Spanish non-financial corporations' liquidity needs and solvency after the COVID-19 shock

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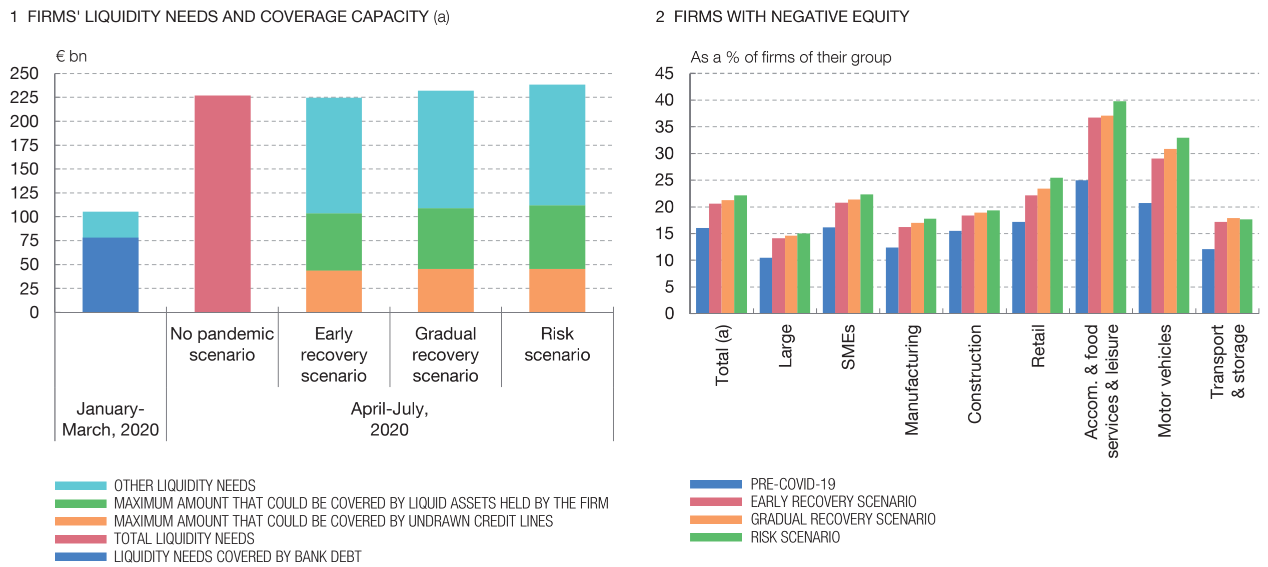
The COVID-19 pandemic is exerting an unprecedented adverse impact on economic activity and, in particular, on firms' income. In some cases this means firms' income is insufficient to meet payments to which they have committed. This article presents the results of an exercise simulating Spanish non-financial corporations' liquidity needs for the four quarters of this year. Liquidity needs, between April and December, might exceed €230 billion. It is estimated that, through the public guarantee programmes for lending to firms, almost three-quarters of this shortfall might be covered. To finance the remainder, companies could use their liquidity buffers and/or resort to new unsecured debt. Further, despite the unprecedented fall in business turnover, a significant percentage of companies (around 40%) is estimated to have been able to withstand this situation without undergoing a downturn in their financial position. However, at the remaining companies, the fall-off in activity has led to significant increases in their level of financial vulnerability, doing so more sharply within the SME segment and especially among the firms in the sectors most affected by the pandemic, such as tourism and leisure, motor vehicles, and transport and storage.

The shutdown of much of economic activity because of the COVID-19 pandemic containment measures is causing a sharp reduction in revenues for a very high proportion of Spanish firms. According to the results of the simulation exercises made for this analysis, in 2020 Q1 61% of firms would not have generated sufficient revenues to meet current payments and those derived from investments in fixed assets and from debt repayments (see Chart 1.1). The overall amount of these firms' liquidity needs is estimated to be around €105 billion, 75% of

Chart 1



SOURCE: Banco de España.

a Excludes holding companies and financial services.

which had been covered by the resort to bank lending (including the drawdown of financing available through credit lines), and the remaining had been covered through the drawdown of liquid assets or non-bank financing.

In addition, from April to December 2020, 67%-69% of Spanish nonfinancial corporations (depending on whether the scenario envisaged is that of early recovery or that of risk) would have liquidity needs. The percentages, compared with those that would have been obtained under a scenario in which there had been no pandemic, would be 8-10 pp higher in terms of the number of firms affected. The overall amount of these liquidity needs stands at €224-238 billion, depending on the scenario considered (see Chart 1.2), and a prominent portion of those would be generated by companies with a high or very high probability of debt default. The breakdown by sector highlights the fact that tourism and leisure, motor vehicles, and transport and storage would be those sectors with a higher proportion of companies with liquidity shortfalls.

If firms make full use of their liquid assets and of their credit lines, they could at most cover somewhat less than half their liquidity needs. As it does not in any event seem very realistic that firms will fully exhaust their liquid assets, and given that only companies of a certain size can tap the capital markets, the bulk of the funds needed to cover the shortfall would foreseeably be routed essentially through recourse to bank lending, as the data to May have shown. Moreover, both the Eurosystem's liquidity support measures and the Government's guarantee programmes, through the ICO lines, are helping banks and ensuring they have the additional resources to finance the private sector.

The results of the simulations also indicate that, despite the possible unprecedented fall in earnings as a result of the COVID19 crisis, more than 40% of firms could continue to generate operating surpluses and make new investment, with no deterioration in their financial position. These results may be explained by the flexibility that enables firms to adjust their personnel costs when faced with a temporary fall in activity levels, and by the strong starting position of their balance sheets following the lengthy period of deleveraging of recent years. In any event, as a result of the pandemic, the proportion of firms in a more vulnerable financial position measured by the level of equity is expected to increase. Thus, as a consequence of the losses built up in 2020, the proportion of firms with negative equity would increase by between 5 pp and 6 pp, up to 21%-22% (see Chart 1.2). The breakdown by firm size again reflects a more marked deterioration in the SME segment. By sector of activity, the proportion of firms with negative equity would increase across the board, but most sharply in the tourism and leisure sector and, albeit to a lesser extent, in the motor vehicle sector.