioned Banco de España survey, the Murcia business community announced a 12% fall in turnover between 2019 Q4 and the same period in 2020 (compared with 16.3% in the sample as a whole) and a 6.2% fall in employment (against 8.7% on average nationwide).

The better relative performance of firms in this region would be in response, at least partly, to the greater relative weight in the Murcia economy of the sectors less afflicted by the crisis, such as the primary sector, manufacturing industry and the public sector. Moreover, Murcia is less dependent on foreign tourism compared with other Mediterranean and Island tourist zones. In this respect, although residents’ demand in the tourism-linked sectors was higher in July than in 2019, spending by foreign visitors was less than half that observed in the same month in 2019. Also, the share of small firms is slightly lower in Murcia than the national average, which might also have contributed to the greater resilience observed.

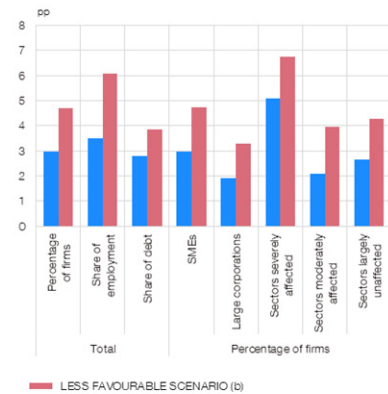
In any event, it is also worth stressing that the health crisis has coincided with other shocks. Examples include those stemming from Brexit, although its impact has been mitigated thanks to the final outcome of the withdrawal negotiations, which averted the imposition of bilateral tariffs between the EU and the United Kingdom. This is particularly important for Murcia given that its exposure to the British economy is the highest among all the Spanish regions.<sup>6</sup> Around 9% of Murcia firms’ exports go to the United Kingdom, with about 80% relating to the food sector.

<sup>6</sup> See E. Gutiérrez and C. Martín (2020), [Spanish companies exporting goods to the United Kingdom: stylised features and recent developments by Region](#), Economic Bulletin 3/2020, Banco de España.

**INCREASE, OWING TO COVID-19 CRISIS, IN PERCENTAGE OF FIRMS AT RISK OF BECOMING NON-VIABLE AND IN THEIR SHARE OF EMPLOYMENT AND DEBT**



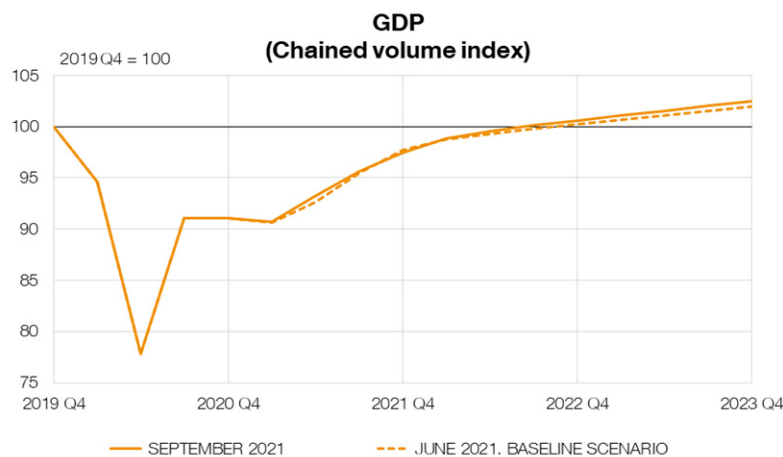
**INCREASE, OWING TO COVID-19 CRISIS, IN PERCENTAGE OF OVER-INDEBTED YET VIABLE FIRMS AND IN THEIR SHARE OF EMPLOYMENT AND DEBT (b)**



Source: Banco de España.  
a. Scenarios consistent with the Banco de España March 2021 baseline (more favourable) and severe (less favourable) scenarios.  
b. Overindebted firms: with debt ratio > 12, under more favourable scenario, > 9, under less favourable scenario.

With the prolongation of the crisis, concern shifted from liquidity needs to business solvency problems, derived from the combination of an increase in debt and the reduction in revenues. Against this background, the economic policy priority was now to support those firms whose ability to repay medium-term debts had worsened as a result of the crisis, but which continued to offer the prospect of viability once the low watermark of the crisis was behind them. This was the aim of the package of solvency support measures for firms approved by the Government in March this year.

**The short and medium-term outlook**



Sources: Banco de España and IIE.

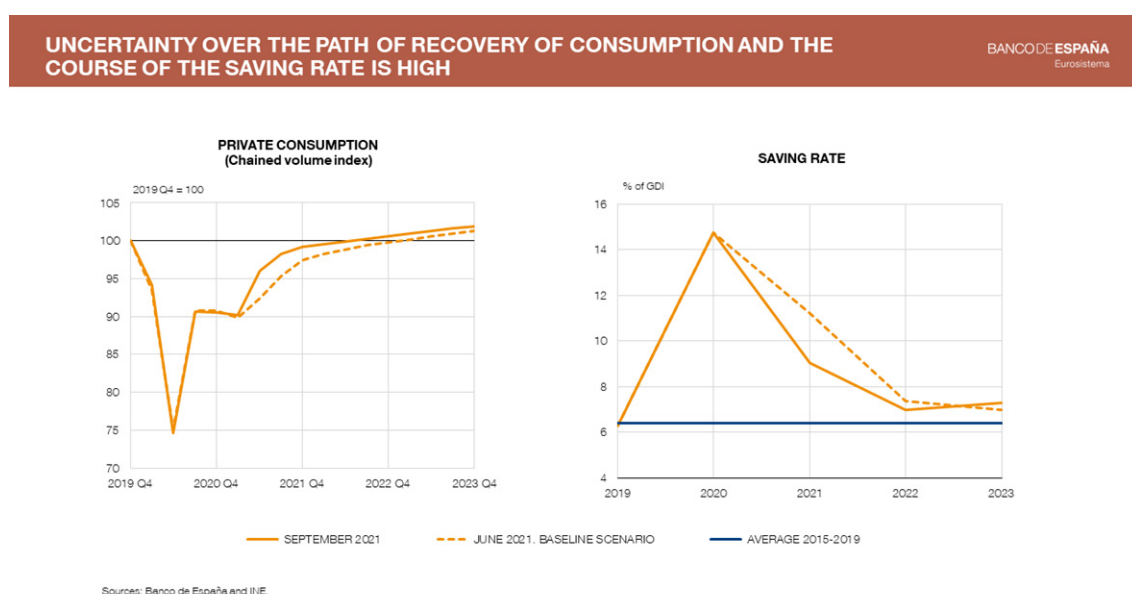
With a view to the future, developments in the business sector will obviously be influenced by the dynamics of activity. The Banco de España published the latest update of its macroeconomic projections last week. The forecasts will need updating once the implications of the far-reaching revision performed by INE on observed growth in the second



quarter of the year have been analysed (growth dipped from 2.8% quarter-on-quarter in the publication of the previous projection to 1.1% in this new preliminary estimate). In any event, beyond the specific growth figures for 2021 as a whole, which will be affected by this revision, we expect the normalisation of activity to continue progressively in the coming quarters, under the assumption that the ongoing improvement in the epidemiological situation will continue.

The dynamism of activity will remain very conditional upon the momentum economic policies are expected to continue providing. Specifically, the ECB's monetary policy will continue to offer significant support to agents' expenditure, through the maintenance of favourable financial conditions. The deployment of the projects associated with the NGEU European programme will also play a key role in stimulating activity in the coming quarters.

Moreover, forecasts remain shrouded in high uncertainty. Allow me next to analyse some of these risks, apart from those stemming from the unfolding of the pandemic.



In the case of private consumption, we expect this variable to retain high momentum, against the backdrop of a sustained pick-up in employment, the maintenance of favourable financial conditions and diminished uncertainty.

However, it is difficult to discern at what rate households will turn to spending the sizeable reservoir of saving they have built up since the start of the pandemic. Our projections assume that they will resort only partially to this accumulated saving. This means that, although the saving rate will progressively decline, it will still somewhat exceed its pre-crisis level over 2023 as a whole.

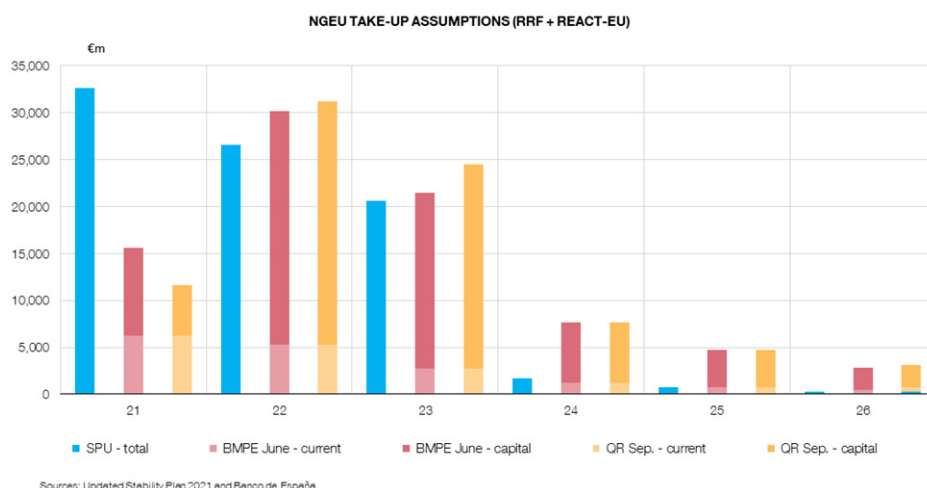
Various arguments underpin this assumption. Firstly, a significant portion of the expenditure that has not materialised since the start of the pandemic cannot be readily deferred. Secondly, those households that have more extensively built up this saving are in the higher-income brackets, whose propensity to consume is normally lower. Lastly, households might decide to restrict their spending levels in anticipation of the higher volume of public debt incurred during the crisis potentially leading to future tax rises.



In any event, the possible pass-through to consumption of a higher-than-expected portion of this saving is an upside risk to growth projections.

**NGEU SPENDING HAS BEEN REVISED DOWNWARDS FOR 2021 AND ITS EXECUTION SHIFTED FORWARDS FOR FUTURE YEARS**

BANCODE ESPAÑA  
EuroSistema



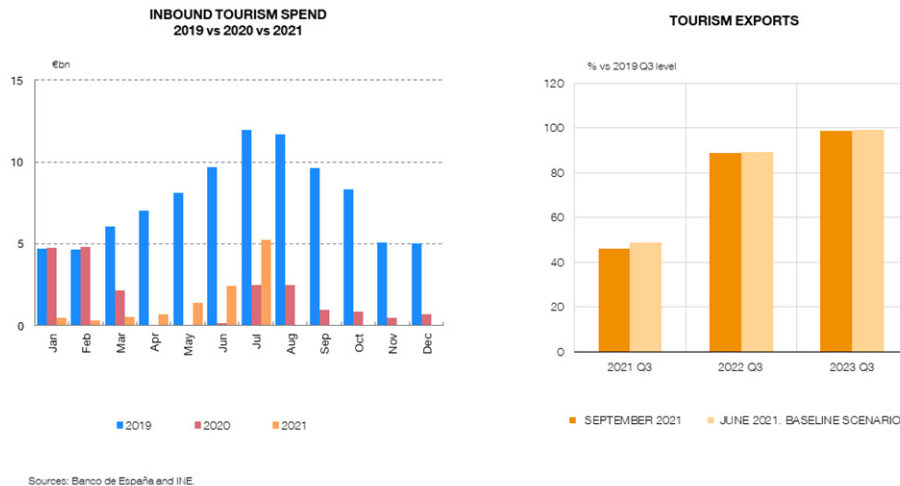
We also expect investment to be highly dynamic. In the case of housing, the recently observed pick-up in construction permits suggests housebuilding will be more expansionary in the medium term. And adding to this is lower uncertainty and the favourable labour market performance, which have strengthened households' future income expectations. Furthermore, it should be borne in mind that Spain will earmark a significant proportion of the transfers it receives from the EU Recovery and Resilience Facility (ERR) for housing renovation.

As to investment by non-financial corporations, this will also foreseeably be highly dynamic as a result of the recovery in final demand, the progressive reduction in uncertainty and the need to pursue digitalisation, a need that has increased in the wake of the pandemic. Moreover, firms' financing conditions will remain favourable and the execution of projects associated with the NGEU programme will further boost investment.

There are, in any case, different aspects to the roll-out of the NGEU programme that pose significant uncertainty. These relate both to its distribution over time and to its multiplier impact on activity, which will influence the speed and depth of the economic recovery. Thus, for example, set against our June forecasts, we now expect there to be a lower volume of spending in 2021, which would be displaced to the rest of the projection horizon.

Investment developments will also depend on the scarring the health crisis – even once it is resolved – leaves on the economy. Under the projections presented, it is assumed the economic policies deployed will mean that the damage caused by the crisis to the productive system will have a relatively limited effect. However, it is too soon to accurately assess the possibility of there being greater scarring.

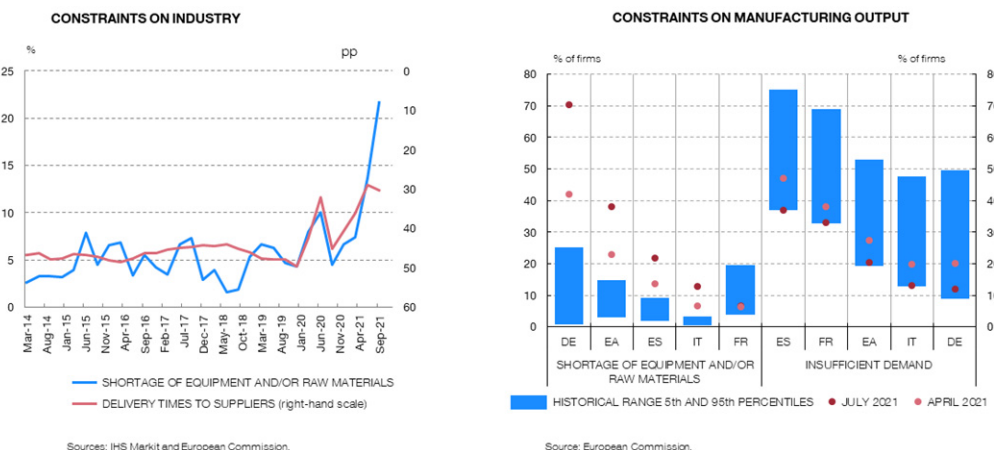
**GRADUAL PICK-UP IN FOREIGN TOURISM, ALTHOUGH IT IS STILL APPRECIABLY BELOW 2019 LEVELS**



Another area of uncertainty affects the external sector. In this case, although the interruption of goods movements after the pandemic struck was essentially transitory, the persistence of the restrictions on people’s international movements is exerting a very lasting impact on tourist flows.

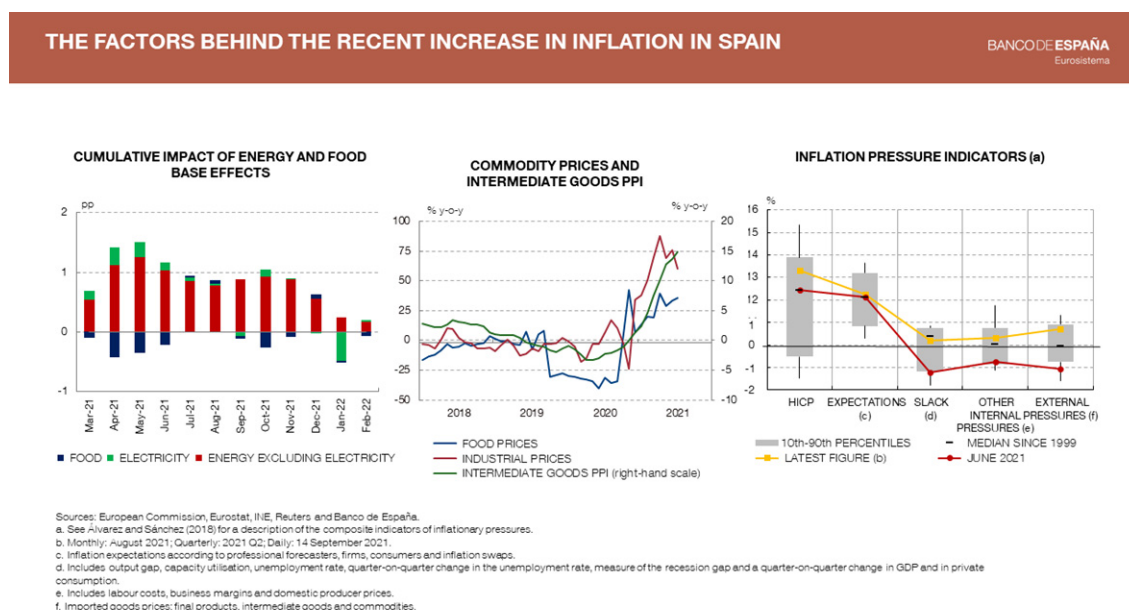
Over the projection horizon, headway in the immunisation campaigns in the main tourist-issuing markets will contribute to extending the recovery in tourism, although we do not expect pre-crisis levels to be reached until late 2023. Once again, the uncertainty surrounding these flows is high.

**DISRUPTION TO THE GLOBAL VALUE CHAIN POSES RISKS TO ACTIVITY, WHICH ARE STILL SOMEWHAT LESS ACUTE IN SPAIN THAN IN THE EURO AREA**



A rise in goods exports is also anticipated, in step with the strengthening of activity in our main trading partners. Nonetheless, supply problems for some imports are giving rise to delays in import order deliveries in some sectors whose share in sales to the rest of the world is high, as is the case of the automobile industry. The projections consider that these

disruptions will be essentially temporary, but it cannot be ruled out that these problems may prove more persistent than forecast.



Lastly, there is also uncertainty over how persistent the current inflationary rebound will be. Our projections assume that this rise will be eminently transitory, with the HICP peaking in 2021 Q3 and, subsequently, falling progressively. This would be consistent with an average inflation rate of 2.1% in 2021, 1.7% in 2022 and 1.3% in 2023.

This assumption of temporariness is based on several arguments. First, the recent rise is due in part to base effects stemming from the fall in 2020 in the prices of certain services whose consumption had been particularly impaired by the pandemic. Tourism and leisure were cases in point. Second, the inflationary rebound also reflects developments in the energy component, which are once again much influenced by the base effects stemming from the marked decline in oil prices during the initial stage of the pandemic, but also by their subsequent increase, and by the marked rise evidenced by electricity prices. In principle, these rises in energy goods prices presumably respond to predominantly transitory factors. They are related to difficulties in the supply of certain commodities – of particular significance in the gas market – and to the strong increase in global demand following the re-opening of economies now the most stringent pandemic lockdown measures have been withdrawn.

Finally, past evidence suggests that the indirect and second-round effects of the current inflationary rebound on future consumer prices will foreseeably be on a limited scale. In particular, the projections assume that, in a setting in which the degree of slack in the economy as a whole and in the labour market is still high, the size of any future rise in labour costs will be relatively limited.

But it is possible that the current rise is more persistent. That would be the result of greater-than-expected upward inertia in commodities prices and/or a greater pass-through of certain more expensive inputs to final prices than in past episodes, insofar as the recent supply problems in some industries persist. The hypothesis that the feed-through of the

inflation rise to wage growth will be low is underpinned, in part, in Spain's case, by the multiannual nature of collective bargaining<sup>7</sup> and by the scant prevalence of indexation clauses. However, a greater-than-considered degree of persistence of the inflationary episode in our latest forecasts might raise the pressure for its pass-through to wages; and this pass-through could be amplified or mitigated, via an imitation effect, by the decisions adopted in relation to public-sector wages.

### **The role of economic policy**

In the expected scenario, characterised by a gradual recovery in activity, which is still highly conditioned by the economic support measures and subject to various sources of uncertainty, monetary and fiscal policies should ensure that the stimulus measures are not withdrawn prematurely.

From the monetary policy standpoint, the most recent decisions of the ECB's Governing Council, including the new monetary policy strategy, ensure that highly favourable financing conditions will be maintained for the duration of the economic recovery.<sup>8</sup>

In the case of fiscal policy, support will continue to be necessary in 2022, focused on the firms and population groups that have borne the brunt of the crisis. It is important that these are temporary measures, to prevent any further increase in the structural deficit. At the same time, work should begin on the design of a fiscal consolidation programme that will allow the high public debt and budget deficit levels to be gradually reduced, defining the objectives, the deadlines and the revenue/expenditure distribution. This programme should only be implemented when the recovery has gained a sound footing.

As regards the business sector, it is imperative that assistance remains focused on reversing the deterioration in solvency caused by the crisis at firms that are considered viable. Certain problems appear to have been detected in the execution of the assistance programme approved in Spain; these must be promptly resolved. In any event, by their very nature, programmes of this kind are targeted towards a large number of mainly very small firms. This makes their implementation more difficult and requires that there be regular assessment, so as to warrant, where appropriate, any adjustments being made if the results indicate that the objectives are not being met.

Moreover, the medium and long-term effects of the crisis will also depend on the extent to which firms adapt to the new economic reality. Economic policy should facilitate this adaptation. This will require, first, enabling the use of the adjustment mechanisms available under existing legislation – particularly labour legislation – and ensuring that they are tailored to the specific conditions of firms. Second, court and out-of-court proceedings for debt restructuring, which currently present certain shortcomings, must be improved.<sup>9</sup> When they function efficiently, these proceedings fulfil an important economic function, allowing viable firms that are facing solvency difficulties to survive, and providing for the orderly market exit

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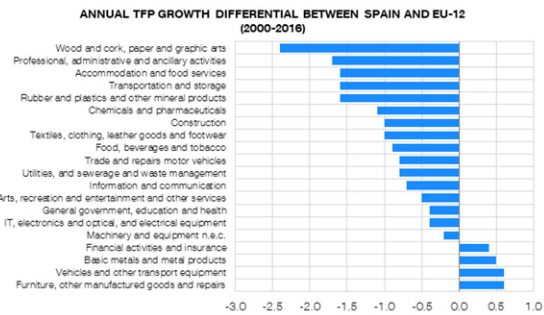
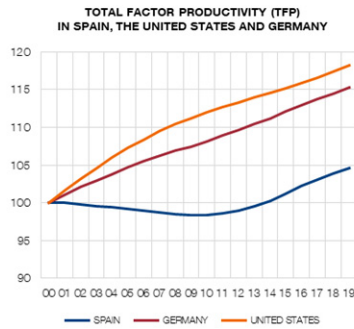
<sup>7</sup> Such that inflation developments in a specific period have the capacity to influence wage growth in only one-third, approximately, of collective bargaining agreements.

<sup>8</sup> See P. Hernández de Cos (2021), [The European Central Bank's new monetary policy strategy](#).

<sup>9</sup> See M. García-Posada Gómez (2020), [Analysis of insolvency proceedings in Spain against the backdrop of the COVID-19 crisis: insolvency proceedings, pre-insolvency arrangements and the insolvency moratorium](#), Occasional Paper No 2029, Banco de España.

of other non-viable firms. In this respect, on 3 August the Council of Ministers approved the draft Insolvency Law Reform Bill which introduces sweeping changes to the pre-insolvency arrangements and insolvency proceedings that govern insolvency for firms, the self-employed and consumers.

**LOW PRODUCTIVITY GROWTH IS THE MAIN DETERMINANT OF THE SPANISH ECONOMY'S MODEST POTENTIAL GROWTH** BANCO DE ESPAÑA Eurosisistema

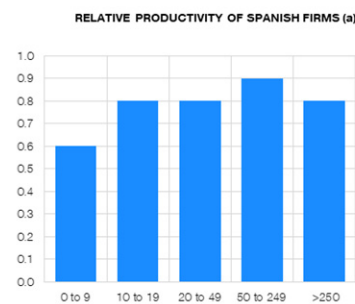
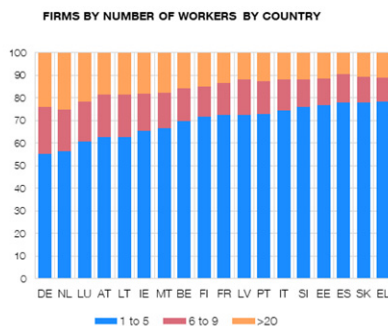


Sources: Banco de España, European Commission and EUKLEMS.  
 a. EU-12 includes Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Italy, the Netherlands, Spain, Sweden and the United Kingdom.

Apart from these short-term challenges, I would also like to highlight other challenges the business sector faced before the pandemic, which have become especially important in the current circumstances and can only be addressed through a resolute structural reform agenda, in this case also with the backing of the European funds.

Over a broad timescale, low productivity growth is the main reason for the modest potential growth of the Spanish economy. Importantly, the sectoral breakdown of our economy, which is skewed towards lower productivity industries, explains only a relatively small part of our low productivity. Structural factors, which have an effect across all industries, are behind the poor performance of this variable.

**SPANISH FIRMS ARE SMALLER AND LESS PRODUCTIVE THAN THEIR EUROPEAN COUNTERPARTS** BANCO DE ESPAÑA Eurosisistema



Sources: DIRCE and Eurostat.  
 a. Base 1 = Business productivity average in Germany, France, and Italy for each size bracket based on number of employees.



Notable among these factors is the small size of Spanish firms. In 2019, 78% of firms had fewer than five employees; this figure is considerably higher than the euro area average of 69%.

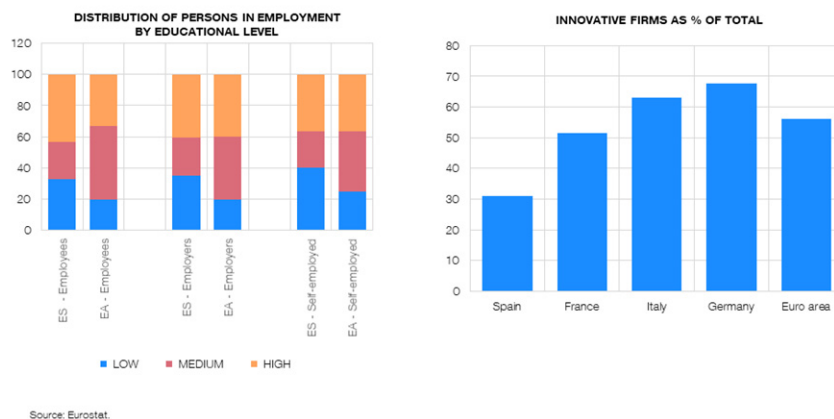
A productive system dominated by small firms entails vulnerability in the face of macro-financial shocks, as has been seen during the pandemic.<sup>10</sup> It is also an obstacle for aggregate productivity growth, given that, in general, larger corporations are more productive.

In the case of Spain, the studies available demonstrate the importance of removing the regulatory barriers to business growth. Specifically, the different firm-size-based thresholds should be reviewed, as they can discourage business growth, considering that crossing certain firm-size thresholds entails assuming higher costs.<sup>11</sup>

Regarding the role played by regulation, despite the considerable progress made over the last decade, the Spanish regulatory framework still offers room for improvement when compared with that of the economies that apply best practice. For instance, the administrative hurdles for new business start-ups are generally higher in Spain.

Moreover, in a country as highly decentralised as Spain, the regional governments should pool their different practices so as to achieve best practice regulatory standards. There are currently notable cross-regional differences as regards the administrative hurdles that need to be negotiated, for example, to carry out investment projects. These obstacles to market unity could be limiting not only the creation of businesses but also their subsequent capacity to develop. In addition, the available indicators show that there is considerable room for improvement in the regulatory sphere in certain sectors, such as retail trade or certain segments of transport and professional services.

**THE HUMAN AND TECHNOLOGICAL CAPITAL SHORTFALL IS A KEY CONDITIONING FACTOR OF BUSINESS GROWTH** BANCODE ESPAÑA  
Eurosistema



<sup>10</sup> See A. Fernández-Cerezo, B. González, M. Izquierdo and E. Moral-Benito (2021), “[Firm-level heterogeneity in the impact of the COVID-19 pandemic](#)”, Working Paper No 2120, Banco de España.

<sup>11</sup> One notable example are the various regulatory requirements that increase the corporate burden for firms that have more than 50 employees (together with other activity-related criteria).

Another crucial factor for explaining Spanish firms' low productivity is their low human and technological capital. Spain has a significant human capital deficit compared with the EU average, which affects not only employees but also employers. In particular, in 2019, 38.9% of the self-employed, 35.9% of employers and 31.1% of employees in Spain had a low educational level. These figures are much higher than for the euro area overall (22.2%, 19% and 18.8%, respectively). In addition, in 2018 innovative firms accounted for 31.1% of the total, well below the figures for France, Italy, Germany and the euro area overall (51.5%, 63.2%, 67.8% and 56%, respectively).

**COMPREHENSIVE STRUCTURAL REFORM STRATEGY** BANCO DE ESPAÑA  
Eurosistema



Source: Banco de España.

The COVID-19 crisis has accelerated some structural processes, such as the digitalisation of economic activity. This could be a unique opportunity for the transformation of the Spanish productive system. The implementation of the NGEU programme in Spain should contribute to this transformation. For this purpose, a project selection and allocation process must be designed that is capable of channelling these European funds to those firms with most potential and to those projects with most traction. At the same time, the fact I mentioned earlier, relating to the comparatively low educational level of our human capital, demonstrates the need to devote a sizable portion of these funds to promoting initiatives that will provide both workers and their employers with greater knowledge and skills. In short, successfully addressing the digitalisation challenge will require not only that we invest in technological and physical capital but also that we significantly strengthen our human capital.

Lastly, we should not forget that the weaknesses in the functioning of our labour market are responsible not only for a higher and more persistent level of unemployment than that observed in the rest of Europe, but also for our low productivity. In particular, reducing the high duality of our labour market is essential to make employment more dynamic. In this respect, the employment protection mechanisms in place should be reviewed, to ensure that providing the necessary protection for workers is compatible with the need for flexibility and, above all, with the aim to achieve more equitable protection for workers with different



forms of employment contracts. The European funds could help finance the transition costs associated with some of the reform options in this area.<sup>12</sup>

## **Conclusions**

To conclude, the COVID-19 crisis has had a severe impact on firm's economic and financial situation, although the economic support policies have played a decisive part in easing those effects. Yet, despite the recent improvements, considerable risks and vulnerabilities remain, especially in the sectors hardest hit by the crisis. Accordingly, the support measures must be maintained and targeted on viable firms that are currently in a more vulnerable position.

The corporate sector is also facing other challenges that existed before the onset of the pandemic and that should not be underestimated. In particular, our low level of productivity places a constraint on long-term economic growth, which in turn is crucial to achieve high levels of well-being for the population overall. To raise productivity, first it would be appropriate to review the regulatory framework, to promote business dynamics and growth, to increase the degree of sectoral competition and to reduce the current obstacles to market unity, and also to lower the level of temporary employment in the labour market. Second, it would be wise to develop policies that stimulate human and technological capital accumulation, an area in which Spain has serious shortcomings compared with other developed economies. Appropriate use of the NGEU European funds may and should be crucial to facilitate this transformation.

Thank you for your attention.

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<sup>12</sup> For more details, see Box 2.4 of Chapter 2 of the Banco de España's Annual Report 2020, "[Labour market duality and severance costs: a model based on the Austrian fund](#)".