



# Spanish Government Measures for SME Exporters in Times of COVID-19 Crisis

Robin Feißt, Lukas Merkel and Philipp Müller

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# Spanish Government Measures for SME Exporters in Times of COVID-19 Crisis

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## Abstract and Policy Implications

This essay deals with the Spanish economy and especially with the Spanish governmental measures for SME exporters in times of COVID-19. The focus was set on SMEs, as they are an essential part of trade for the government and are particularly affected by the pandemic. Since the financial crisis, the Spanish economy has become highly diversified, with a greater focus on exports. Competitiveness, productivity and efficiency have increased significantly. The Spanish government measures largely affect the areas liquidity and financing, taxes and protection of the employment. One of the most important measures is the 100-billion-euro credit line and the policies on unemployment. The Spanish government is dependent on further aid packages and is criticized for the measures.

## 1. Introduction

With over nine million confirmed cases and over 400.000 deaths in 209 countries, the COVID-19 pandemic knows no borders (Think Global Health, 2020; WHO, 2020). The pandemic not only has dramatic health consequences, but the global economy is also heading into the worst recession since the Second World War (Newsroom, 2020; Riedel, 2020). COVID-19 has harmed the global economy by reducing supply and demand. This has had a negative impact on the cash flow of companies and will continue to have a long-term effect. The crisis has also exposed the vulnerability of global trade supply chains for goods and services (B20, 2020, p.1). Physical isolation has brought some industries to a shutdown and destroyed others. These negative consequences affect corporate liquidity, increase credit risks and lead to default risks and insolvency (Heaney, 2020, p.2). In this context, it is clearly necessary to keep trade flowing. But maintaining the flow of trade requires cooperation and trust. This is a challenge at a time of trade tensions, when the international trading system has already been subject to a growing number of new restrictions and distortions, ranging from tariff increases by major traders to substantial government support in key sectors (OECD, 2020; Yeung, 2020).

The World Trade Organisation's (WTO) trade forecast published on 8<sup>th</sup> April forecasts that trade in goods is due to fall between 13% and 32% in 2020. WTO economists assume that the slump in trade will be more dramatic than during the financial crisis of 2008/2009. This means that exporters, their value chains and access to finance must be supported. The full long-term impact on the global economy will come from both central bank actions and government spending (Heaney, 2020, p.2; Hoffmann, 2020; WTO, 2020). In addition, important export

markets are suffering from the effects of the crisis, similar to Spain with over 250.000 confirmed cases (WHO, 2020). Spain is one of the European countries that suffers most from the COVID-19 crisis. This applies to both the health and economic consequences of the pandemic (Idem, 2020a; Lopez, 2020).

A statement by the Spanish Prime Minister Pedro Sánchez (Grzanna, 2020) to the current crisis: *"We are still in the recovery phase after the financial crisis. We cannot run up more debt. We can only hope that Europe can get us out of it."* This statement gives reason enough to take a closer look at the Spanish economy and especially the support of the Spanish government measures. The aim of this essay is to take a closer look at the Spanish government measures for Spanish SME exporters in the time of the COVID-19 crisis. How badly are Spanish SMEs affected by the Corona crisis? What measures will be taken to help Spanish SMEs to remain competitive? What is the opinion about the government measures? These questions could be answered in the course of the project work as well as many other interesting insights could be gained.

In order to convey this in an understandable way, the essay is divided into the following chapters to provide a clear explanation of the topic. The second chapter will include an overview of the Spanish trading economy, the importance and challenges of SMEs in the world economy and export credit insurances. In the following Analytical Framework, an insight into the approach of this work is described. Both primary and secondary data sources were collected. The fourth chapter summarizes how the Spanish government supports Spanish companies and reactions to the measures. The fifth and thus final chapter contains a summary of the work and an outlook.

## **2. The Spanish Trading Economy – SMEs, the impact of the Coronavirus and ECA**

### *The Spanish Trading Economy*

Before going into more detail on the effects of the COVID-19 pandemic the current macroeconomic situation in Spain should first be examined. In the past ten years, Spain's industry has become more and more international and has grown. However, this development is strongly inhibited by the current situation. Domestic demand is declining, and companies are becoming increasingly cautious with their investments. Like other European companies, Spain's export companies suffer from a large excess supply (GTAI, 2020). In addition, the Spanish economy has been characterized by a strong import surplus in the last ten years. Since 1995, more imports than exports have been made, which means that the exports have always been smaller than the imports (OEC, 2020).



**Figure 1: Value of Trading Goods**



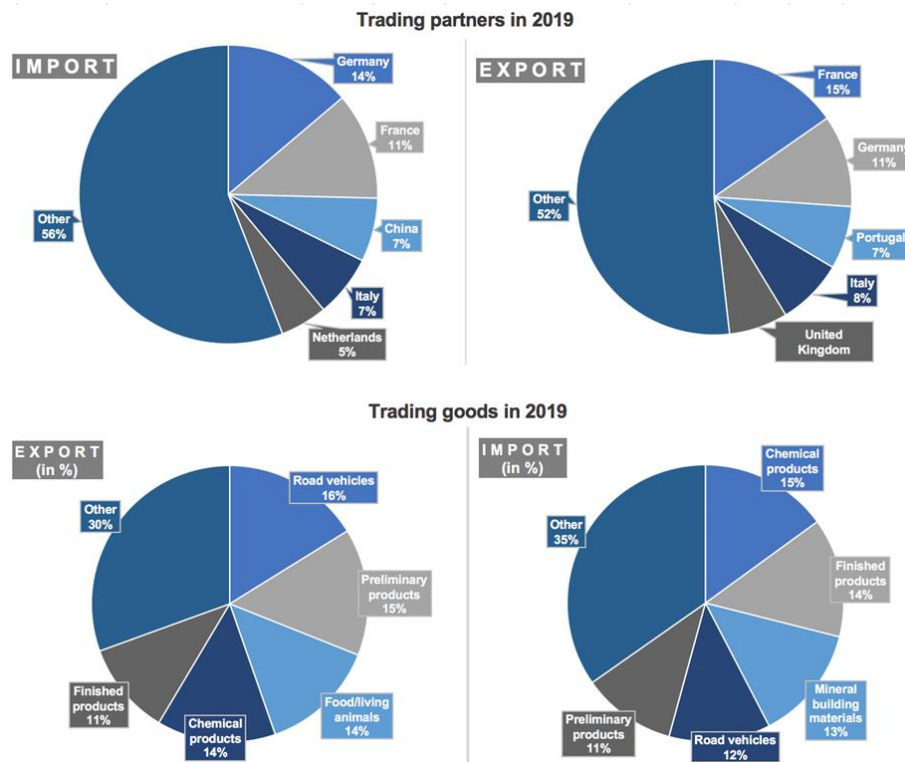
Source: Own representation based on WITS, 2020.

Another large part of the Spanish economy is dependent on tourism. Due to the entry restrictions for tourists up to the 1<sup>st</sup> of July the tourism industry is suffering enormously from the crisis (Grzanna, 2020). In 2019, the industry still generated almost 100 billion euros, which is unlikely to be achieved this year. Overall, a decline in Spanish economic output of around 8% to 10% must be expected (GTAI, 2020). In comparison to the financial crisis, however, Spanish SMEs and the Spanish economy in general have recovered well. There is a much stronger orientation towards exports. Spain is in a much better situation than during the global financial crisis, due to the fact exports become much more competitive. This means that Spain can react better in challenging situations such as the current one. This helps Spanish companies enormously, as they have become more productive in the last few years. The advantage obviously is more diversification. Spain is the 15th largest export economy and exports have taken a stronger role within the European Union. Since 2013, exports of goods and services have been stable with slight growth, although there has been a global decline. (Klasen, Reguero & Méndez Bértolo, 2020)

Exporters are no longer focused exclusively on European countries, but target markets have also become more diversified. This has accelerated growth in recent years and is now helping to overcome the crisis. The situation is nevertheless problematic. Especially the tourism stood still and must be structurally changed. In other sectors like infrastructure, construction industry and energy production Spain profits from further needs. In these sectors the export has a big influence. Spain's foreign trade increased from 2018 to 2019. Both imports (0.5%) and exports (1.5%) have increased, with exports showing stronger growth. The trade balance therefore fell

from -37.1 to -34.2 billion euros in 2019, which speaks for a positive development of the economy (Idem, 2020b).

**Figure 2: Trading Partners & Trading Goods in 2019**



Source: Own representation based on Idem, 2020b.

### *SME - Small and medium-sized enterprise*

Micro, small and medium-sized enterprise have been defined as SME since the EU recommendation in May 2003. This regulation is valid since the 1<sup>st</sup> January of 2005. According to the recommendation, an enterprise is no longer classified as a SME if it has 250 or more employees and a turnover of more than 50 million euros per year or a total balance sheet of more than 43 million euros per year (EC, 2020c; Eurostat, 2020; IfM Bonn, 2020). Nevertheless, it should be noted that only 25% of European SME engage in international trade, despite the benefits of internationalisation (EC, 2020a). For the government SMEs are an essential part of trade. Because of that the government should be encouraged. Supporting institutions in the respective countries provide companies with financial resources to promote their export activities as well as added value by exchanging know-how among themselves. Many SMEs are deterred from exploring new markets by a lack of knowledge of foreign markets. This is compounded by the search for suitable business partners and the need for increased personal requirements. The dangers of internationalisation are therefore mainly due

to a lack of the financial means necessary to take the step towards internationalisation (KFW, 2018, pp.13).

### *SME - The impact of the Coronavirus*

These liquidity problems are now one of the biggest challenges for Spanish SME exporters in the Corona crisis. Compared to globally operating companies, SMEs generally have significant lower equity and does not have enough reserves. As a result of the corona crisis, SMEs are fighting for their existence (Döhrn & Nikol, 2020; Klasen, Reguero & Méndez Bértolo, 2020). Further challenges for SMEs arise from the fact that many suppliers get into payment difficulties and supply chains break down. Usually these are linked to large companies (as a supply chain), and large companies are closing down, including their suppliers. SMEs does not benefit from political influence, as comparably fewer jobs depend on a continuation of the business. This is also evident in the support provided to banks. These companies usually work with loans and have no cash in the banks to survive a few months without income (Arnabat Mestres, 2020; Döhrn & Nikol, 2020; Grzanna, 2020; Lopez, 2020). Grzanna (2020) points out a statement of Alfonso Fernandez, building contractor from Marbella *"It's hard to say how many companies will be bankrupt in a year. But it's very likely to hit a whole bunch of mid-sized companies."*

### *ECA – Export Credit Agency*

There are several ways to support exporting companies. In the present work, the main attention is paid to export credit insurance. International trade only works if financing and risk protection can be found. These two factors are the main drivers. The export or trade promotes prosperity, jobs and innovations. That is why most countries want to be active as a strong exporting country or as a trading country and strong economy. Trade can only work if financing is guaranteed. (Backhaus, Hupka & Wiegand, 2016, pp.131) Trading in an international environment is riskier than trading in a national context (e.g. due to language barriers, market knowledge, ...). 13% of global trade is financed or secured by state and private export or import banks and ECAs. That is the reason why these export systems are part of state economic promotion measures of industrial policy, export policy and this interplay of various promotional instruments have been an essential and important trend in recent years, that more and more efforts are being made not only to formulate goals in a modern political environment but also to measure them (Meyer & Klasen, 2013, pp.1).

The export credit insurance protects exporters and financing banks against the risk of non-payment in cross-border trade, either due to commercial (default of the buyer and bankruptcy) or political risks. (Klasen, 2014, p.28) In addition to this direct function - reducing political and credit risks - it is also used to improve bank credit conditions and, in conjunction with trade

finance instruments, to manage cash flow and liquidity. The coverage is available for short-term lending transactions with one or more buyers on a revolving or single risk basis. Medium- or long-term coverages are used to develop bank financing for capital goods exports and to support project financing structures (Heaney, 2020, pp.2; Oramah, 2019, p.494). A basic distinction can be made between three ECA models:

1. Part of the Government
2. Independent Government Agency
3. Institution on behalf of the government

The ECA in Spain is the Compañía Española de Seguros de Crédito a la Exportación (CESCE). CESCE should be classified as a mixture of the second and the third model, since they act partly independently and partly in the name of the government. There are legal and currency risks that are not covered by government and private export credit insurance. This has certain effects: a higher competitiveness, a better balance sheet and credit lines at the bank are released. In order to benefit from these effects, a risk premium must be paid (Krummaker, 2017, pp. 547; Klasen, 2014, p.26). ECAs are currently the most important way to transfer insurable risks to an insurer. This frees up financial resources for other entrepreneurial risks that cannot be covered by insurance (Krummaker, 2020, pp. 547; Klasen, 2011, pp.220).

### **3. Analytical Framework**

The methodological approach of this work began with the definition of the research topic. After the decision to specialize in SMEs, relevant research questions were developed, which were answered in the course of the project work in the form of qualitative market research. In order to be able to answer these research questions, both primary and secondary data sources were collected. In a first step, information on the Spanish economy and Spanish support measures for SMEs was collected by using international secondary data. Both sources of academic knowledge, such as working papers and scientific journals, and sources of empirical knowledge were used.

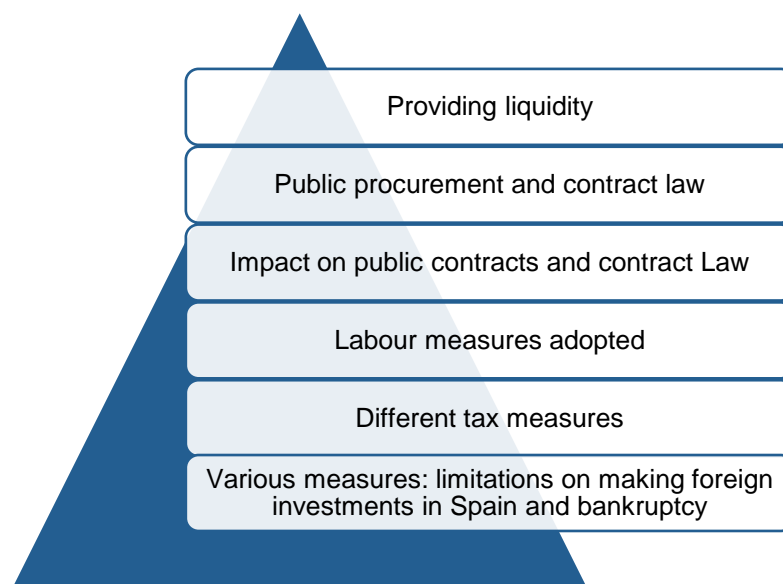
According to the initial findings, primary data were conducted in parallel in the form of interviews. The focus was on Spanish SMEs, Spanish inhabitants, institutions and government employees. The data were mainly collected in June. During this period, the first major wave of the pandemic seemed to have been overcome. After collecting and analyzing the data, they were interpreted in the form of conclusions. These interpretations finally led to the relevant findings, which are described in the next section about the government support measures for Spanish companies.

#### 4. Government Support Measures for Spanish Companies

##### *Government Measures*

During the crisis there were several measures from the government with the goal to help different areas of the economy. According to Ernst & Young there are six main areas of measures:

**Figure 3: Government Measures**



Source: Own representation based on Sol, 2020, p.2.

In the field of liquidity and financing the main measure is the public guarantee line up to 100 billion euros which is open for all kind of companies, with limitations for SMEs. The guarantees are as mentioned limited for a maximum amount of 100 billion euros, until the 31<sup>st</sup> of December 2020. For financing granted by credit institutions, financial credit establishments, electronic money institutions and payment institutions to companies and the self-employed to meet their needs arising, among other things, from the management of invoices, salary payments, payment to suppliers, working capital needs, maturities of financial or tax obligations or other liquidity needs. The working capital guarantee is focusing on SMEs and other non-public listed companies for an extendable initial period of six months with increased cover (up to 80%) for up to two billion euros with the following requirements (Klasen, 2020a):

1. International business represents 1/3 of income and/or
2. Recurring exports during the last 4 years, and/or
3. Liquidity/access to financing problems due to COVID-19.

The net debt limit for Spain's state-owned bank, Instituto de Crédito Oficial (ICO) in the State Budget Law increased by ten billion euros in order to provide additional liquidity to companies, especially SMEs and the self-employed. This will be carried out through the ICO's Lines of Financing via the intermediation of financial institutions in the short, medium and long term,



and in accordance with their policy of direct financing of larger companies. Currently over 200 additional applications have already been processed, which is considered a great success (Klasen, 2020a; Klasen, Reguero & Méndez Bértolo, 2020). The procedure was made more flexible with the new processes and aid packages. Corona applications are processed more quickly, especially for SMEs. In the case of foreign defaults, you are ready to restructure the credit contracts and repayment terms, payment terms are postponed. Process side: Faster, easier, more flexible not only for new applications, but also for existing applications (Klasen, Reguero & Méndez Bértolo, 2020, Lopez, 2020).

The guarantee line was in a huge demand and that is why the limit got increase by ten billion euros. Most exporters have benefited from that increase (Klasen, Reguero & Méndez Bértolo, 2020). The measures of CESCE are longtime not enough to help the economy as much as it needs. But for the short-term CESCE has reacted fast to help the companies, the measures are under a high demand (Klasen, 2020b; Lopez, 2020). In the area of public law there were new possibilities to do changes in the terms and conditions to reduce the effects of the crisis. If the crisis causes additional costs for e.g. contracts which can't be successful finished there will be a recourse. Also, elongation of the modification of economic terms was intended. For the gatherings e.g. the board of directors or shareholder meetings it is possible to carry out alternative governance proceedings. Other measures are pausing right of the shareholder of separation, break off the term to convene the shareholders general meeting, during the crisis the directors will not be personally liable for the debts caused during the crisis (Sol, 2020, pp.5).

There also were a lot of measures in the sector of taxation. The higher-order measure was the automatic elongation of time limits for tax processes to non-self-assessed and non-periodical taxes, the threshold for SMEs for it was a turnover less than 600.000€ in 2019. To face the economic and social influence of the crisis miscellaneous measures have been adopted. The major measures are the integration of teleworking, a decrease of working hours and the implementation of subsidies for freelancer. For the protection of employment there is no possibility to dismiss employees as consequence of the crisis (Sol, 2020, pp.15).

In addition, temporary contracts which are exposed during the crisis will be extended by the temporal impact and short-time work has been involved. And finally, the government has implemented the duty for employees to take paid vacation during the period from the 30<sup>th</sup> of March to the 9<sup>th</sup> of April 2020. Other measures are e.g. in the area of foreign investments and bankruptcy. Investors resident outside the European Union need to be authorized prior to transactions that involve acquiring a 10% or control stake in Spanish companies or sectors. In case of bankruptcy, the legal mandate to file for bankruptcy is suspended during the state of alert (Sol, 2020, pp.22).

### *Reactions to the measures*

Although many and quick aid measures have been taken, there is also clear criticism against the measures. A strong criticism is from the CEOE, the “Confederación Española de Organizaciones Empresariales”. The employers' association sees Spain at a disadvantage compared to other European countries. The main point of criticism is taxation, so that an additional tax deferral and suspension (or part of the tax) is required. In France, the payment of contributions and direct taxes was postponed in March, with the possibility of cancelling them later for companies in serious difficulty. In Italy, the payment of taxes for SMEs has been suspended and social security contributions suspended (IEF, 2020; Lopez, 2020).

A further point of criticism relates to the question of whether these measures also provide the desired support in the long term or whether they only have a short-term effect. The financial losses cannot be compensated for in the course of this year. SMEs will continue to depend on support from the government in the coming years. This raises even more the question of how sustainable the current measures actually are.

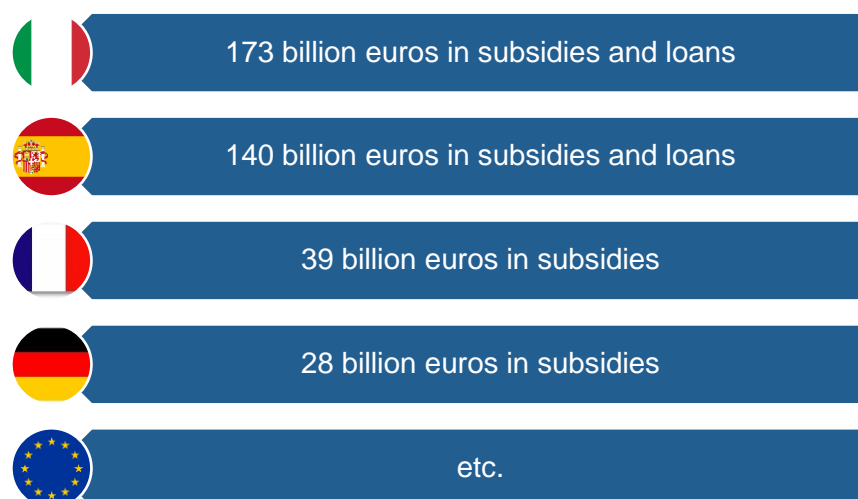
This criticism was also voiced by the Spanish population (Peters, 2020):

*"The Spanish population and economy have been very negatively affected by the crisis. In many cases the short-term payments promised by the government have still not been paid out to workers. Moreover, unemployment is rising. The worst consequences will only become apparent after the weak tourist season. There are no plans for tax relief for the population; on the contrary, new and higher taxes are planned."*

Arnabat Mestres (2020) adds: *"In my point of view the government has taken some good decisions, as support temporal unemployment. I'm quite sure unemployment will rise (due to some SMEs will close, and temporary jobs for tourism will be cancelled). European community support is urgently needed to give the chance to the SME's to pass this situation. Otherwise around 30% of the SMEs could go bankrupt."*

Spain was hardly able to reduce its debt even in the persistently low interest rate phase of recent years. Now the country is confronted with the costs of fighting corona and is relying on European support in coping (Idem, 2020b). The EU Commission wants to support the fight against corona effects with a 750-billion-euro-programme. This involves a financial reconstruction plan for the years 2021 to 2027. The EU Commission has drawn up a table according that Spain should receive about 140 billion euros in subsidies and credits (Wettach, 2020).

**Figure 4: EU Commission – 750-billion-euro Programme**



Source: Own representation based on SZ, 2020.

These figures are not yet official and could change during the negotiations (Wettach, 2020). This would not be the first time the EU Commission has supported Spain. The European Commission has already approved an aid scheme to support Spain's economy in the Corona crisis. Under the Framework, the Spanish authorities may provide liquidity support to self-employed persons, SMEs and large enterprises in the form of direct grants, repayable advances, tax and payment advantages, loan guarantees and subsidized loans (EC, 2020b).

## 5. Summary and Conclusion

Economically, Spain has responded well to the emerging corona pandemic. Simple and quick actions were chosen. The success was reflected in the high demand for the applications exhibited. The conditions were kept as simple as possible, which was one reason for the large wave of new applications. Moreover, these requests were well promoted and processed quickly. In addition, Spain will benefit from the fact that wage and living standards in Spain are lower than in other major industrialized countries. The pandemic has alarmingly highlighted the problems that the global economy faces when national borders are closed. By producing in low-wage countries, some countries have gained advantages in recent years, which have now led to considerable problems. Because of their lower costs, Spain will find it easier to dispense with production in low-wage countries and produce within Spain (Klasen, 2020b).

The government's measures and aid packages have been accepted by companies and the number of short-time workers is falling much faster than the unemployment rate. After the financial crisis, the right conclusions were drawn with a much stronger focus on exports and diversification. In summary, it can be said that Spain can look to the near future with cautious optimism. On the other hand, one of the main pillars for Spanish economy is Tourism, and due to COVID fear, Tourism will need time (at least one year) to recover previous years figures

(Arnabat Mestres, 2020). It is expected that the decline in Spanish GDP will be the highest of all OECD countries, that the Spanish economy will suffer several years of recession and that there are no signs of a change in the economic model (Peters, 2020). Currently there are almost 3.9 million unemployed in the country. The central bank of Spain expects the economy to shrink between 9.5% and 12.4% this year (Kolar, 2020).

Despite everything, people in Spain have a very positive attitude. There's no one to say, "We can't get out of there!" (Fornès, 2020) Finally, the authors would like to quote Otto von Bismarck (CCW, 2013): "I am firmly convinced that Spain is the strongest country in the world. It has wanted to destroy itself for centuries and has not managed to do so until today." COVID-19 will not succeed either. The authors of this essay would have liked to have established more Spanish contacts, but this proved to be difficult as many SMEs, especially in Spain, fear for their existence and therefore set different priorities. It will be exciting to see how Spanish SMEs exporters come out of the crisis and what lessons they will learn.

### Author Information

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Robin Feißt, Lukas Merkel and Philipp Müller are all master students in Business Administration at Offenburg University. All three of them are currently living in the Southwest of Germany and like Spain because of the good weather, culture and food. It's the first publication of the students in an international and scientific context.

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