Box 3.2

ECONOMIC MEASURES APPROVED IN SPAIN DURING THE COVID-19 CRISIS TO SHORE UP BUSINESS SOLVENCY

The COVID-19 crisis has entailed a worsening of the financial position of many firms and sole proprietors, especially in the sectors most affected. Against this background, the Spanish government has approved various measures to strengthen these agents' financial position. The measures can be grouped into three blocks on the basis of the instruments used: recapitalisations, direct aid and support for the restructuring of financial debt.

As regards the first group of measures, the Spanish government set up firstly the Strategic Companies Solvency Support Fund, managed by SEPI (the State Industrial Holdings Corporation).[1] The aim of this €10 billion fund Is to shore up the solvency of large non-financial corporations affected by the COVID-19 crisis and which are considered strategic to the productive system.The fund draws on various instruments such as participating loans, subordinated debt and the subscription of shares or other capital instruments. To date, €968 million has been granted (9.7% of the total budgeted) and distributed in four operations.

Further, as part of a wide range of measures included in Royal Decree-Law 5/2021 of 12 March 2021, on extraordinary business solvency support measures in response to the COVID-19 pandemic,[2] the creation of a fund worth €1 billion (the "Fund for the Recapitalisation of COVID-Affected Companies") is being considered. Its aim is the recapitalisation of viable medium-sized firms facing solvency problems and which cannot gain access to the SEPI-administered fund.[3] The Fund will be managed by COFIDES (the Spanish Development Financing Company), a State commercial public limited company with public and private capital. The Fund will use various financial instruments, such as average loans, participating loans and capital or other instruments to support these companies.

Some regional governments have also introduced business solvency support mechanisms. Thus, for example, the Valencia government and the Valencia Finance Institute have designed a public-private collaboration framework for the recapitalisation of Valencian SMEs at risk of insolvency owing to the COVID-19 crisis. To this end, the Valencia government has selected a venture capital company to manage a fund endowed with a total sum of €60 million (€25 million provided by the regional government and €35 million by private investors).[4] The Andalusia regional government has set up a hybrid capital fund, using participating loans, endowed with €60 million, to assist in the recapitalisation of Andalusian SMEs whose structure has been weakened by the crisis. The Catalonian regional government has made available a participating loan facility, worth €9 million, on which Catalonian firms particularly affected by the crisis may draw. A similar arrangement, involving funds totalling €6 million, has been implemented in Asturias to cover the investment needs for all types of assets of companies belonging to the industrial sector.

As to the second block of measures, the Royal Decree-Law establishes the "COVID line of direct aid to sole proprietors and companies" with the chief purpose of reducing the debt incurred as from March 2020 by the firms and sole proprietors most affected by the crisis. This facility, funded with a total of €7 billion, will channel direct aid to firms and sole proprietors whose activity has been most adversely affected by the economic effects of the pandemic, insofar as their income in 2020 has fallen by more than 30% on 2019 and they belong to certain sectors. It involves in particular specific-end direct aid that allows for the payment of debts incurred by firms since March 2020, such as payments to suppliers, supplies, wages, rentals and, in the event of any remaining amount, debts with bank creditors, giving priority to the reduction of the publicly backed debt's

1 See Royal Decree-Law 25/2020 of 3 July 2020 on urgent measures to support the economic recovery and employment.

2 Receiving all the aid envisaged in the Royal Decree-Law will be conditional upon the recipient firms not being domiciled in a tax haven, not being subject to insolvency proceedings or having ceased trading at the time of application, being up to date with their tax and social security payments, not distributing dividends or increasing the wages of their management team for a period of two years and maintaining their activity until June 2022.

3 The operations financed by the SEPI Fund shall be for an amount of no less than €25 million per beneficiary, except in duly justified cases.

4 It is envisaged that private investors should grant participation loans to vulnerable but viable companies, while the creditor banks forgive the unsustainable portion of the companies' debt, in exchange for them repaying the rest of the debt.

Box 3.2
ECONOMIC MEASURES APPROVED IN SPAIN DURING THE COVID-19 CRISIS TO SHORE UP BUSINESS SOLVENCY
(cont'd)

face value. This aid may rise to 40% of an over-30% decline in revenue for micro-SMEs and sole proprietors, and to 20% for other firms, with a fixed amount of €3,000 for sole proprietors paying tax under the objective estimate scheme and between €4,000 and €200,000 for other companies. The regional governments will manage this facility.[5] Subsequently, in April 2021, the Royal Decree-Law was further amended to allow regional governments to apply more flexible criteria regarding the beneficiary sectors and the requirement to post earnings in 2019.

Finally, the Royal Decree-Law establishes the "Line for the restructuring of financial debt with a State guarantee", endowed with €3 billion. Its aim is to enable the ICO to join restructuring processes of debt with a public guarantee applied for during the pandemic. Specifically, measures may be agreed on, first, to extend for a further period the maturity of loans with a public guarantee; and second, to convert loans with a public guarantee into participating loans and, as a last resort, to grant direct aid to reduce the amount of the debt. The structuring of these measures will involve the approval of a Code of Good Practices, to which financial institutions may voluntarily adhere, whose aim is to set in place a common framework for action in the restructuring of corporate balance sheets.

5 The line is structured in two compartments. The first, endowed with €5 billion, is for all regional governments except the Balearic and the Canary Islands, and for the city-enclaves of Ceuta and Melilla; and the second compartment, worth €2 billion, is for the Balearic and Canary Islands, given the greater differential impact of the crisis stemming from the high weight of tourism in their economies.