Box 1.3

ECONOMIC POLICIES DEPLOYED TO MITIGATE THE LIQUIDITY RISKS OF FIRMS AND SOLE PROPRIETORS IN SPAIN AND THEIR INTERNATIONAL COMPARISON

The containment measures adopted in response to the health crisis have had a major impact on business activity, as reflected in a significant increase in firms' and sole proprietors' liquidity needs. At the same time, the increase in lenders perception of risk in debt markets prompted expectations of a tightening of financing conditions. In order to mitigate these liquidity risks, policymakers rapidly deployed economic policies in various areas, at both national and supranational level, the main features of which are described in this box.

In the area of fiscal policy in Spain, mention should be made of the public guarantee schemes managed through the ICO. The first guarantee scheme, for up to €100 billion, was aimed at financing the liquidity needs of firms and the self-employed. The second scheme, for up to €40 billion, was mainly targeted at financing fixed-asset investment, although its aims also include coverage of liquidity needs. Under these guarantee schemes, the government covers up to 80% of the potential losses on loans granted by financial institutions, thus supporting the supply of credit.[1] As at 31 March 2021, these two schemes had jointly provided loan guarantees for a total amount of €93.9 billion, representing total lending of €123.6 billon.[2] Furthermore, €4 billion of the envelope of the first scheme were used as a guarantee for commercial paper issued in the alternative fixed-income market (MARF by its Spanish abbreviation), €600 million of which have been taken up, and €500 million to back the counter-guarantees granted by Compañía Española de Reafianzamiento (CERSA). These amounts were reinforced through the second guarantee scheme.[3]

Furthermore, compared with other forms of bank lending, loans under the guarantee scheme are granted under favourable conditions in terms of both interest rate and maturity.[4] Following approval of the resolution of the Council of Ministers of 24 November 2020, the maximum term of loans granted was extended to eight years (from the initial five years in the guarantees provided under the first facility).[5] In addition, pursuant to Royal Decree-Law 5/2021, the deadline for granting of guarantees was extended to 31 December 2021. This Royal Decree-Law also extended to year-end the insolvency moratorium, which had been previously extended to 14 March 2021,[6] with the aim of preventing firms that continue to experience temporary, pandemic-related financial difficulties from having to file for insolvency and being eventually wound up.

In the other large European economies, public guarantee schemes for business loans were widespread and a high volume of funds was used, although with notable differences in terms of their specific features and take-up.[7] Among the largest euro area countries, France, Italy and Spain granted guarantees for a significant share of their GDP in early 2021, whereas Germany used these schemes to a lesser extent (see Chart 1). In particular, funds taken up in Spain reached 8.4% of GDP in 2020, 2.4 pp less than in Italy, but 6.5 pp more than in Germany. However, the take-up of guarantee schemes decreased in all these countries in the last few months of 2020 and at the beginning of 2021.

In the fiscal policy area, the various income support policies deployed have contributed to alleviating the financial position of firms. Noteworthy in this connection are furlough schemes (ERTE, by their Spanish abbreviation), under which companies whose business activity was affected by the COVID-19 crisis were allowed

1 These guarantees generally cover up to 80% of potential losses on bank loans to the self-employed and to SMEs, and up to 70% on bank loans to companies that do not meet the European Commission's definition of SME.

2 Of the total amount guaranteed, €90.1 billion relate to the facility approved by Royal Decree-Law 8/2020 of 17 March 2020, and €3.8 billion to the facility approved by Royal Decree-Law 25/2020 of 3 July 2020.

3 At the cut-off date of this Report, €50 million of the second ICO guarantee facility had been used to secure commercial paper issued on the MARF by firms under arrangement with creditors, €250 million to secure commercial paper issued on the MARF by companies which could not benefit from the tranche of the first facility since they were in the roll-over phase of their commercial paper programme, and €500 million to reinforce the counter-guarantees provided by CERSA.

4 For further details, see Banco de España (2020), "Developments in bank finance for productive activities in the context of the COVID-19 crisis", Box 4.3, Annual Report 2019.

5 For transactions arranged prior to 18 November 2020, Royal Decree-Law 34/2020 made it possible to request from banks an extension of up to three years of the maturity of loans guaranteed under Royal Decree-Law 8/2020, and an additional extension of up to12 months of the grace period of loans granted pursuant to Royal Decree-Law 8/2020 and Royal Decree-Law 25/2020, with respect to initially agreed maturities and grace periods.

6 Royal Decree-Law 34/2020 of 17 November 2020.

7 For further details on the policies applied in other countries, see Cuadro Sáez, L., F. López Vicente, S. Párraga Rodríguez and F. Viani (2020), *Fiscal policy measures in response to the health crisis in the main euro area economies, the United States and the United Kingdom*, Occasional Papers, No. 2019, Banco de España.

Box 1.3

ECONOMIC POLICIES DEPLOYED TO MITIGATE THE LIQUIDITY RISKS OF FIRMS AND SOLE PROPRIETORS IN SPAIN AND THEIR INTERNATIONAL COMPARISON (cont'd)

to suspend employment contracts for a specific period of time, thus reducing their staff costs, while maintaining the labour relationship with their workers (see Chart 2). In particular, in Spain the number of workers covered by these schemes, which exceeded 3.5 million in April last year, was around 740,000 at end-March 2021. This instrument, which, as at the cut-off date of this Report, had been extended to 31 May 2021,[8] also partly exempts companies from social security contributions according to their size and situation. In addition, an extraordinary discontinuation of activity benefit was established for the self-employed affected by the health crisis. Altogether, these income support measures amounted to 2.5% of GDP in 2020.

Like Spain, France and Italy strengthened their partial and temporary unemployment regimes. Additionally, Germany made its existing short-time work compensation mechanism more flexible, whereas the United Kingdom and the United States opted to support employee retention through loans and grants. Furthermore, since the onset of the crisis, European countries also resorted to tax deferrals, tax exemptions or direct transfers. In view of the persistence of the pandemic, many of the measures adopted in the main euro area economies have been extended since their initial implementation and will be in force at least until the end of 2021.

To protect the business sector, liquidity support measures were also implemented in Spain through the deferral of loan instalments, of tax payments and of other charges. These measures allowed companies and sole proprietors to apply for a moratorium or deferral of social security contributions, and individuals to benefit from moratoria on mortgage and non-mortgage loans. Furthermore, moratoria were established for mortgage loans on property used for business activities in the tourism sector, and for payments under agreements to lend, lease or rent vehicles in the public transport of goods and the charter bus sector.[9] Based on the information available to end-March, the outstanding amount of loan payments suspended under these two types of moratoria for the tourism and transport sectors exceeded €2,495 million. Further measures were approved, such as the possibility

Chart 1
TAKE-UP OF PUBLIC GUARANTEE SCHEMES IN THE EURO AREA
Cumulative data from March 2020

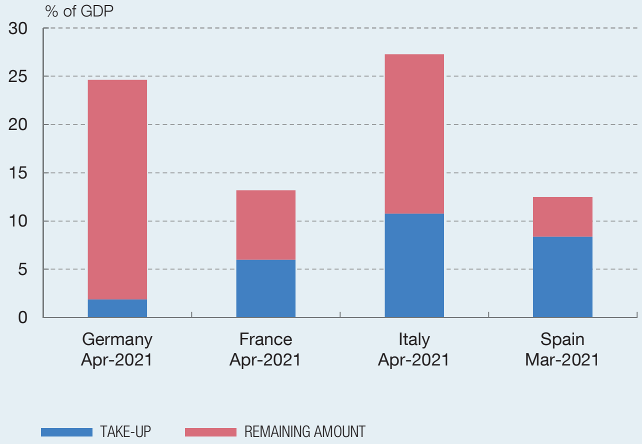
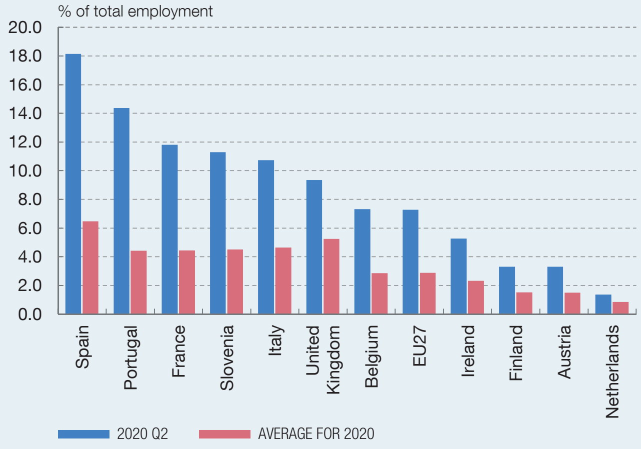


Chart 2
FURLOUGHED WORKERS



SOURCES: Banco de España, Bruegel, Eurostat, ICO, INE, KfW, Ministère de l'Économie, des Finances et de la Relance and Sace Simest.

8 Royal Decree-Law 2/2021 of 26 January 2021.

9 By Royal Decree-Law 3/2021 of 2 February 2021, which extended the deadline for application for these moratoria and adapted their maximum term, and under legislative and banking sector moratoria applicable to individuals, in accordance with the European Banking Authority guidelines in this connection.

Box 1.3

ECONOMIC POLICIES DEPLOYED TO MITIGATE THE LIQUIDITY RISKS OF FIRMS AND SOLE PROPRIETORS IN SPAIN AND THEIR INTERNATIONAL COMPARISON (cont'd)

of applying for moratoria on rental payments or for tax deferrals,[10] as well as measures adapting the calculation of taxes payable to the exceptional economic situation.

Since the outbreak of the pandemic, several industrialisation support measures were also implemented, some of which were subsequently reinforced. In Spain, the deadlines for repayment of the public loans managed by the General Secretariat for Industry and SMEs and the suspension of interest and principal payments on Emprendetur loans in the tourism sector were extended in March 2021. Moreover, international firms, or firms in the process of internationalisation, benefited, among other things, from expense refunds and grants as a result of the cancellation of international trade promotion activities, and from liquidity support for export companies through CESCE (the Spanish export credit agency).

In the monetary policy area, the ECB adopted several measures to support lending to the non-financial private sector by providing funding to banks on very favourable conditions.[11] In particular, the ECB introduced new longer-term refinancing operations (LTROs), improved conditions for targeted longer-term refinancing operations (TLTRO III operations, specifically designed to encourage lending to businesses and households) and eased its collateral framework to increase the amount of funds that banks can borrow in these operations.

Furthermore, the ECB introduced the Pandemic Emergency Purchase Programme (PEPP) to ease financing conditions in the euro area and to address the emerging financial fragmentation across jurisdictions. The maximum purchase amount is currently €1.85 trillion.[12] The design of the PEPP allows for great flexibility in the distribution of asset purchases over time and across jurisdictions to achieve its objectives more effectively.

Finally, financial policies have also played a role in supporting bank lending to businesses. Specifically, both macroprudential and microprudential capital and liquidity requirements for European banks were eased. In addition, European regulations on capital requirements were amended by modifying rules affecting sovereign exposures, impairments on non-defaulted exposures, SME support factors and software development deductions, among other elements of bank capital calculation. In general, these regulatory amendments involve an increase in capital ratios, leaving banks with larger buffers to absorb potential losses on their loan portfolios and to increase their capacity to provide new lending.

10 Royal Decree-Law 5/2021 of 12 March 2021 extended to four months the period in which no late-payment interest is accrued on tax payment deferrals that had already been established in Royal Decree-Law 35/2020 of 22 December 2020.

11 For further details on the monetary policies implemented, see Aguilar, P., Ó. Arce, S. Hurtado, J. Martínez-Martín, G. Nuño and C. Thomas (2020), *The ECB monetary policy response to the COVID-19 crisis,* Occasional Papers, No 2026, Banco de España.

12 For more details on the impact of this measure on the financial conditions in the euro area, see Banco de España (2020), Box 3.3, *Annual Report* 2019.