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THE EFFECTIVENESS OF FIRM LEVEL POLICIES DEPLOYED DURING THE COVID-19 CRISIS IN SPAIN

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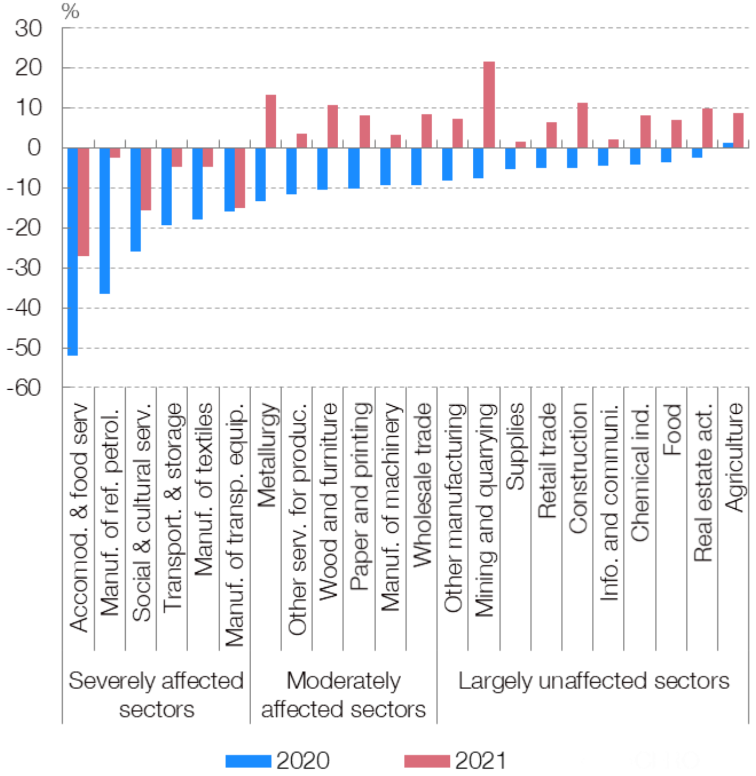
FINANCING CORPORATES. LESSONS FROM THE COVID-19 CRISIS AND CHALLENGES AHEAD

Madrid, April 4, 2022

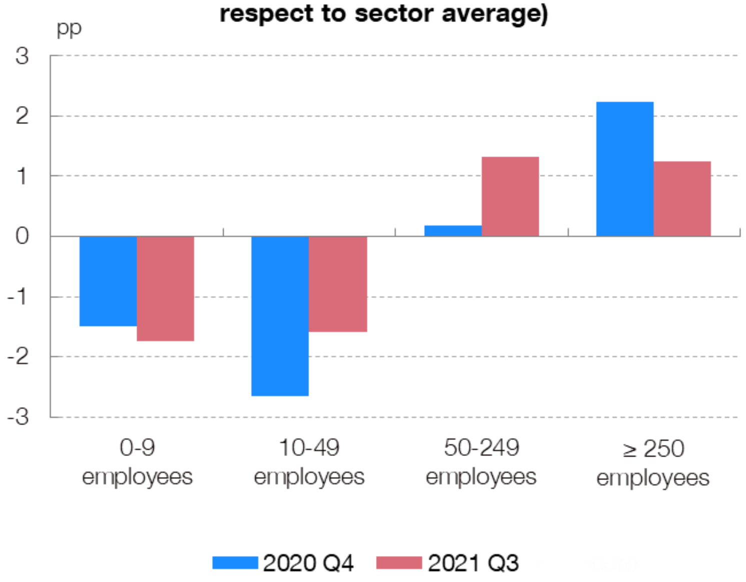
THE IMPACT OF COVID-19 ON BUSINESS REVENUES HAS BEEN SHARP, BUT HIGHLY HETEROGENEOUS

- **The COVID-19 crisis triggered falls in business turnover across the board but the intensity of these falls varied depending on the sector and size of the firms.**

BUSINESS TURNOVER, BY SECTOR (a)
RATE OF CHANGE COMPARED TO 2019



BUSINESS TURNOVER BY SIZE (b)
VARIATION WITH RESPECT 2019 Q4 (difference with respect to sector average)



SOURCES: Agencia Estatal de Administración Tributaria (AEAT) and Encuesta del Banco de España sobre la Actividad Económica (EBAE).

a Sectors are defined as severely affected if their sales fell by more than 15% in 2020 and as moderately affected if their sales fell by betweeen 9% and 15%. Other sectors are deemed to be largely unaffected.
b Excludes financial intermediation services sector.

RISKS		POLICY MEASURES
SHORT TERM	Liquidity	1. Income support (short-time work schemes) 2. Payment deferrals (loan moratoria, Social Security contributions) 3 Credit support: - **ICO guarantees** - TLTRO III
MEDIUM TERM	Profitability Leverage	Income support (short-time work schemes)
LONG TERM	Viability Solvency	1. Aimed at over indebted viable firms - Income support (short-time work schemes) - **Direct assistance grants** - **Recapitalization** - Debt restructuring - Improvements in restructuring procedures 2. Aimed at non-viable firms - Improvements in firm liquidation procedures

- **ICO guarantees**
  - Liquidity needs generated as a consequence of the pandemic
  - The contribution of credit with ICO facility to its coverage
  - Firms' access to financing and the supply of loans with ICO guarantees
  - Building liquidity buffers
  - Limitations
- **Direct assistance grants and recapitalization**
  - Equity gap vs the size of the programmes
  - Contribution of direct assistance grants to reduce SMEs equity gap

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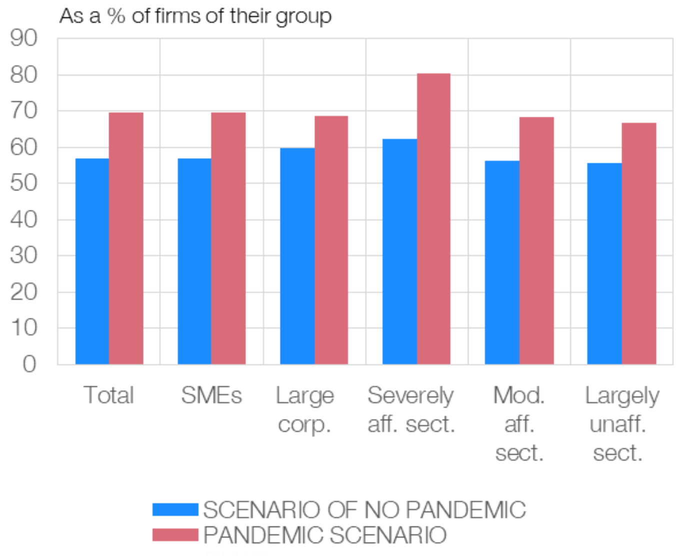
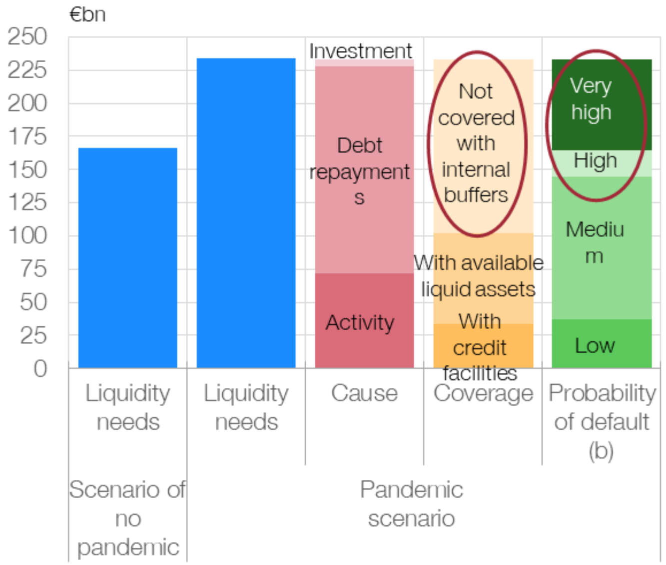
THE LIQUIDITY RISK FACED BY THE PRODUCTIVE SECTORS AT THE BEGINNING OF THE PANDEMIC WAS SUBSTANTIAL

- **The percentage of companies with liquidity needs would have increased, in the last three quarters of 2020, by almost 13 pp and the volume by €67 billion, compared to a counterfactual scenario.**
- **More than half of the liquidity needs were not covered by the liquidity buffers and a significant part was located in companies with high credit risk.**

PERCENTAGE OF FIRMS WITH LIQUIDITY NEEDS. 2020 Q2-Q4 (a)



FIRMS' LIQUITY: NEEDS, CAUSE, COVERAGE AND PROBABILITY OF DEFAULT. 2020 Q2-Q4 (a)

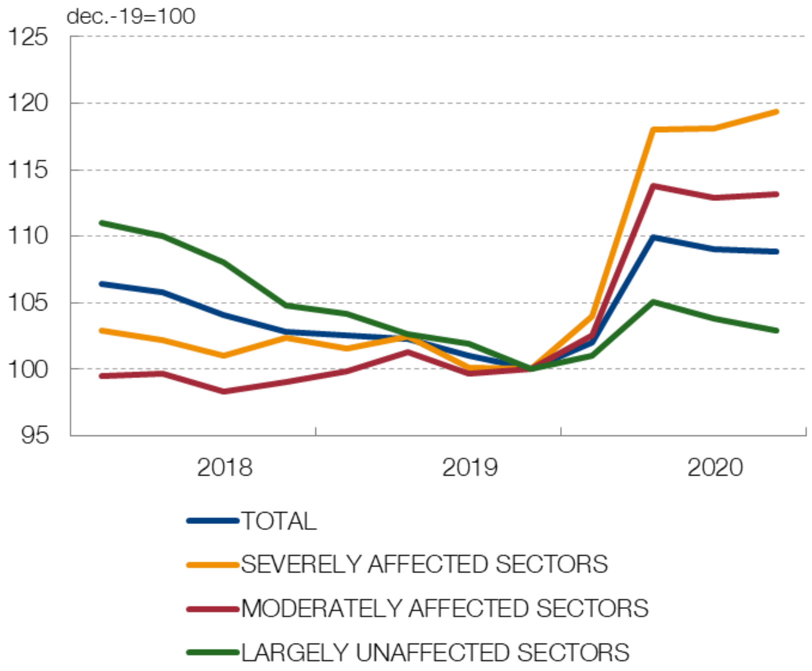


SOURCE: Banco de España.
a. The liquidity needs of companies are defined as the sum of debt maturities and liquidity deficit generated by both operating activity and investment in fixed assets. Debt maturities are defined based on credit operations maturing after 2020.
b. Probability of default is considered very high if it exceeds 5%, high if it is between 3% and 5%, medium if it is between 0.5% and 3%, and low if it is below 0.5%.

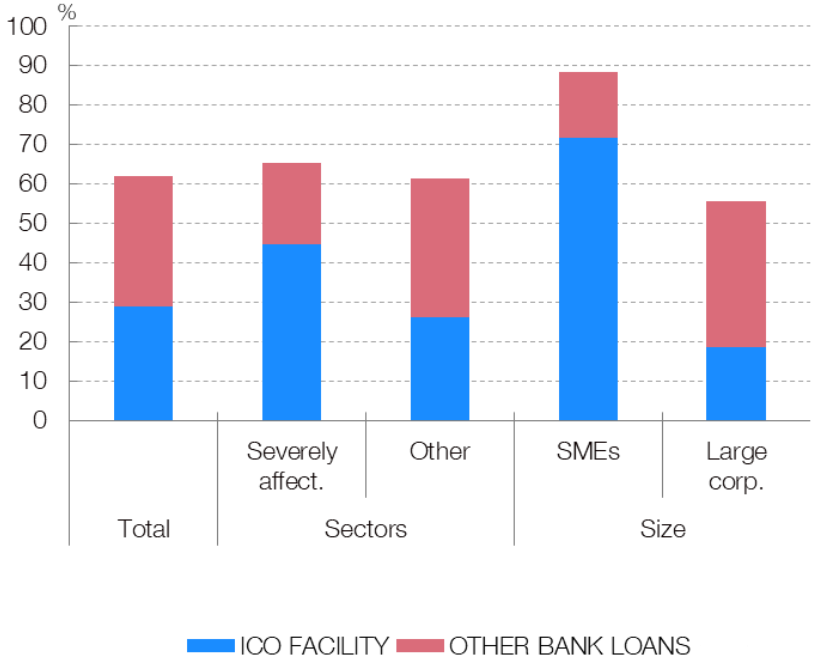
THE PRODUCTIVE SECTORS COVERED MOST OF THEIR LIQUIDITY NEEDS WITH BANK LOANS

- **Credit increased, in relative terms, with more intensity in the most affected sectors.**
- **ICO guarantees played a very important role, especially for SMEs and the firms in those sectors more affected by the pandemic.**

LENDING TO PRODUCTIVE ACTIVITIES, BY SECTOR (a)



COVERAGE OF LIQUIDITY NEEDS OF NON-FINANCIAL CORPORATIONS BY SECTOR AND SIZE. MARCH-DECEMBER 2020 (a) (b)



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THE PUBLIC GUARANTEES WERE FUNDAMENTAL TO SUPPORT THE CREDIT SUPPLY AFTER THE PANDEMIC

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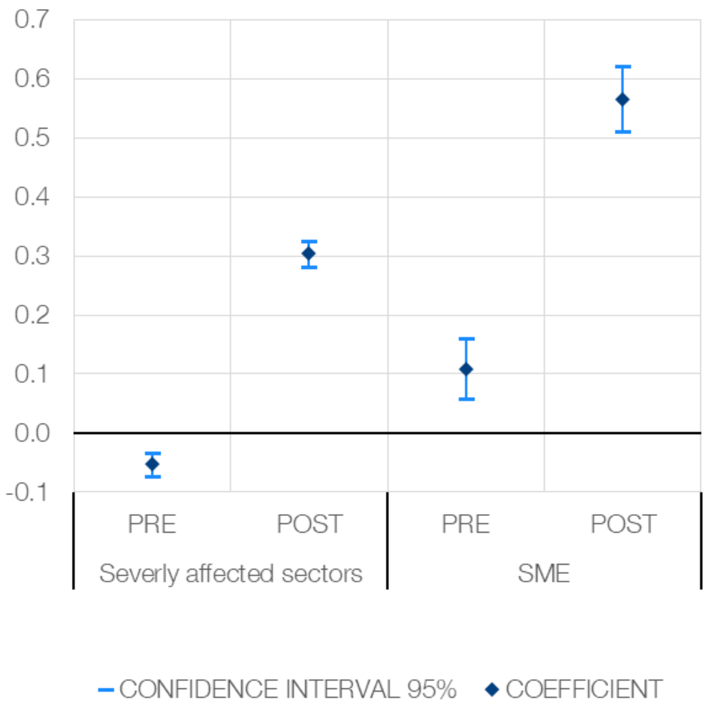
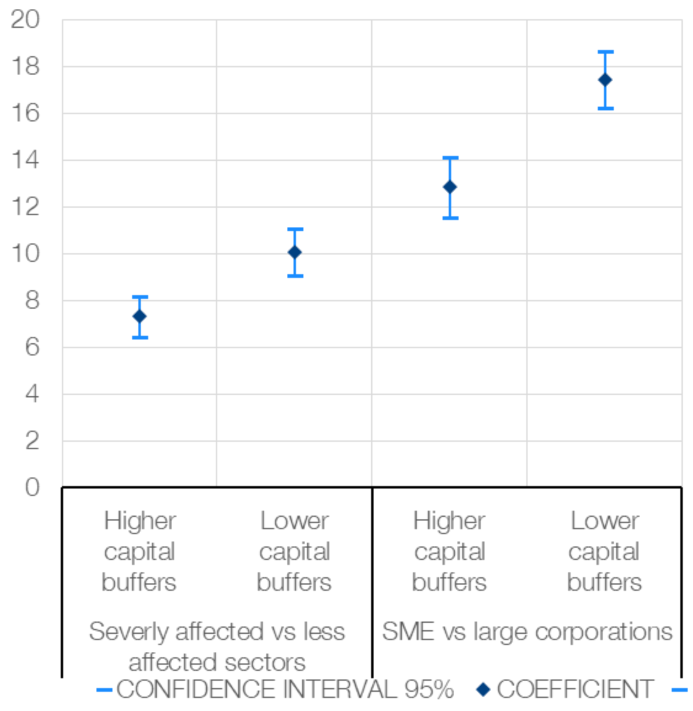
- **The guarantees improved access to financing for companies that could have suffered greater restrictions.**
- **The guarantees contributed to increasing the supply of credit from banks with lower capital buffers to these firms.**

ESTIMATED CHANGE IN CREDIT BY TYPE OF COMPANY BEFORE AND AFTER THE PUBLIC GUARANTEE PROGRAM



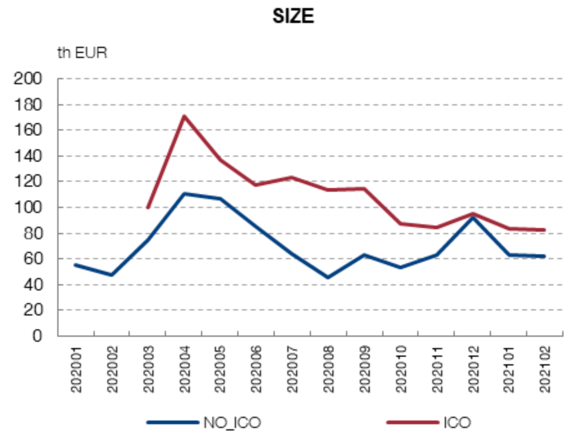
ESTIMATED PROPORTION OF NEW CREDIT WITH PUBLIC GUARANTEES BY TYPE OF FIRM AND BANK SOLVENCY

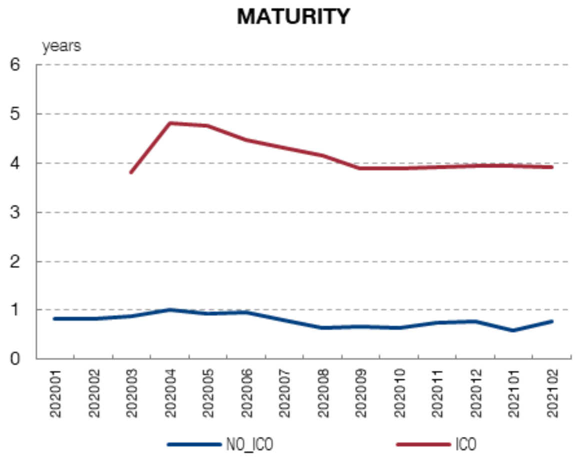


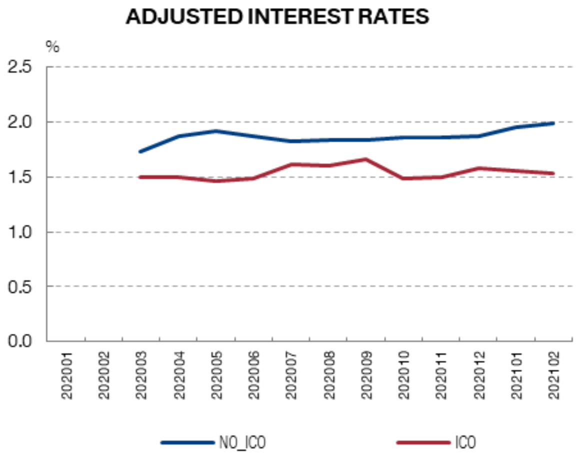
SOURCE: Banco de España and own calculations.
a. The diamonds represent the estimated coefficients of several regression analyses in which the dependent variable is the amount of new credit with ICO facility over the total amount of new credit. In the left panel the variable is defined at the firm level whereas in the right panel at the bank-firm level. The variables of interest are proxies for firms' restrictions in access to financing.
b. Banks with lower capital buffers are those whose buffers are below the median whereas those above the median are classified as banks with higher capital buffers.

AND THE CONDITIONS WERE VERY FAVORABLE AS COMPARED TO THOSE OF LOANS WITHOUT ICO FACILITY

- **The longer maturities contributed to mitigate rollover risk in a context of high uncertainty.**
- **Interest rates of ICO loans were also significantly lower even after adjusting by contract characteristics.**
    - However, captive borrowers paid a premium on ICO facility loans (Martín, Mayordomo, Vanasco, 2021)





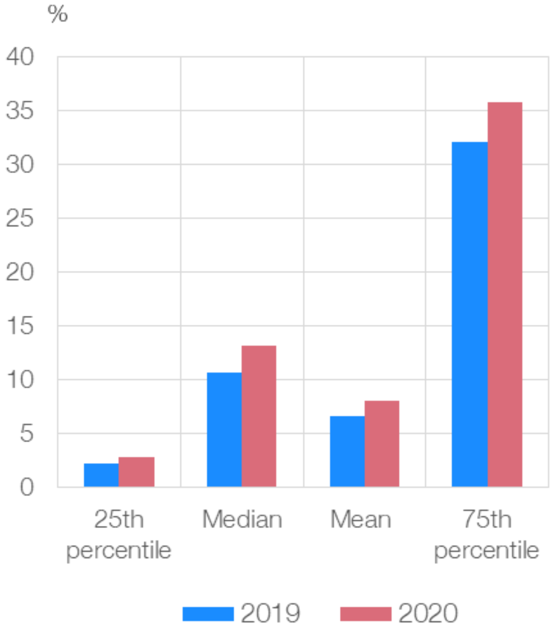


SOURCE: Banco de España.

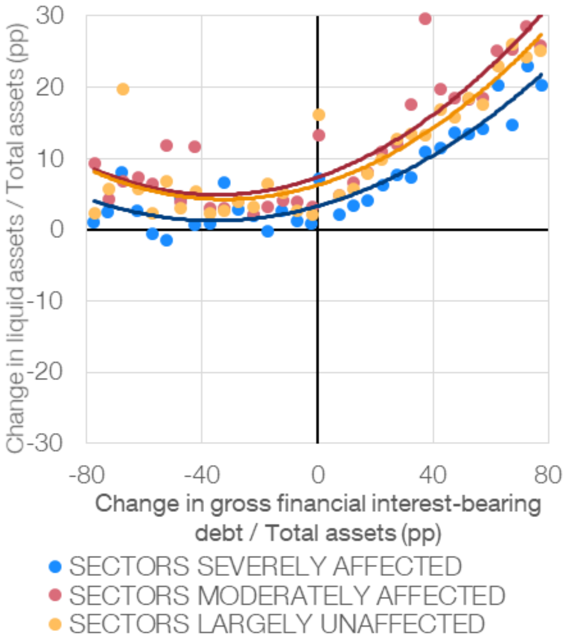
THE PROGRAM ALLOWED COMPANIES TO FACE 2021 IN A FAVORABLE LIQUIDITY SITUATION

- **However, the liquidity needs of some affected companies could still be relatively high .**

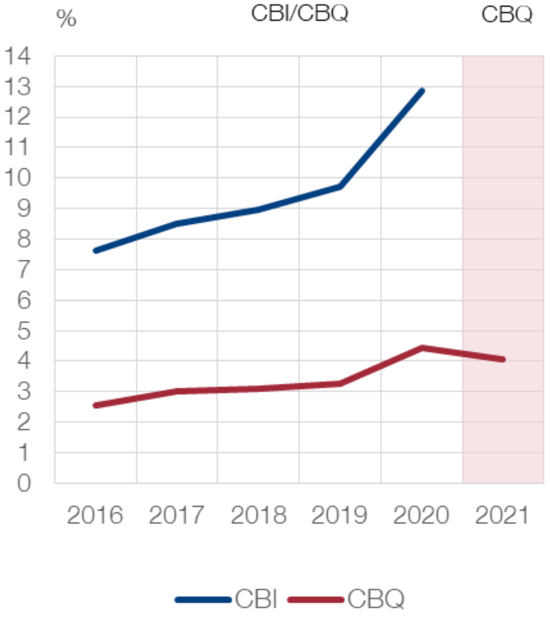
DISTRIBUTION OF FIRMS´LIQUIDITY RATIO. CBQ (a)



CHANGE IN INTEREST-BEARING DEBT TO LIQUID ASSETS IN 2020 COMPARED WITH 2019 (a) (b) (c)



LIQUIDITY RATIO CBI/CBQ (a)



SOURCE: Banco de España.

a The liquidity ratio is obtained as the firms' cash and cash equivalents over total assets.
b Each dot in the chart depicts the average change in interest-bearing debt to total assets and the average change in liquid assets to total assets, obtained in intervals of 5 pp of the change in debt to assets. Only those intervals with more than one firm are considered.
c Sectors severely affected are defined as those whose sales fell by more than 15% in 2020, while sectors moderately affected are those whose sales fell by between 9% and 15%. All others are defined as sectors largely unaffected.

BUT FIRMS WITHOUT BANK DEBT BEFORE THE PANDEMIC DID NOT COVER THEIR LIQUIDITY NEEDS WITH CREDIT

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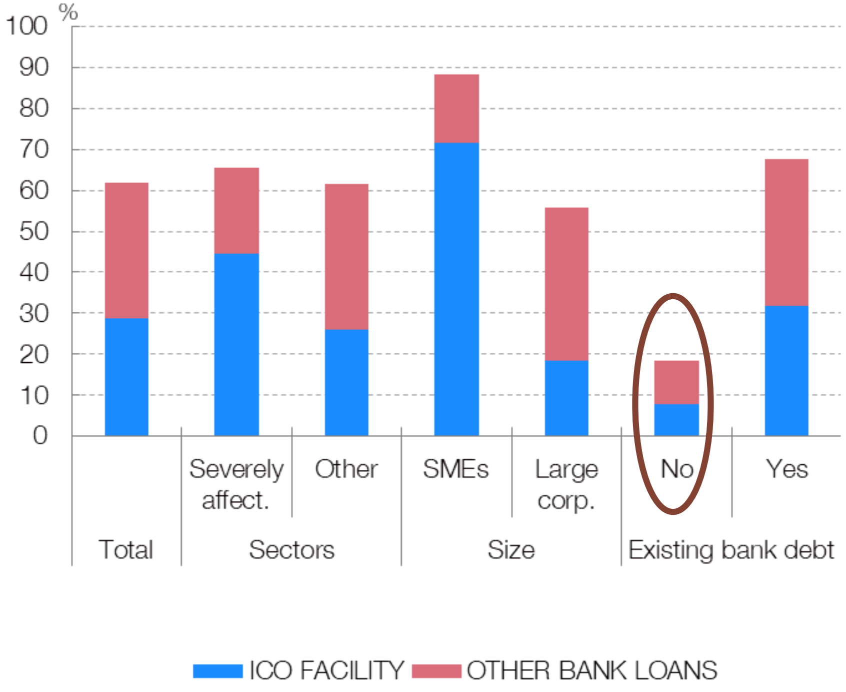
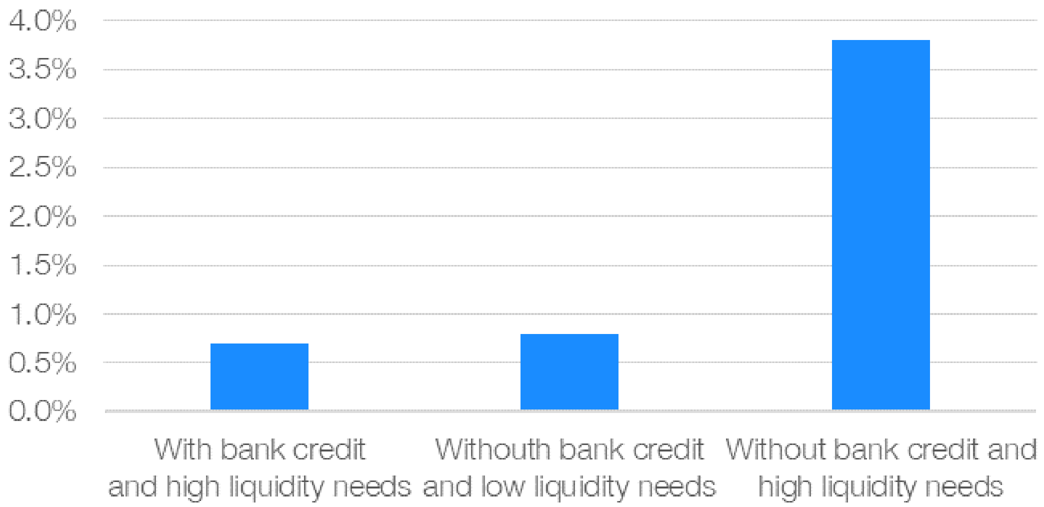
- **A simple cross-sectional regression yields a positive association between the absence of banking relationship and the share of bankruptcies…**
- **… and much more so if firms faced high liquidity needs.**

COVERAGE OF LIQUIDITY NEEDS OF NON-FINANCIAL CORPORATIONS BY SECTOR, SIZE AND EXISTING BANK DEBT. MARCH-DECEMBER 2020 (a)



ESTIMATED SHARE OF BANKRUPTCIES IN EXCESS OF THE ONE FOR FIRMS WITH BANK CREDIT AND LOW LIQUIDITY NEEDS



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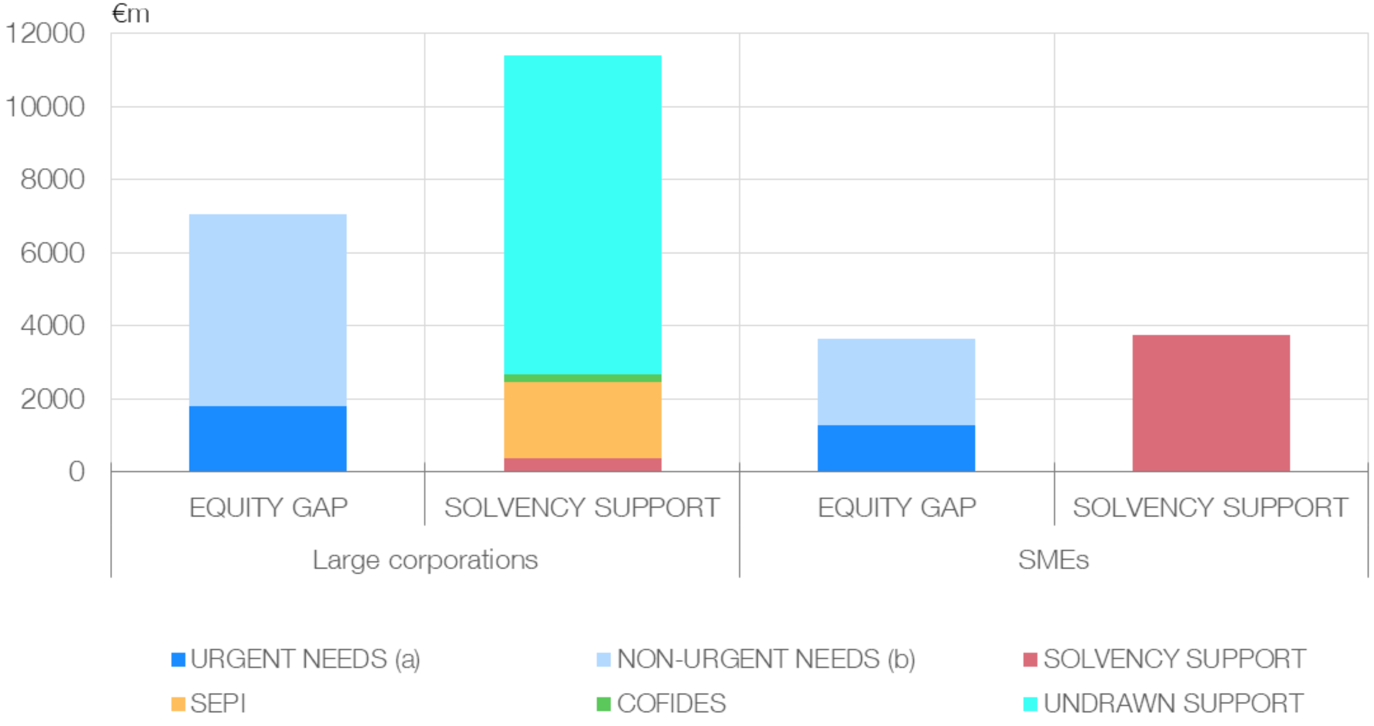
THE SIZE OF THE PROGRAMMES WAS ENOUGH TO COVER FIRMS EQUITY GAP….

- **There is still room to reduce the equity gap of large corporations.**

EQUITY GAP IN 2020 AND SOLVENCY SUPPORT



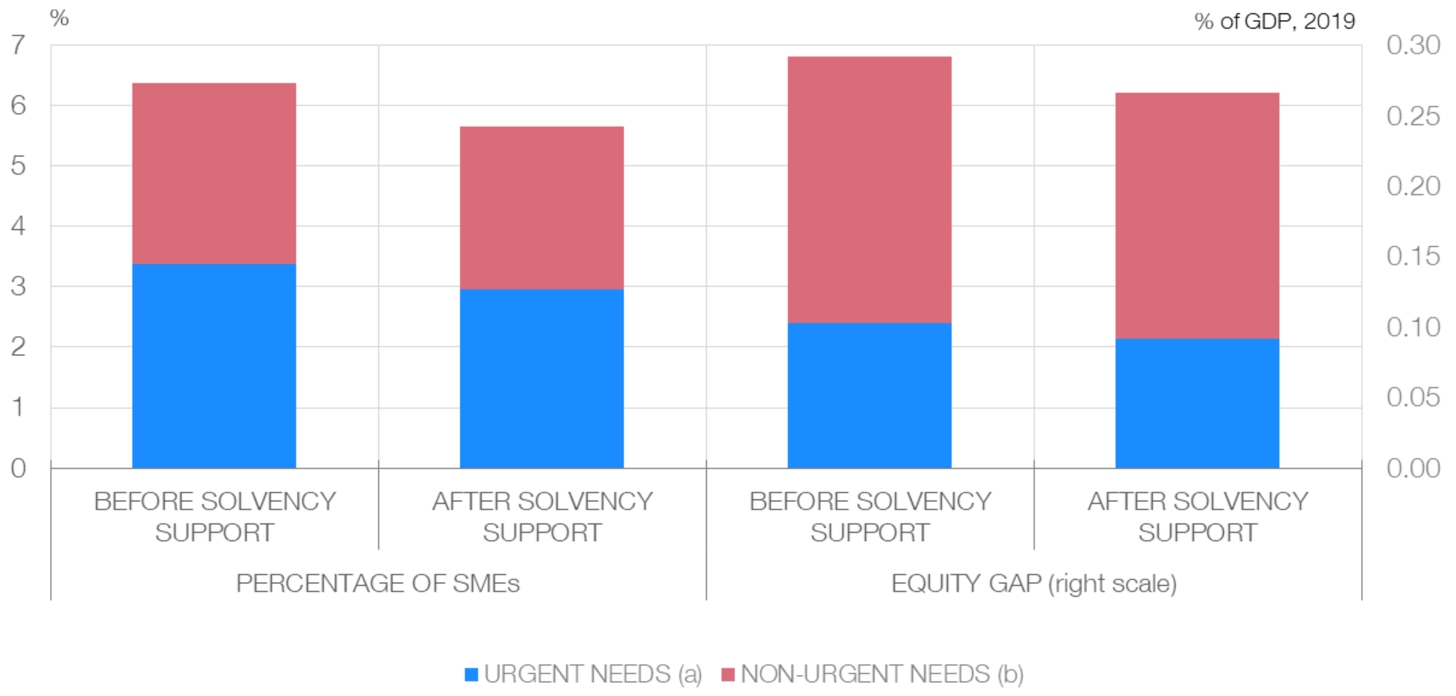
SOURCE: Banco de España.

a. Firms whose equity has turn to negative in 2020.
b. Firms with ratio Equity / Total Assets > 15 % in 2019, and below that threshold in 2020 and firms that recover the ratio in 2019 if it was positive and below 15 %.

BUT THE DISTRIBUTION OF DIRECT AIDS AMONG ELIGIBLE SMES IS NOT AN EASY TASK

- **Small decrease in the percentage and equity gap of SMEs.**

SMEs WITH EQUITY NEEDS IN 2020



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THANKS FOR YOUR ATTENTION