

Spain on the Brink of Financial Collapse

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The Spanish economic situation worsens day after day. The national manufacturing sector dropped significantly in November, according to data from IHS Markit, which attributes the decline to the drop in production demand due to the pandemic. The decrease in production compared to October was about three percentage points, with Spanish industry reaching alarming levels of threat.

The main problem is a drop in the entire production chain. With the return of the increase in cases of COVID-19, all sectors of the economy retracted. And the biggest drop was precisely in the sectors most marked by the need for social contact. The new recommendations to resume social isolation and preventive measures have profoundly affected the commercial center specialized in serving the public directly. Strengths of the Spanish economy, such as tourism and hotel market, for example, have again declined. However, the Spanish producers chose to keep production at the levels of the previous months when Europe had improved its health situation in relation to the coronavirus. And this was a big mistake. In general terms, there was an overproduction, which, even if moderate, caused the loss of many jobs and the drop of many manufacturers. However, it was not only the consumer-oriented industries that had problems, but also the producers of capital goods, which makes everything even more worrying, as this represents a drop not only in consumption, but in the productive potential of the Spanish national industry.

A recent report by the Bank of Spain has further reduced investor hope in this European country. According to a study carried out by the Bank, between 6 and 10% of Spanish companies will disappear due to liquidity problems as a result of the COVID pandemic. According to data from the same report, 40.6% of Spanish companies are in financial trouble in 2020, compared to 13.9% in 2019. This means that almost half of the Spanish private sector is not making enough profit from its activities to continue producing in long-term. The number is a structural threat to the economy of this European country and represents an evident risk of financial collapse.

When we analyze the economic sectors separately, we have even more worrying data. In the hotel business, 72% of companies have financial problems; in the automotive sector, 65% of companies have such problems; in the transport, storage and commerce sectors, the index is about 42% of the companies. About 2% to 4% of Spanish companies are already in a state of impossible recovery. Big companies have managed to maintain themselves, although they have also noticed difficulties. One of the great fears of experts and investors is that the crisis will hit the small and medium manufacturers heavily, annihilating the competition structure and further increasing the monopolies of large corporations, which have enough power to manage and overcome the crisis.

In fact, the absolute uncertainty about the short-term evolution of the pandemic continues

to have a major impact on spending decisions, but it is also necessary to highlight that the development in vaccine research provides companies with a horizon of hope. With positive news regarding vaccines, the confidence of manufacturers and investors in increasing their operations also tends to grow, although it is currently difficult to establish any medium-term project without taking great risks.

Until vaccines arrive, Spain have to deal not only with financial problems but also with growing social tensions due to popular resistance to meet isolation standards. With the end of the year, notably celebrated in Spain – a country with a strong Catholic tradition – the streets of the main metropolises in the country are increasingly crowded. People move around the city, mainly shopping for the parties. The authorities are beginning to worry about the case and are considering further tightening restrictions on circulation and trade. It is possible that a lockdown will be decreed again. This past weekend, the Madrid Municipal Police blocked the main access routes to the city to reduce crowds, but it was not possible to prevent thousands of people from failing to comply with safe distance recommendations.

So, what is the road to Spain? Holiday parties can heat the economy and move the entire production chain, but for that it will be necessary to allow people on the streets, which will increase contagions. This week the country reached the number of 45,000 deaths due to COVID-19, which generates concern and commotion. In fact, isolation standards must be met, despite the economic consequences. Further tightening of health measures will accelerate normalization as it mitigates the effects of the second wave. Only by tightening isolation can the country recover its economy in the short or medium term. As for the current moment, it is up to the Spanish government to inject enough capital to save the small and medium businessmen from bankruptcy.

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