

Economics in Brief



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With a little help from a friend

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Growth needs financing, which is why Germany is contributing to financing small and medium-sized Spanish enterprises through KfW these days. This support is intended to rapidly overcome the credit crunch in Spain and put the country back on a path of growth.

In 2008 a large real-estate bubble burst in Spain. This created difficulties for regional and public banks in particular, which subsequently stopped lending to small and medium-sized enterprises. Many companies then lacked the loans they needed to continue operating, and later on borrowing became too expensive. The unemployment rate increased and economic growth took a nosedive. The Spanish state – which then had a debt ratio of only 40 % of GDP – stepped in to finance higher social spending and an economic stimulus programme. Unfortunately, however, the shock waves of the Greek crisis of 2010 then forced Spain to change course in its budget policy as well – at a high cost to the economy.

In addition to consolidating its budget in the middle of the recession, in recent years the Spanish government has taken steps to reform the labour market, pensions, the education system and regional finances. Per capita GDP has contracted by 5 % since 2008 as a result of the deficit reduction during the recession, and more than six million people are unemployed. The fact that Spain is following through with its reforms nonetheless is a clear commitment to the eurozone that deserves great respect.

The path on which it has embarked deserves support until the reforms, both adopted and still pending, can deliver results. Financing SMEs is a good instrument for this. In Spain some 75 % of employees work in small and medium-sized enterprises. So the best way to reduce unemployment and bolster growth is to support small and medium-sized enterprises.

Access to affordable credit is a major problem for Spain's small and medium-sized entrepreneurs. For example, the interest rate for a typical loan (of up to EUR 1 million) in Spain is around 5 % while the economy is still shrinking at a rate of around 2 % a year. So this loan is unattractive for entrepreneurs – if it is offered to them at all. In contrast, a medium-sized entrepreneur in Germany pays just under 3 % interest and the German economy is currently growing at a rate of around 2 % annually. The high interest burden jeopardises profitable business operations even in Spain's healthy, internationally competitive small and medium-sized enterprises. The ECB has repeatedly expressed its frustration that its policies are having no effect on the Spanish economy.

This is where the support from Germany and KfW sets in. KfW will refinance up to EUR 800 million in lending to Spanish SMEs under a loan extended to Spain's state-owned promotional bank ICO. Past experience shows that such a measure increases the lending volume. We will thus achieve our objective of loosening the credit crunch in Spain and promoting growth and employment.

From our own experience we know this help reaches companies fast. Spain's ICO does not extend loans to small and medium-sized enterprises directly but refinances loans provided by commercial banks to SME customers – just like KfW in Germany. The final lending decision is made by the actual customer's preferred bank. The business models of KfW and ICO are very similar, so tried and tested structures will disburse the funds from the loan quickly to Spanish SMEs.

With this loan Germany also recognizes Spain's reform policy. Besides, Germany will benefit from the survival of small and medium-sized Spanish enterprises and from increased growth and employment in Spain. After all, German exports to Spain plummeted by almost 9 % in the course of the crisis. The faster the rest of the eurozone returns to growth, the better for us all. ■