

25 NOVEMBER 2024

CONTACTS

Alvaro de Pastors

Associate Director – Solution Specialist
 Predictive Analytics
 +44 (20) 7772-1000
alvaro.depastors@moodys.com

Vasiliki Kouro

Data Scientist
 Predictive Analytics
vasiliki.kouro@moodys.com

Jose Luis Luna Alpizar

Associate Director
 Predictive Analytics
 +420 (224) 222-929
joseluis.lunaalpizar@moodys.com

Santiago Otero

Research Associate
 Predictive Analytics
santiago.otero@moodys.com

ABOUT

This article is a product of Moody's Analytics, a division of Moody's Corp. separate from Moody's Ratings. The analysis and viewpoints expressed herein are solely those of Moody's Analytics.

FIND OUT MORE

Discover the data and analytics underlying this report at EDFX.com.

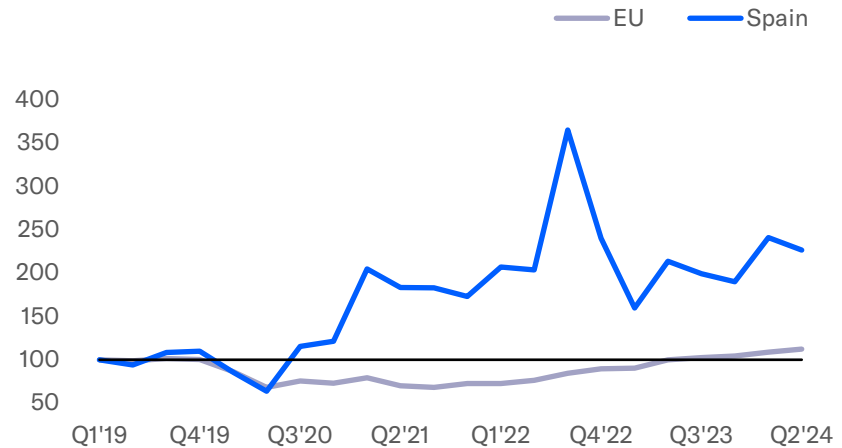
Moody's EDFX foresaw 82% of Spanish SME bankruptcies.

In Spain, the rate of companies filing for bankruptcy has surged to double the figures recorded in the pre-pandemic era, starkly contrasting with the relatively steady numbers observed across the broader European Union. This uptick signals a marked degradation in the corporate credit landscape within the nation, challenging the resilience of its economic structure.

Bankruptcy filings continue to rise even after Spain ended its pandemic-era moratorium on such procedures in June 2022. This measure was originally introduced to prevent a surge in bankruptcies during the height of the pandemic. However, the problem appears to stem from underlying factors that go beyond the moratorium's expiration.

FIGURE 1 Spanish Bankruptcy Declaration Index.

Quarterly bankruptcy declarations Q1'19=100.

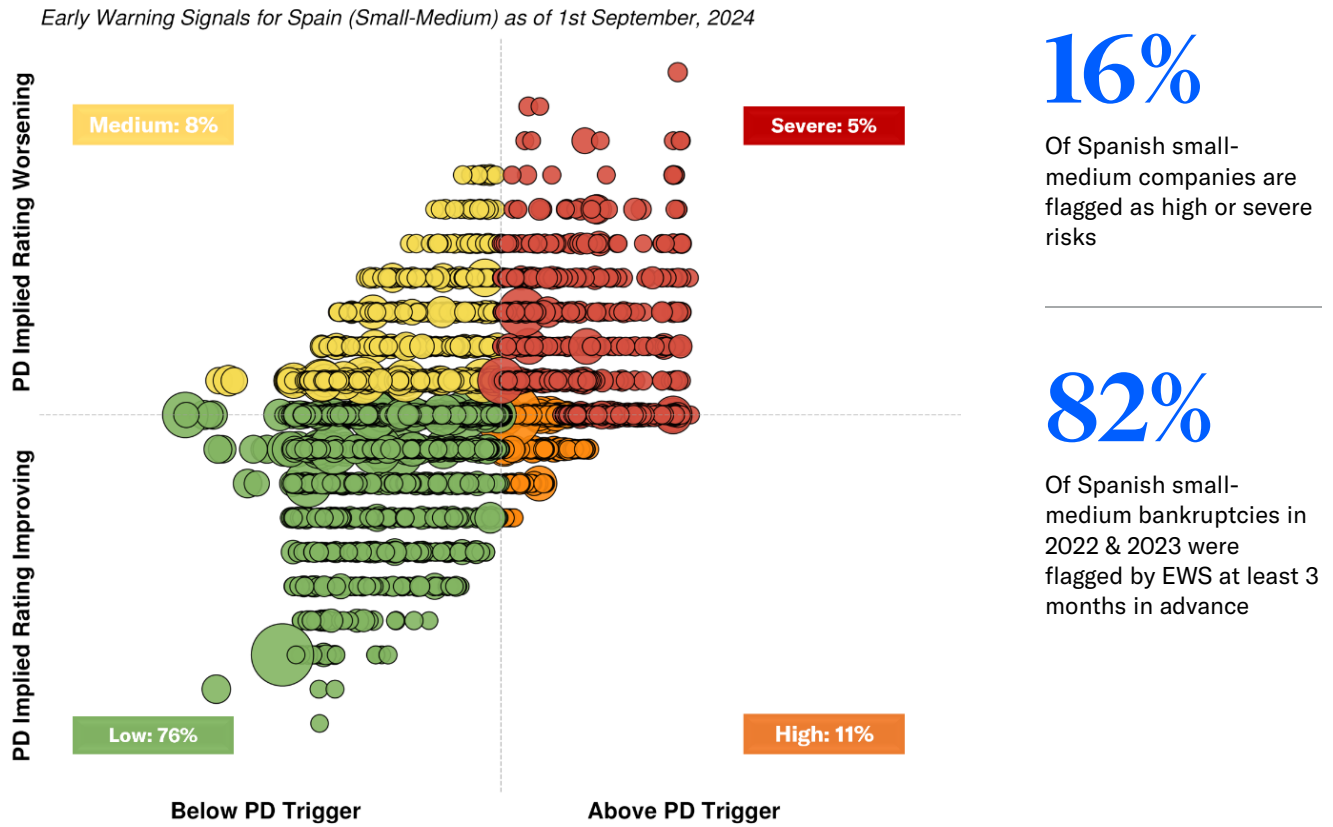


Data Source: Eurostat¹

At the core of Spain's vulnerability is its unique business ecosystem, predominantly composed of micro-enterprises and small businesses, which diverges from the broader European Union's corporate profile. These smaller entities inherently face a higher sensitivity to financial pressures such as rising interest rates and tightening credit conditions. During the pandemic, many of these firms leaned heavily on borrowing, particularly those in sectors like retail, hospitality, and tourism, which are notably prominent in Spain. This reliance on loans has subsequently amplified their financial strain, rendering them more prone to bankruptcy in the current climate of high interest rates.

¹Seasonally Adjusted Quarterly Index of the number of legal units that have started the procedure of being declared bankrupt, by issuing a court declaration, at any time during the reference quarter (this declaration may be provisional and does not always mean cessation of an activity).

FIGURE 2 The Spanish Credit Risk Landscape for Small-Medium Corporates Weighted by Assets.



Data source: Moody's Analytics EDF-X platform

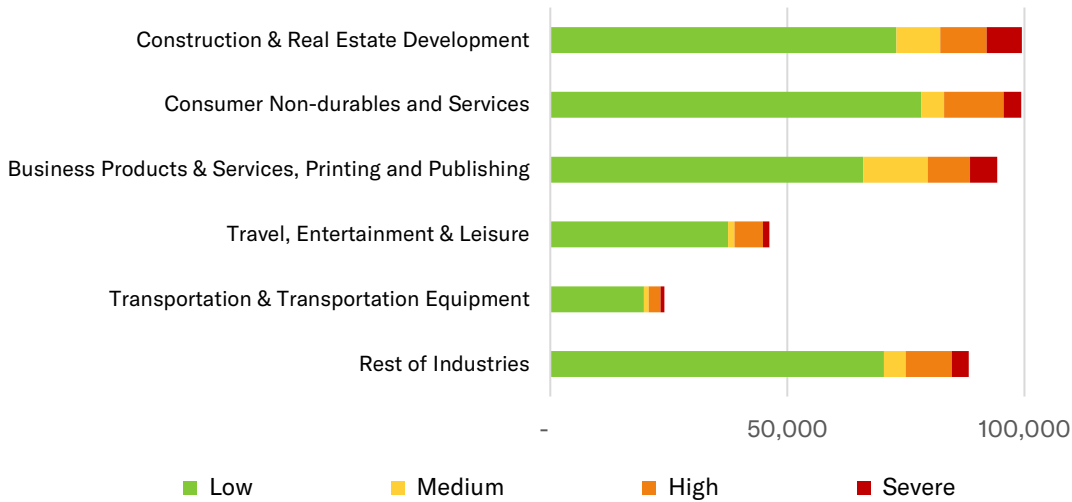
According to Moody's EDF-X Early Warning System (EWS), 16% of Spanish small-medium companies (SMEs) are categorized as high or severe credit risks. In comparison, only 12% of publicly traded Spanish firms fall into the same risk categories. Figure 3 shows that the SMEs at risk are predominantly found in the construction and real estate development, consumer non-durables and services, and business products & services sectors. Although these sectors account for 64% of the total SMEs covered by the EWS, they comprise 67% of those companies flagged as high or severe.²

To assess the efficacy of the EWS in preemptively identifying default and termination events for SMEs in Spain during 2022 and 2023, an analysis was conducted. To ensure the use of up-to-date information, the focus was placed on companies that published financial statements in either 2022 or 2023.³

²The SME sample consists of 451,550 Spanish private companies, each with fewer than 250 employees and less than \$55 million USD in revenue. Companies in the finance and insurance sectors were excluded.

³Legal events data comes from ORBIS and includes: "Default", "Default, Insolvency proceedings", "Default, Bankruptcy proceedings", "Default, Insolvency Proceedings", "Default, Insolvency proceedings, Termination, Liquidation proceedings", "Termination", and "Termination, Liquidation proceedings". Each event falls into only one category, and each corresponds to a unique company; i.e., we analyzed 366 companies.

FIGURE 3 Early Warning System Coverage by Industry. Number of Spanish SMEs.



For each default or termination event, we documented how many months in advance Moody’s Early Warning System flagged the companies as high or severe credit default risks. The results are presented in Table 1. It was found that 82% of the SME default or termination events were flagged at least 3 months before the event took place. Moreover, more than half of these events were flagged at least one year in advance. This level of accuracy and foresight is particularly noteworthy given the unique challenges posed by SMEs. Unlike larger corporations, SMEs typically provide less detailed financial information and lack the market signals that often indicate declining solvency.

TABLE 1 High and Severe Early Warning Signal Prior to Default or Termination Event for Spanish SMEs

MONTHS IN ADVANCE	3	6	9	12	18	24+
DEFAULTS DETECTED (%)	81.7%	78.4%	71.3%	57.1%	45.4%	37.2%

The doubling of bankruptcy filings, compared to pre-pandemic levels, underscores the pressing challenges facing the corporate credit landscape in Spain. However, the successful implementation of an early warning system, such as Moody’s EWS, can identify potential default risks well before they materialize. This tool is especially useful in the Spanish context, where SMEs permeate the corporate fabric. Moody’s EWS has been shown to detect six out of ten defaults up to one year in advance. This capability not only enables effective portfolio monitoring—allowing businesses to promptly pinpoint and address potential issues—but also aids in mitigating losses stemming from defaults and in uncovering new opportunities. Thus, it serves as a strategic tool for navigating the complexities of the financial environment.

CONTACT US

AMERICAS

+1.212.553.1653

clientservices@moodys.com

EMEA

+44.20.7772.5454

clientservices.emea@moodys.com

ASIA (Excluding Japan)

+852.3551.3077

clientservices.asia@moodys.com

JAPAN

+81.3.5408.4100

clientservices.japan@moodys.com

© 2024 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED OR OTHERWISE MADE AVAILABLE BY MOODY'S (COLLECTIVELY, "MATERIALS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S MATERIALS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S MATERIALS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES OR OTHERWISE MAKES AVAILABLE ITS MATERIALS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND MATERIALS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR MATERIALS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. FOR CLARITY, NO INFORMATION CONTAINED HEREIN MAY BE USED TO DEVELOP, IMPROVE, TRAIN OR RETRAIN ANY SOFTWARE PROGRAM OR DATABASE, INCLUDING, BUT NOT LIMITED TO, FOR ANY ARTIFICIAL INTELLIGENCE, MACHINE LEARNING OR NATURAL LANGUAGE PROCESSING SOFTWARE, ALGORITHM, METHODOLOGY AND/OR MODEL.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Materials.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Moody's SF Japan K.K., Moody's Local AR Agente de Calificación de Riesgo S.A., Moody's Local BR Agência de Classificação de Risco LTDA, Moody's Local MX S.A. de C.V., I.C.V., Moody's Local PE Clasificadora de Riesgo S.A., and Moody's Local PA Clasificadora de Riesgo S.A. (collectively, the "Moody's Non-NRSRO CRAs") are all indirectly wholly-owned credit rating agency subsidiaries of MCO. None of the Moody's Non-NRSRO CRAs is a Nationally Recognized Statistical Rating Organization.

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for India only: Moody's credit ratings, Assessments, other opinions and Materials are not intended to be and shall not be relied upon or used by any users located in India in relation to securities listed or proposed to be listed on Indian stock exchanges.

Additional terms with respect to Second Party Opinions (as defined in Moody's Investors Service Rating Symbols and Definitions): Please note that a Second Party Opinion ("SPO") is not a "credit rating". The issuance of SPOs is not a regulated activity in many jurisdictions, including Singapore. JAPAN: In Japan, development and provision of SPOs fall under the category of "Ancillary Businesses", not "Credit Rating Business", and are not subject to the regulations applicable to "Credit Rating Business" under the Financial Instruments and Exchange Act of Japan and its relevant regulation. PRC: Any SPO: (1) does not constitute a PRC Green Bond Assessment as defined under any relevant PRC laws or regulations; (2) cannot be included in any registration statement, offering circular, prospectus or any other documents submitted to the PRC regulatory authorities or otherwise used to satisfy any PRC regulatory disclosure requirement; and (3) cannot be used within the PRC for any regulatory purpose or for any other purpose which is not permitted under relevant PRC laws or regulations. For the purposes of this disclaimer, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.