

Fostering investment, firm growth and business financing

September 8th 2017

General economic activity, investment dynamics and financing

Economic growth is strong and sustainable ...

- Spain's GDP shows a **balanced growth pattern** with y-o-y growth of **3.1% in Q2-2017**:
 - **Domestic demand** is the **main driver** of economic growth → positive performance of private consumption and investment.
 - **External sector** remains **robust**, with a **continued positive contribution** to GDP.
- The **Government expects GDP growth** above **3% in 2017** and **above 2.5% in forthcoming years**.

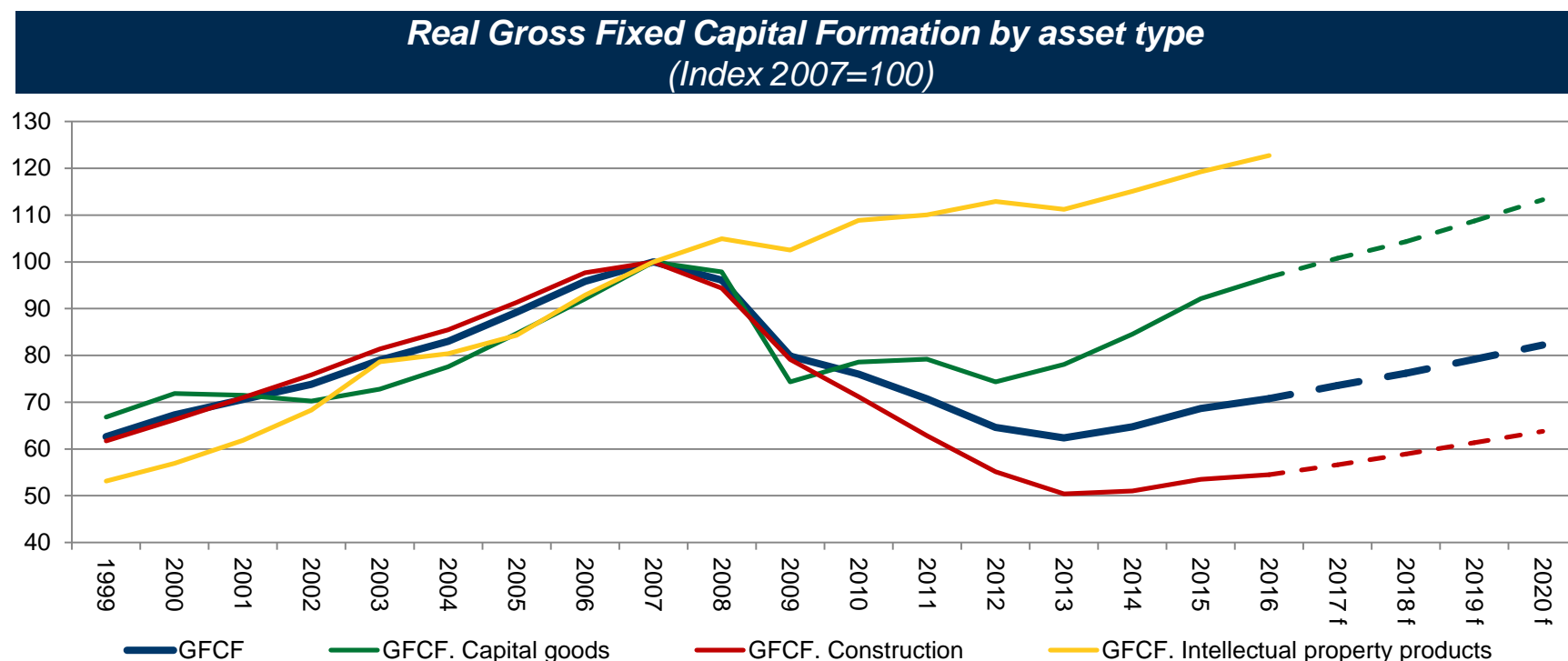
Excellent performance in 2016 and 2017								
y-o-y growth rates in percent	2013	2014	2015	2016	2017f	2018f	2019f	2020f
Gross Domestic Product	-1.7	1.4	3.2	3.2	3.0	2.6	2.5	2.4
Private consumption	-3.1	1.6	2.8	3.2	2.6	2.4	2.3	2.2
Government consumption	-2.1	-0.3	2.0	0.8	0.8	0.7	0.7	0.7
Gross Fixed Capital Formation	-3.4	3.8	6.0	3.1	3.9	3.6	3.9	3.8
Investment in capital goods	5.0	8.3	8.9	5.0	4.2	3.5	4.2	4.2
Investment in construction	-8.6	1.2	4.9	1.9	3.9	4.0	4.1	4.0
Domestic Demand*	-3.2	1.9	3.4	2.8	2.5	2.2	2.2	2.1
Exports of goods and services	4.3	4.2	4.9	4.4	6.5	5.4	4.8	4.6
Imports of goods and services	-0.5	6.5	5.6	3.3	5.4	4.7	4.5	4.3
External demand*	1.5	-0.5	-0.1	0.5	0.5	0.4	0.3	0.3

(*) Contributions to GDP in p.p

Source: National Statistics Institute and Ministry of Economy, Industry and Competitiveness.

... with investment showing positive dynamics

- **Good performance of investment** thanks to high **confidence**, continued **deleveraging** and improved **financial conditions**:
 - Investment in **capital goods** grows at good pace (+4.1% y-o-y in Q2-2017) and has recovered **pre-crisis levels** → over 35% of Gross Fixed Capital Formation (GFCF) in 2017 compared to 24% in 2007.
 - Investment in **construction** is **gradually recovering** after a considerable but necessary correction → 50% of GFCF in 2017 compared to 68% in 2007.
 - Investment in **intellectual property products** continues to expand → 14% of GFCF in 2017 compared to 7% in 2007.

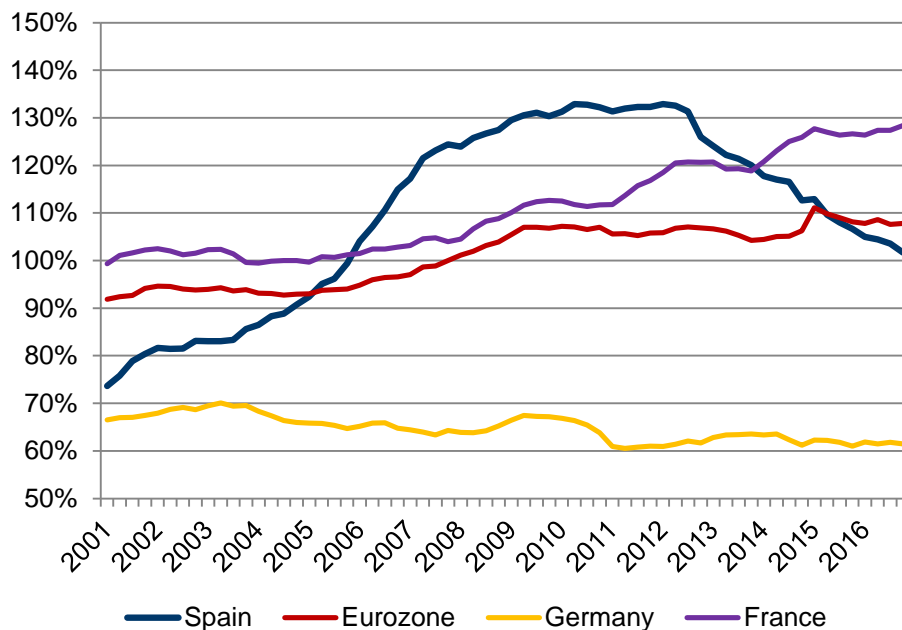


Source: National Statistics Institute and Ministry of Economy, Industry and Competitiveness

Positive investment dynamics are compatible with deleveraging

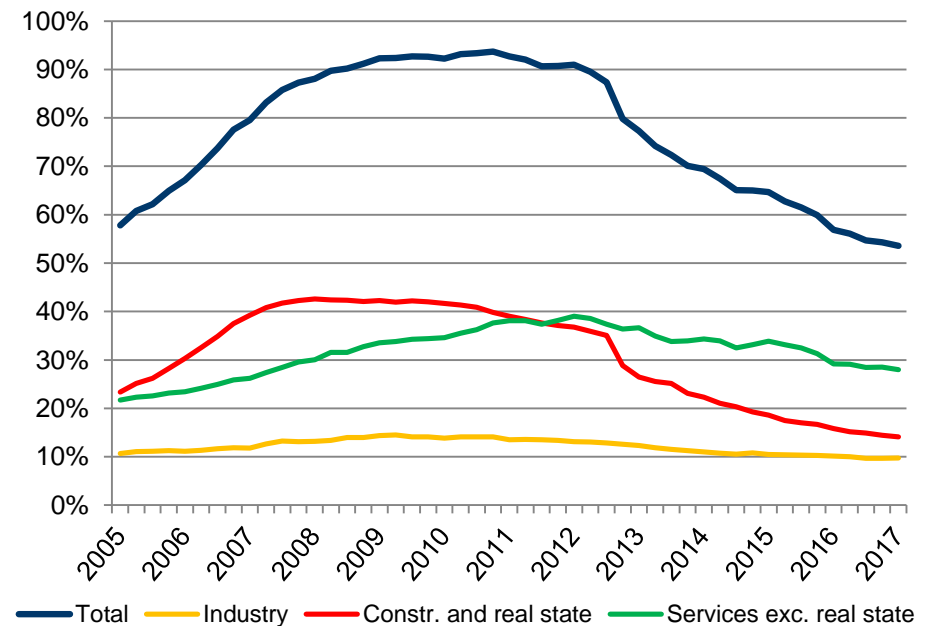
- Spain has made the **largest deleveraging effort** within the **Eurozone** since 2010:
 - **Non-Financial Corporations'** (NFC) gross debt has fallen by -31 pp of GDP since peak and is now **below** the average of the **Eurozone**.
 - The deleveraging process of NFC continues at good pace.
- Most debt **reduction** is taking place in **construction** and **real state** → healthy deleveraging process compatible with positive investment dynamics

NFC deleveraging
(gross debt as % of GDP)



Source: Bank of Spain

NFC deleveraging by sector
(credit stock as % of GDP)

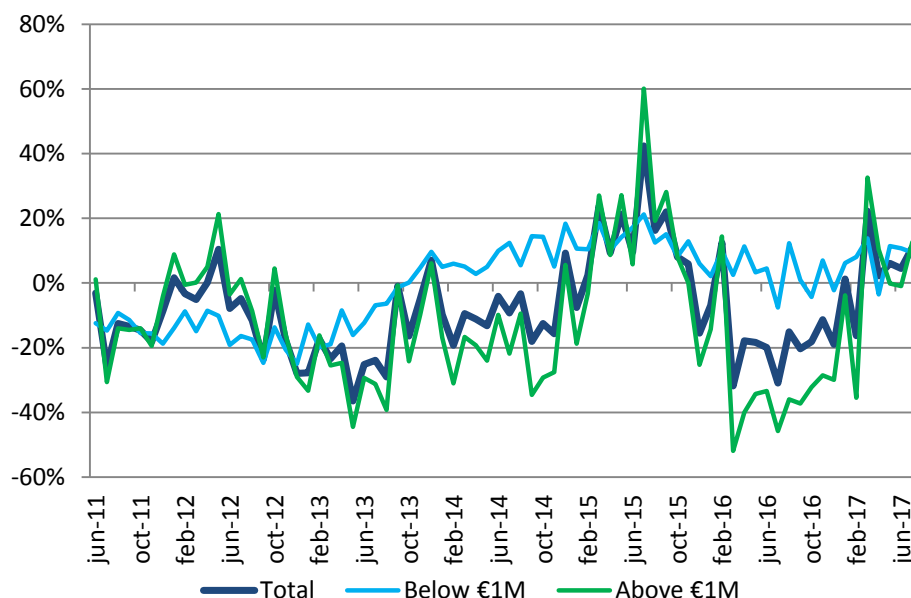


Source: Bank of Spain

Adequate financing of investment (I) ...

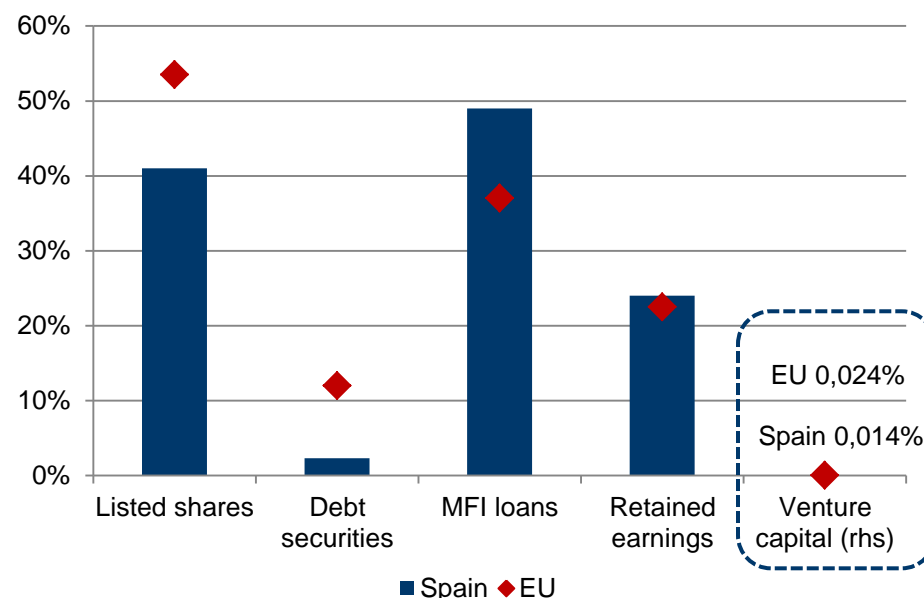
- The Spanish economy benefits from **positive credit flows**, specially for SMEs:
 - Credit to large companies shows signs of improvement in 2017.
 - **Financial conditions remain favourable**, with interest rates at record low.
 - The Survey on the Access to Finance of Enterprises (SAFE) reflects that **credit access conditions** are now **similar** to those of the **EU**.
- Non-financial corporations are **switching** from traditional credit financing to **retained earnings, equity and debt issuance** (Ch. 2 of the Annual Report 2017, Bank of Spain).

New credit to non-financial corporations
(y-o-y percentage change)



Source: Bank of Spain

Financing of the Spanish economy
(% of GDP)

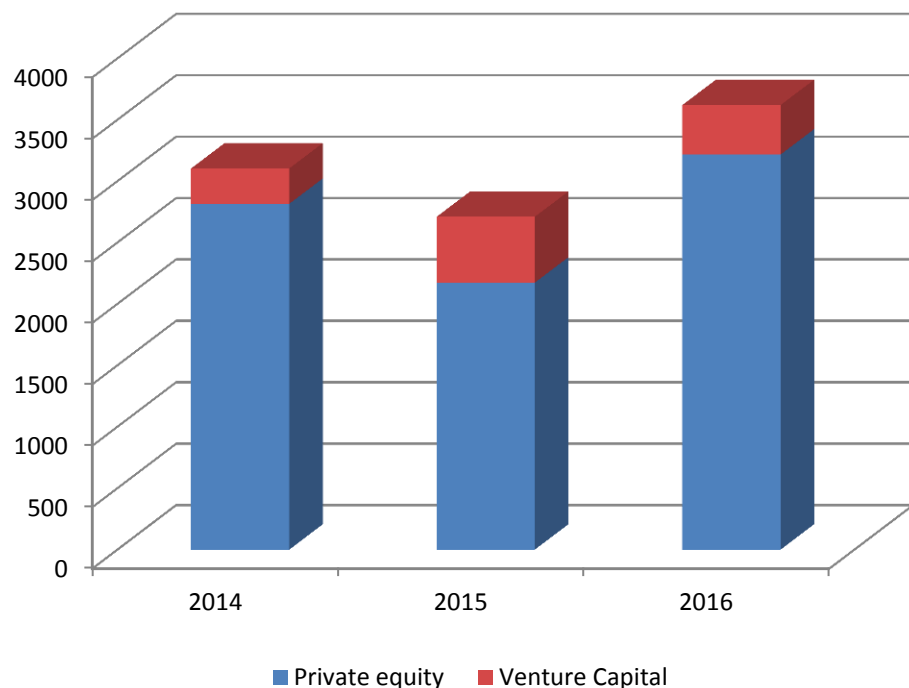


Source: Country Report 2017, European Commission

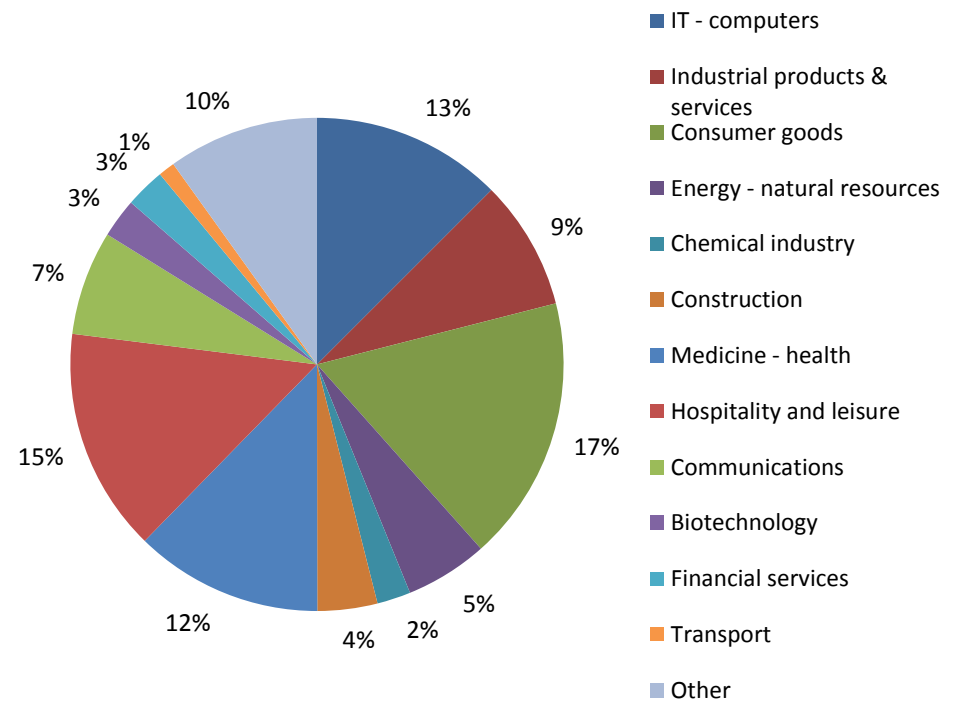
... with an increasing role of risk capital

- **Risk capital** flows were hit hard by the crisis (€1.3 bn in 2009) but are now **growing strongly**, in a context of low yields and low interest rates.
- However, Spain is still **below EU average**, specially in **Venture Capital**:
 - **Venture Capital** fosters investment in **high and medium-high tech innovation**, as such business projects depend more on equity capital due to their often high-risk nature.

*Investment in Risk Capital
(€ million 2014-2016)*



*Investment in Risk Capital by sector
(2014-2016)*



Source: ASCRI

What can be done to increase investment and foster economic growth ?

■ Increase the size of Spanish firms

- Larger companies will lead to increased investment, employment, productivity and internationalisation → increased GDP.

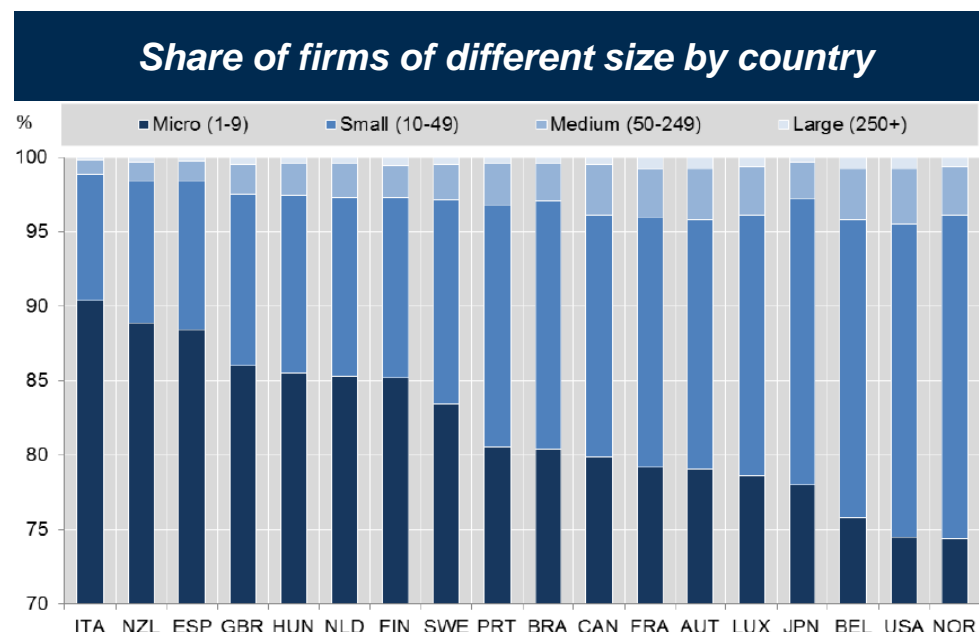
■ Improve business financing

- Relevant regulatory measures have been implemented: Law 5/2015 on the promotion of business financing, Law 22/2014 on risk capital and a revised insolvency framework.
 - Improved business financing will favour investment, GDP growth and larger firm size → public support to business financing (including young and innovative firms).
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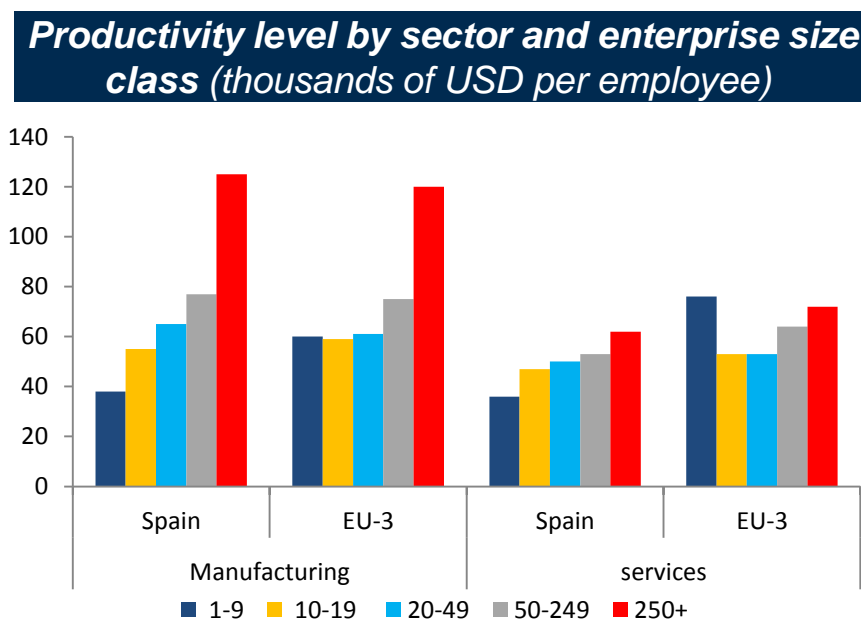
Larger firms allow increased investment and economic growth

The size of Spanish firms (I)

- **Spanish firms are smaller** than those of our peers → this tendency has **intensified during the crisis**:
 - 4.7 workers on average in Spain, compared to 11.7 in Germany, 11 in the UK or 5.7 in France.
- **Reduced firm size** give rise to certain **problems**:
 - Lower productivity and capacity to invest, including relevant areas such as R&D and ICTs,
 - Difficulties for internationalisation, higher credit restrictions and dependency on bank financing,
 - Less efficient governance and succession frameworks.
- **Spanish small firms are less productive** than those of its peers and there are **large productivity gaps** across firm sizes compared to EU peers.
- **Converging to EU-28 firm structure would increase GDP by 3.35 pp** (converging to UK → 7.5 pp).



Source: OECD Science, Technology and Industry Policy Papers n°14 (2014)



Source: Country Report 2016 – Spain, European Commission

Causes of small firm size

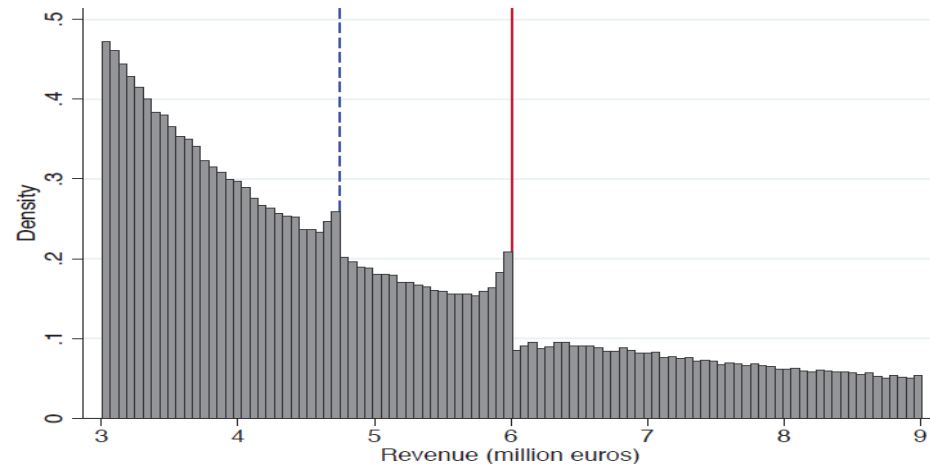
- There are different possible **causes of small firm size**, including:
 - Weak perspectives of **demand**,
 - Lack of **managerial talent** and qualified workers,
 - Limited access to **financial resources** and high leverage ratios,
 - Low **productivity** firms tend to grow less,
 - Inadequate **regulation** and institutional framework,
- Different International Organisations (COM, IMF, OECD) and academic papers have identified regulatory thresholds as a possible difficulty for firm growth → firms must be able to attain their optimum size with the least impediments possible.

The work undertaken by the Ministry of , Industry and Competitiveness has identified over 130 “size contingent regulations”, that relate mainly to company turnover (tax regulation), the number of workers (labour regulations) or both (accounting and auditing regulation).

Increasing firm size

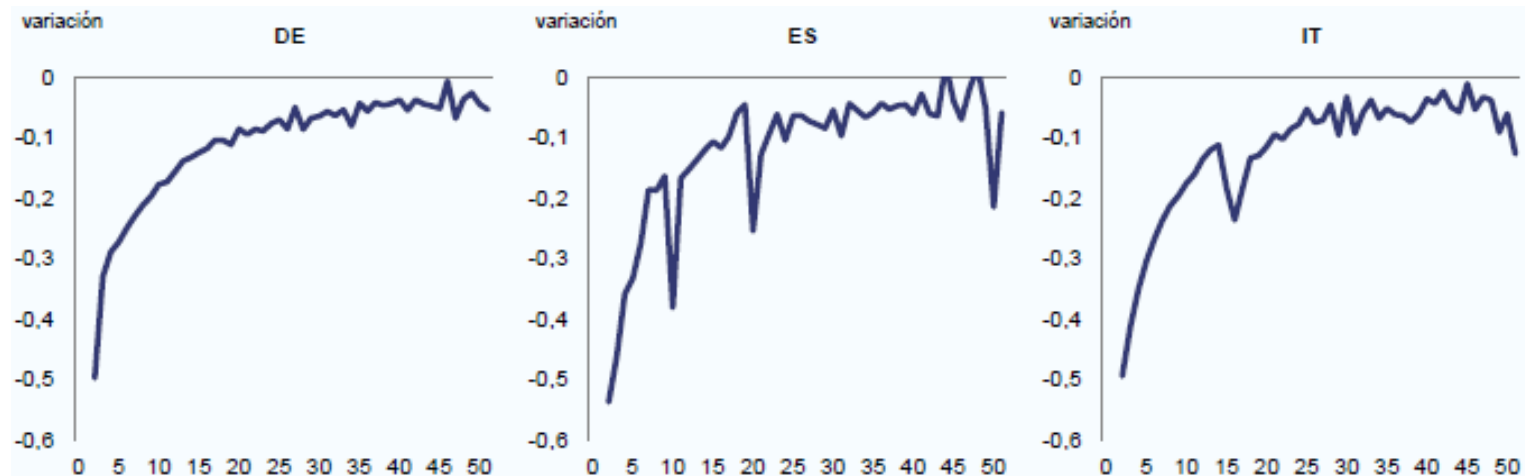
- **Thresholds tend to repeat** in different regulations:
 - **Turnover:** 2, 6 and 10 M€.
 - **Number of workers:** 10, 50 and 250.
 - These thresholds are **statistically significant**.
 - Other thresholds have been identified: asset value, value of acquisitions and imports of goods or services.

Distribution of revenues for Spanish firms (1999-2007)



Source: Working Document nº 1419 – Bank of Spain

Percentage change of the number of firms as number of employees increase (2006-2013)



Source: European Commission SWD (2016) 78 final.

Supporting business financing

Instruments available by the Ministry of Economy, Industry and Competitiveness

Instituto de Crédito Oficial (ICO)

- **ICO** has a dual nature of **State-owned bank** and the **State's Financial Agency** (FLA, FIEM, Fonprode, CARI)
- **Financial instruments available (€ 5.4 bn in 2016):**
 - **Second-floor facilities** (counter-cyclical): € 24bn in 2014 but back to historical average of € 5bn per year
 - **Direct lending:** 453 M€ in 2016 for large investment and infrastructure projects.
 - **Equity and cuasi-equity:** AXIS manages 3 risk capital instruments (Fond-ICO Global, Fond-ICO Pyme and Fond-ICO Infraestructuras)
 - ✓ **Fond-ICO Global:** is a Fund of Funds endowed with € 1.5bn to mobilise total investment of € 5bn. The ongoing 9th call is designed in similar terms as the 8th → additional emphasis in early stages.

ICO-AXIS	Fond-ICO Global (M€ and % of total)		Total commitment (M€ and % of total)		Nº of funds
Incubation / Technology transfer	64	5%	159	3%	12
Venture Capital	253	20%	820	17%	21
Private Equity	905	72%	3,572	76%	21
Debt	43	3%	178	4%	2
TOTAL	1,265	100%	4,729	100%	56

- ✓ **Other funds outside Axis:** Marguerite (transport, energy and renewable energy)
- **New instruments:** securitisation of SME loans with/without EIF guarantee (ENSI prog)
- **To fulfil its role, ICO works closely with the EIB and EIF**



Instruments available by the Ministry of Economy, Industry and Competitiveness

Compañía española de Financiación del Desarrollo (COFIDES)

- **COFIDES** is a joint state (55%) and privately (45%) owned company that provides **financial support** for the **internationalisation** of the Spanish economy → private investment projects in foreign countries.
- **Financial instruments available (203 M€ in 2016):**
 - **Investment portfolio has almost doubled in 6 years:** 1,064 M€ in 2016 compared to 625 M€ in 2011
 - **Direct financing by COFIDES:** medium and long-term financial support (loans, cuasi-equity and equity) in emerging or developing countries with Spanish interest → 35 M€ in 2016.
 - **Financing through FIEX and FONPYME:** for investment projects abroad regardless of the development level of the host country → 102 M€ financed by FIEX and 66 M€ financed by FONPYME in 2016.

Instruments available by the Ministry of Economy, Industry and Competitiveness

Centro para el Desarrollo Tecnológico Industrial (CDTI)

- CDTI fosters the **technological development** and **innovation** of Spanish companies, channelling funding and support applications for national and international **R&D projects**.
- **CDTI undertakes the following activities:**
 - Financial and economic-technical assessment of R&D projects implemented by companies,
 - Managing and fostering Spanish participation in international technological cooperation programmes,
 - Fostering international business technology transfer and support services for technological innovation
 - Supporting the setting up and consolidating technological companies,
- **Financing of innovative and technological companies → INNVIERTE programme:**
 - **Objective:** foster the creation of private investment vehicles in technological sectors with low risk capital financing.

CDTI	INNVIERTE (M€ and % of total)		Total commitment (M€ and % of total)		Nº of funds
Incubation / Tech. transfer	38	14%	92	9%	3
Venture Capital	132	49%	495	48%	13
Private Equity	100	37%	445	43%	1
TOTAL	270	100%	1032	100%	17



Instruments available by the Ministry of Economy, Industry and Competitiveness

Empresa Nacional de Innovación (ENISA)

- ENISA provides **loans and equity loans for viable early-stage entrepreneurship projects** (between business angel and Venture Capital).

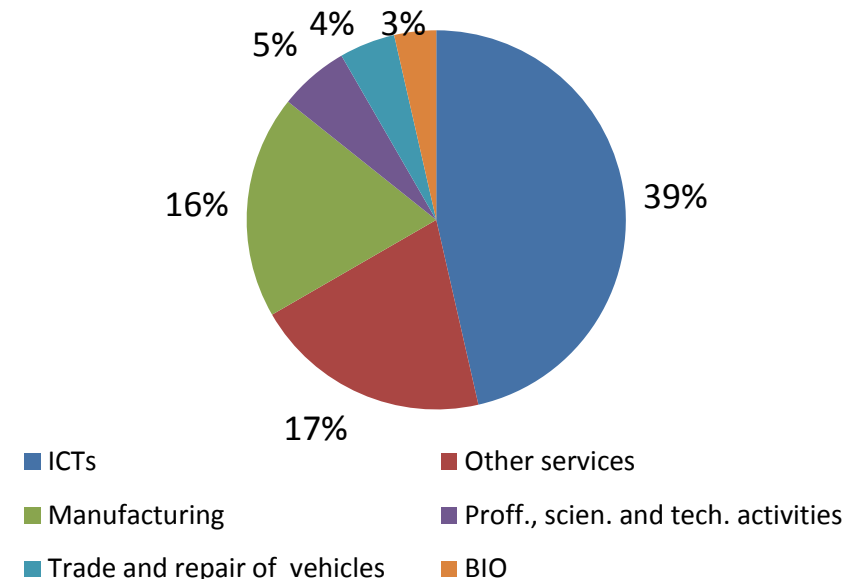
- **Financial instruments available (71 M€ in 2016):**

- **Línea EBT** (technology-based firms): 5.1 M€ in 2016
- **Línea PYME** (SME): 52.4 M€ in 2016
- **Línea Jóvenes Emprendedores** (young entrepreneurs): 9.9 M€ in 2016
- **Línea Agenda Digital** (digital agenda): 3.7 M€ in 2016

- **Usual conditions of these lines:**

- Maturity up to 9 years with grace period of up to 7 years.
- Equity loans between 25,000 € and 1.5 M€ (the average loan by ENISA amounts 150,000 €)
- These instruments are subordinate to standard loans, facilitating traditional bank financing.
- Interest rate: Euribor+3,75% + a variable yield depending on the profitability of the project.
- In general, ENISA does not require guarantees from firms.

Activity of the first 6 sectors in 2016



Thank you

Pedro Guerrero Mesequer
Deputy Director for Sectoral Analysis
Ministry of Economy Industry and Competitiveness