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DEVELOPMENTS IN BUSINESS SOLVENCY
AND DEMOGRAPHICS IN SPAIN SINCE
THE OUTBREAK OF THE PANDEMIC

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ABSTRACT

The COVID-19 crisis has had a significant impact on the economy and affected Spanish businesses' economic and financial situation, albeit with high sectoral heterogeneity. This article analyses how this crisis has affected business solvency and demographics in Spain by means of various indicators. The analysis shows that to date this shock has had a very moderate impact compared with previous crises, largely thanks to the measures deployed by the economic authorities to mitigate its effects. However, there are some latent risks that could materialise, especially if the economic recovery proves to be less robust than anticipated.

Keywords: business demographics, businesses, solvency, COVID-19.

JEL classification: E32, G33, M21.

DEVELOPMENTS IN BUSINESS SOLVENCY AND DEMOGRAPHICS IN SPAIN SINCE THE OUTBREAK OF THE PANDEMIC

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Introduction

The COVID-19 crisis has had a significant impact on economies across the world. In Spain, the effects of the pandemic have been particularly marked, with GDP slumping by a record 10.8% in 2020, a steeper fall than the 6.8% decline observed in the euro area as a whole. Consequently, and despite the significant mitigating effect of the support measures deployed by the economic authorities, Spanish businesses' economic and financial situation has deteriorated, and this deterioration has been very uneven at sectoral level.¹ In particular, the crisis has had an especially acute impact on those sectors, such as tourism, leisure, passenger transport and retail, that entail more social contact and whose activity has therefore been subject to more stringent restrictions. It is worth analysing the impact on business demographics and solvency, since a significant destruction of the productive system may hamper the economic recovery through various channels. First, excessively high rates of business deaths may lead to an increase in unemployment in the short term, which could undermine consumption. Second, significant deteriorations in business solvency can affect the financial position of the financial system and constrain its capacity to provide businesses and households with the financing they need.²

This article aims to set out the existing evidence on how this crisis has affected business³ solvency and demographics in Spain, by drawing on various indicators from alternative sources. Given the aforementioned uneven impact of the COVID-19 shock on the Spanish business sector, the results are analysed by legal form (business entities and sole proprietors), business size and sector of activity.

Business demographics

As a first step, the analysis of business demographics uses data from the Central Business Register (DIRCE, by the Spanish acronym) of the National Statistics

1 See "The effects of the COVID-19 crisis on the productive sectors in Spain: economic and financial implications", Chapter 3, *Annual Report 2020*, Banco de España.

2 For further details, see "The effects of the COVID-19 crisis on the productive sectors in Spain: economic and financial implications", Chapter 3, *Annual Report 2020*, Banco de España.

3 References in this article to total businesses include both business entities and sole proprietors.

Institute (INE), as the DIRCE is based on a high-quality methodology that draws on various information sources. However, these statistics have two main disadvantages: their frequency (annual) and the time lag until publication (a minimum of one year). The latest information was published on 13 December 2021 and contains data on the number of active businesses at 1 January 2021, in addition to registrations and deregistrations in 2020. As a result, they enable an initial assessment to be made of the impact of the COVID-19 crisis on the Spanish business sector in 2020.

According to these data, the number of active businesses, taken to be all business entities⁴ and sole proprietors,⁵ declined moderately, to 3,366,570, in 2020, for the first time since 2013 (see Chart 1.1). The 1.1% drop in 2020 (i.e. 37,858 fewer businesses) was more moderate than that observed during the 2008 financial crisis, when they decreased, on average, by 1.5% per annum between 2008 and 2013. The decline in the number of active businesses in 2020 is explained by decreases of similar intensity in business entities and sole proprietors. This reduction was widespread across practically all sectors, with the exceptions of the transportation and storage and the information and communication sectors (which saw an increase), and proved sharper in accommodation and food service activities and in wholesale and retail trade, where the number of active businesses fell by 3% and 2%, respectively. While it was also widespread across sizes,⁶ the decrease was sharper among small and medium-sized enterprises than among microfirms and large enterprises.

This fall in the number of active businesses in 2020 is attributable to a reduction in registrations, rather than to higher deregistrations (see Chart 1.2). Thus, there was a sharp fall in the number of registrations of both business entities and sole proprietors, in line with that observed during the 2008 crisis. However, unlike in the previous crisis, the total number of business deregistrations did not increase; in fact, it decreased by 1%. It is striking that deregistrations did not increase in accommodation and food service activities, one of the sectors hardest hit by the crisis. Indeed, slight increases in deregistrations are only observed in some services sectors (not including, as mentioned, accommodation and food service activities) and in businesses with no employees. Turning to business births, although there have been widespread appreciable declines across sectors, accommodation and food service activities saw the greatest reduction, which explains why this sector posted a larger contraction in the number of active businesses.

4 Business entities from all sectors are included, except for agriculture and fisheries, central, regional and local government administrative services, activities of households as employers of domestic personnel and extraterritorial organisations and bodies.

5 Total businesses in the DIRCE also include associations, autonomous agencies and other non-corporate forms, although these data have a limited weight in quantitative terms.

6 Size is proxied by employment. Specifically, the enterprises are classified as microfirms if they have fewer than 10 employees; as small if they have 10-49 employees; as medium-sized if they have 50-249 employees; and as large if they have over 250 employees.

Chart 1

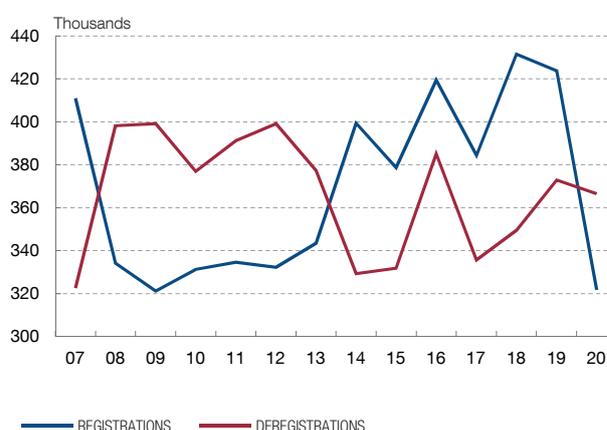
THE COVID-19 CRISIS IN 2020 CAUSED THE FIRST DECLINE IN THE NUMBER OF ACTIVE BUSINESSES SINCE THE END OF THE LAST RECESSION (2013), AND IT WAS MAINLY ATTRIBUTABLE TO A DECREASE IN REGISTRATIONS, RATHER THAN TO AN INCREASE IN DEREGISTRATIONS

Both the number of Social Security-registered firms and the births and deaths of business entities fell dramatically during the months of lockdown and subsequently recovered. The number of Social Security-registered firms was very close to pre-pandemic levels in May 2022, whereas births and deaths have exceeded their pre-crisis levels since 2021 Q2.

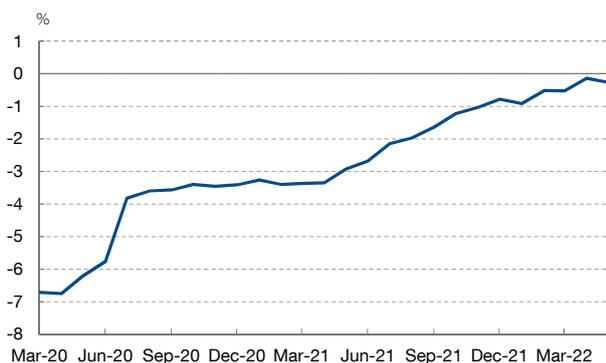
1 NUMBER OF ACTIVE BUSINESSES (a)



2 REGISTRATIONS AND DEREGISTRATIONS OF BUSINESSES (b)



3 CHANGE IN THE NUMBER OF FIRMS WITH RESPECT TO FEBRUARY 2020 (c)



4 BIRTHS AND DEATHS OF BUSINESS ENTITIES (d)



SOURCES: INE and Ministerio de Trabajo y Economía Social.

- a The data show the number of businesses at 1 January of each year. These business data include firms, sole proprietors, associations and autonomous agencies. A statistical change in the definition of a business from 1 January 2019 led to a discontinuity in the data series from that year.
- b Registrations and deregistrations of businesses include data on firms, sole proprietors, associations and autonomous agencies.
- c Firms registered with Social Security. Seasonally adjusted series. Latest observation: May 2022.
- d Seasonally adjusted cumulative data for the last three months. Deaths resulting from mergers are not considered. Financial services, such as insurance, pension funding and activities auxiliary to such services (divisions 64, 65 and 66 of the NACE Rev. 2) are included. Latest observation: April 2022.



As the DIRCE data for 2021 are not available at the cut-off date for this article, other statistical sources will now be drawn on to proxy the developments in business demographics in the most recent period. Data from the Statistics of Firms Registered

with Social Security⁷ published by the Ministry of Labour and Social Economy are used for the number of active business entities, while the INE's Mercantile Companies Statistics data on business entities incorporated and wound up are used for business births and deaths.⁸ These are both monthly series, enabling developments during the year to be analysed. The data for 2020 confirm a sharp fall⁹ in Social Security-registered firms during the months in lockdown and a subsequent recovery, which has continued over 2021 and in 2022 to date. As a result, the number of active business entities in May 2022 (latest data available) was only 0.3% below the pre-crisis level (see Chart 1.3).

The data on births and deaths of business entities¹⁰ show a marked decline during lockdown, particularly in the case of the latter, and a subsequent recovery (see Chart 1.4). According to the data available, in 2021 and 2022 to date, the number of births and deaths has been higher than pre-pandemic levels, although the number of deaths has been far lower than the 2013 peak of the previous crisis.¹¹ The breakdown of births by sector of activity shows that the only sector that has not recovered its pre-pandemic level is industry and energy. As regards the number of deaths by sector of activity, these have exceeded pre-crisis levels since 2021 Q2, especially in construction, “miscellaneous services”,¹² accommodation and food service activities, the primary sector¹³ and, to a greater extent, transportation and storage. Indeed, according to December 2021 data, in the transportation and storage sector they were double the 2019 level.

7 These include information on firms registered with the General Social Security Regime, the Coal Mining Regime and the Special Social Security Regime for employed seafarers. The Special Social Security Regime for farmers only includes those that are active at the reference date. All economic activities under these regimes are included, except for the public administration and defence and the compulsory social security services sectors.

8 Box 7 (“Business births and deaths since the onset of the pandemic”), Quarterly report on the Spanish economy, *Economic Bulletin* 1/2021, Banco de España, contains a previous analysis of developments in business demographics since the start of the health crisis. This analysis, which draws on the Statistics of Firms Registered with Social Security and the Mercantile Companies Statistics, presents similar conclusions regarding the differences in the extent to which each sector and business size has been affected, along with evidence relating to regional divergences.

9 The decline in Social Security-registered firms in 2020 (close to 3%) is greater than that observed in the DIRCE (1.1%). This is attributable to certain differences between the two sources. The DIRCE includes firms, sole proprietors, associations and autonomous agencies, whereas the Statistics of Firms Registered with Social Security only include active business entities. Further, the DIRCE does not include the primary sector, unlike the Statistics of Firms Registered with Social Security. It should also be borne in mind that businesses with no employees are not included in these statistics and, consequently, part of the decline at the outset of the health crisis may be attributable to some businesses that had employees ceasing to have them, despite remaining active.

10 These include firms that have as their economic activity financial services, including insurance, pension funding and activities auxiliary to financial services and insurance activities (divisions 64, 65 and 66 of the NACE Rev. 2).

11 It should be noted that many businesses that become inactive are not wound up owing to the legal costs involved. Moreover, being closures in the legal, rather than economic, sense, the number of business deaths is lower than the number of deregistrations recorded in the DIRCE, and they lag further behind the business cycle.

12 “Miscellaneous services” encompass professional, scientific and technical activities, communication services, real estate and insurance.

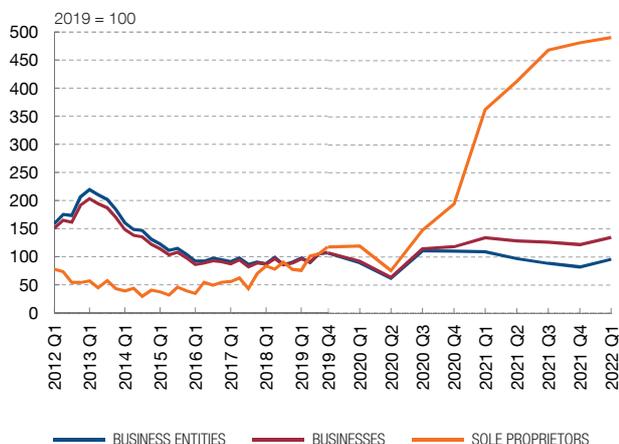
13 Agriculture, forestry and fishing.

Chart 2

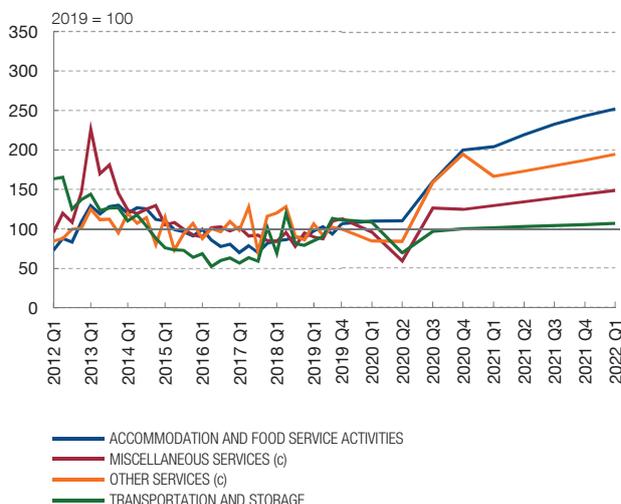
THE COVID-19 CRISIS HAS TRIGGERED A RISE IN BUSINESSES SUBJECT TO INSOLVENCY PROCEEDINGS

Despite the insolvency moratorium in force until mid-2022, the number of businesses subject to insolvency proceedings has increased since 2020 Q3, especially among sole proprietors. The largest increases in solvency proceedings from pre-pandemic levels have been concentrated in the sectors hardest hit by the crisis, in particular in accommodation and food service activities.

1 NUMBER OF INSOLVENCY PROCEEDINGS, BY LEGAL FORM (a)



2 NUMBER OF INSOLVENCY PROCEEDINGS, BY SECTOR (a) (b)



SOURCES: INE and Colegio de Registradores.

a Seasonally adjusted data.

b The data on sole proprietors by sector in 2021 and 2022 are Banco de España estimates.

c "Miscellaneous services" encompass professional, scientific and technical activities, administrative and support service activities, real estate and insurance. "Other services" include public administration and defence, compulsory social security, education, human health and social work activities, arts, entertainment and recreation activities, and other service activities.



Business solvency

To proxy the developments in business solvency, the information on insolvency proceedings is initially used,¹⁴ as these are requested by businesses with difficulties in servicing their debts. These data, which are presented in Chart 2.1, show that the number of sole proprietors subject to insolvency proceedings saw a sharp increase from 2020 H2, which extended into 2021, to levels nearly five times higher than in 2019. Nevertheless, the absolute figures remain low (only 2,036 proceedings in 2021¹⁵ for a population of close to 1.9 million sole proprietors). This increase, which has occurred despite the insolvency moratorium in force since March 2020,¹⁶ has been driven by greater incentives for natural persons to use such proceedings following the 2015 reform, which introduced the so-called “fresh-start mechanism”.¹⁷

14 These data include business entities (including those engaged in financial services) and sole proprietors.

15 According to the Association of Registrars' Bankruptcy Proceedings Statistics data.

16 The insolvency moratorium, which has been extended until end-June 2022, stipulates that creditors may not initiate filings, but that debtors may do so voluntarily.

17 The fresh-start mechanism consists of a five-year payment plan, following liquidation of the debtor's exempt assets, to settle the remaining debts that cannot be discharged. Upon expiry of that period, and if the payment plan has not been complied with in full, the judge hearing the insolvency proceedings may declare any unpaid claims to be definitively discharged, provided the debtor has made a substantial effort to comply, understood as having assigned at least 50% of his/her non-exempt income to compliance with the plan.

Turning to business entities, the number of insolvency proceedings also surpassed 2019 levels in 2020 H2, although the increase was far more moderate than in the case of sole proprietors. They subsequently decreased to below pre-pandemic figures, standing at 1,944 in 2021 for a population of close to 1.5 million. According to the latest data, corresponding to 2022 Q1, the number of business entities subject to insolvency proceedings has increased slightly, to levels around the 2019 mark. However, these developments should be assessed in the context of the aforementioned insolvency moratorium. Chart 2.2 shows that the sectors that have seen a sharper increase in the number of insolvency proceedings are those that have been more affected by the pandemic, such as accommodation and food service activities.

The other indicator used to analyse business solvency developments is based on bank loans. Specifically, an analysis is made of developments in business loans – including those granted to sole proprietors and to non-financial corporations (NFCs) – that are classified as non-performing¹⁸ or Stage 2,¹⁹ drawing on the financial statements of the Banco de España's Supervisory Statistics on Credit Institutions. While non-performing loans reflect the materialisation of existing credit risk, Stage 2 loans serve as an indicator of latent credit impairment.

As shown in Chart 3.1, the total volume of non-performing loans granted to NFCs and sole proprietors continued to decrease gradually in 2020, 2021 and 2022 Q1, albeit at a slower pace than before the pandemic. This, together with growth in the stock of credit, has led the non-performing business loans ratio to fall from 6.3% at end-2019 to 5.4% in 2022 Q1. Nonetheless, the reduction in the aggregate volume of non-performing business loans masks a mixed behaviour across sectors of activity. Since 2020 Q2, non-performing loans have increased at a fast pace in the sectors severely affected by the crisis,²⁰ but they continued to decline in the other sectors up to 2022 Q1. In terms of NFC size, however, no significant differences are observed in developments in non-performing loans (see Chart 3.2).²¹

Chart 3.3 shows a notable increase in the volume of Stage 2 business loans from 2020 Q4, although the latest data, corresponding to 2022 Q1, show a slight easing. As a result, despite the growth in the stock of credit, the Stage 2 business loans ratio rose from 7.9% at end-2019 to 11.4% in 2022 Q1. This increase in Stage 2 loans has been concentrated in the severely affected sectors – where they have risen three-

18 Non-performing loans are loans for which there are reasonable doubts about their full repayment (principal and interest) under the contractual terms. These include problem loans, i.e. those for which any part of the principal, interest or contractually agreed expenses is more than three months past due.

19 Pursuant to [Circular 4/2017](#), a loan is classified as a Stage 2 exposure when credit risk has increased significantly since initial recognition, even though no event of default has occurred.

20 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 between 8% and 15%. Other sectors are deemed to be largely unaffected.

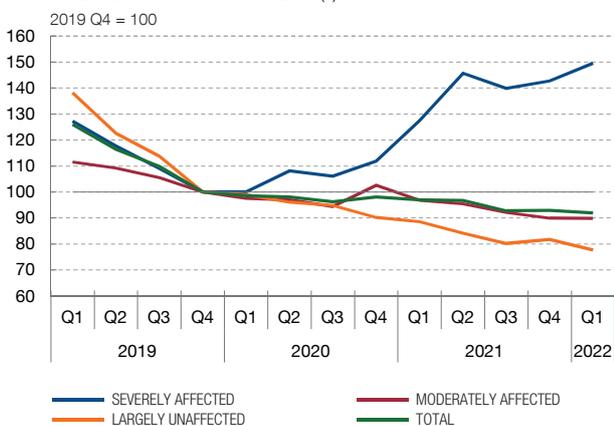
21 The movements in 2020 Q1 (sharp drop in non-performing loans in microfirms and rise in medium-sized enterprises) were mainly the result of a reclassification of the non-performing loans at a large institution.

Chart 3

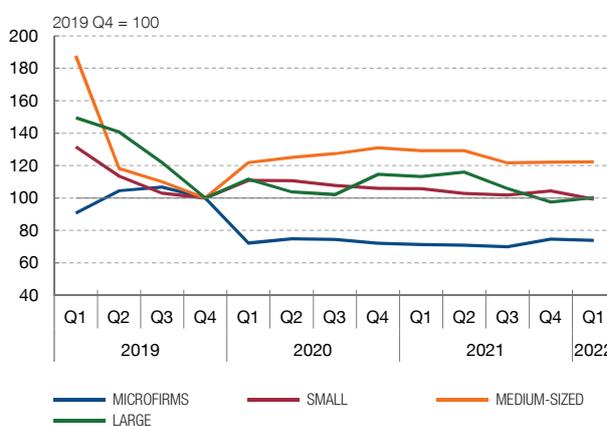
THE COVID-19 CRISIS HAS LED TO AN INCREASE IN STAGE 2 BUSINESS LOANS AND IN NON-PERFORMING LOANS OF THE HARDEST HIT SECTORS

The amount of non-performing business loans has continued to decline, albeit at a more moderate pace, since 2020. An increase has been observed in the sectors hardest hit by the crisis. Conversely, Stage 2 business loans have increased, and they have done so more sharply in the sectors hardest hit by the crisis.

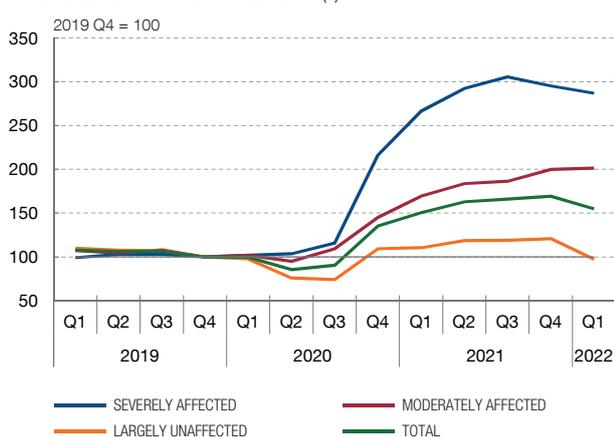
1 NON-PERFORMING BUSINESS LOANS: SECTORAL BREAKDOWN ACCORDING TO IMPACT OF COVID-19 (a)



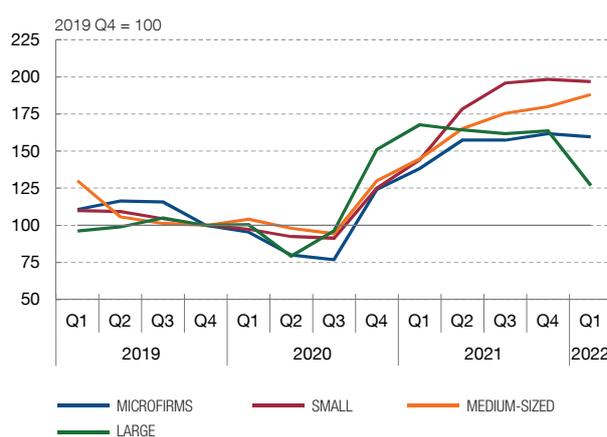
2 NON-PERFORMING LOANS TO NFCs: BREAKDOWN BY SIZE (b) (c)



3 STAGE 2 BUSINESS LOANS: SECTORAL BREAKDOWN ACCORDING TO IMPACT OF COVID-19 (a)



4 STAGE 2 LOANS TO NFCs: BREAKDOWN BY SIZE (b)



SOURCE: Banco de España.

NOTE: The data refer to the principal drawn down.

- a The data on business loans include data for NFCs and sole proprietors. 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 between 8% and 15%. Other sectors are deemed to be largely unaffected.
- b Firms are classified by size in line with the definitions of Commission Recommendation 2003/361/EC of 6 May 2003.
- c The leap in 2020 Q1 is mainly attributable to a reclassification at a large institution.



fold since end-2019 – and, to a lesser extent, in the moderately affected sectors – where they have doubled –. Conversely, the largely unaffected sectors have seen a far more moderate increase of 20.8% at most. When broken down by NFC size, an increase is observed across the board (see Chart 3.4). In cumulative terms since the onset of the pandemic, Stage 2 loans extended to small and medium-sized enterprises have increased to a greater degree.

Conclusions

The results of the business demographics analysis in this article show that the number of active businesses declined in 2020, for the first time since the end of the last economic recession in 2013. Nevertheless, this decrease was relatively moderate and stemmed from a fall in business births, rather than from an increase in deaths which, unlike in the 2008 crisis, declined with respect to the previous year. The number of active businesses has gradually recovered in 2021 and 2022 to date. Business solvency indicators also show that to date there has been a relatively moderate deterioration, but that it has been highly heterogeneous across sectors. One possibly key reason why the effects of this crisis have been so moderate compared with previous crises is the public support policies that have been deployed.²² However, the increase in Stage 2 loans, especially in the hardest hit sectors, shows that there are significant latent risks to business solvency in the medium term, especially when the payment holiday of a high percentage of State-backed loans will come to an end in 2022.²³ Such risks could materialise, in particular, if the economic recovery proves to be less robust than expected, for example as a result of a potential escalation of tensions linked to the war in Ukraine.

28.6.2022.

22 See, inter alia, "An incomplete recovery amid uncertainty: from the pandemic to the rise in inflation and the outbreak of war", Chapter 1, *Annual Report 2021*, Banco de España; "Monitoring of loans with public (ICO) guarantee", Box 2.1, *Financial Stability Report Spring 2021*, Banco de España; and "Impact of the public guarantee scheme on lending relationships between firms and banks", Box 2.1, *Financial Stability Report Autumn 2021*, Banco de España.

23 See *Financial Stability Report Spring 2022*, Banco de España.