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The Impact of Policy on the Development of SMEs in Spain

Abstract. Introduction. Time is changing, but the status of political stability in countries still has a strong influence on the situation of domestic processes and, in particular, businesses. This article examines the impact of political polarization of the Spanish state apparatus and the periods of its aggravation from 2008 to 2025 and its impact on the situation of small and medium-sized enterprises (SMEs) in Spain.

Purpose. This article aims to assess the impact of political stability on business prospects. The methodology used is a systematic analysis of the available literature and statistical data on the subject.

Results. The results show that political instability is an inhibiting factor in the pace of SME development, and the aggressive promotion of political ideologies leads to skepticism among entrepreneurs. These findings underscore the need for stabilization in the political sphere to unleash the full potential of critical units to sustain the economy and source of employment.

Conclusions. In the context of global crises, such as the 2008 global crisis and the 2020 coronavirus pandemic, as well as local crises, such as the 2017 Catalan crisis, in the absence of consistent approaches and the rigid promotion of political ideologies, SMEs become very vulnerable and require additional support from the state.

The results may also have practical benefits for Ukraine, which has been in a state of crisis since February 2022, caused by the invasion of a foreign aggressor state. As in Spain, the Ukrainian state apparatus should pay due attention to the development of measures to effectively support SMEs.

Keywords: Small and Medium Enterprises (SMEs); Political Polarization; Spain; Economic Crises; Government Support.

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Вплив політичних факторів на розвиток малого та середнього бізнесу в Іспанії

Анотація. У статті розглядається політична поляризація державного апарату Іспанії та періоди її загострення з 2008 по 2025 рік, та її взаємозв'язок із становищем малих та середніх підприємств (МСП). Для підтвердження висновків автора використано статистичні дані. Метою статті є оцінка впливу політичної стабільності на стан і перспективи бізнесу. Як методологію було використано системний аналіз публікацій по темі, методи індукції і дедукції.

Результати показують, що політична нестабільність та негативні очікування є фактором гальмування у розвитку малого та середнього бізнесу. Водночас агресивне просування політичних ідеологій призводить до скептицизму серед підприємців. Також наголошено на впливі пандемії і наступного локдауну на туризм і пов'язані з ним галузі, а отже, на економіку Іспанії загалом. Наголошено на необхідності стабілізації у політичній сфері для повного залучення потенціалу економіки та створення нових робочих місць, що особливо яскраво помітно на прикладі МСП.

Зроблено висновок, що, в контексті глобальних криз, таких як світова криза 2008 року та пандемія коронавірусу 2020 року, а також локальних криз, таких як каталонська криза 2017 року, за відсутності послідовних підходів і жорсткого просування політичних ідеологій МСП стають дуже вразливими і потребують додаткової підтримки з боку держави.

Результати можуть мати практичну користь і для України, яка з лютого 2022 року перебуває у кризовому стані, спричиненому вторгненням іноземної держави-агресора. Як і в Іспанії, український державний апарат має приділяти належну увагу розвитку заходів для ефективної підтримки МСП.

Ключові слова: малі та середні підприємства (МСП); політична поляризація; Іспанія; економічна криза; державна підтримка.

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Formulation of the problem. Historical experience has repeatedly emphasized the importance and power of the influence of politics on the quality of life of the common man and on almost every sphere of his life. One of these spheres is business. States such as Germany or Switzerland have high guarantees of protection for entrepreneurs. Nevertheless, the bureaucratic legal framework can suffocate them and force them into overly rigid frameworks, depriving them of the possibility of flexibility. Countries like Venezuela and Haiti, on the other hand, are characterized by high levels of state corruption, and in conditions of not only hyperinflation but also high insecurity, entrepreneurs are forced to use security services to protect their businesses or, in the worst case, to purchase illegal weapons. Without straying too far from European countries and the Spanish language, what is the situation in Spain?

As a warm card of the European Union and the 32nd most populous country in the world, Spain is a sovereign state with a constitutional monarchy form of government. In 2025, the King of Spain is Philip VI; however, as is typical of a constitutional monarchy, real power belongs to democratically elected authorities. Despite the advantages of this form, the coming to power of Pedro Sanchez in 2018 has exacerbated the polarization of the Spanish state apparatus, which has had a significant impact on the situation of small and medium-sized enterprises (SMEs) in the country. Therefore, studying the impact of political factors on economic development, especially SMEs, is an important and recent issue.

Analysis of recent research and publications. The impact of political factors on the economy and business is an important topic that has been widely studied in academic circles. In this regard, we find research on Spain in Abad, M., Diez A. [1], Castellana, F. [2], Flores, C. P. [4], Redacción, C. [7] and many other scholars. The history of dissatisfaction with political programs and their impact on the country's business environment goes back to 2008, a period of global economic crisis. The People's Party (PP), led by José Luis Rodríguez Zapatero in 2011, amid the implementation of "soft" reforms, caused a wave of discontent [7]. At the same time, the successor party, the Spanish Socialist Workers' Party (PSOE) [1], exacerbated the confidence gap among entrepreneurs by pushing them toward higher taxes, such as VAT, and declaring budget cuts in operating expenses. In contrast, the harsh hiring policies led to the decline of the

restaurant and construction sectors as demand fell in 2012, and the agricultural sector was hit by high debt in 2013. These dynamics provoked the anger of Spaniards, who took to the streets in protest, convinced of the impotence of the traditional parties [2] to solve pressing problems and improve conditions for the country's small and medium-sized enterprises.

Research on scholarly sources has shown that the next sharp increase in polarization was the Catalan crisis of 2017 [2; 4; 6; 12]. Catalonia attempted to hold a referendum to declare independence, but it has not yet been possible to restore full political stability. The immediate consequences for SMEs, according to The Economy Journal [4], were the withdrawal of more than 3000 companies and headquarters from the Catalan region, motivated by fears of a possible change in the tax situation and a decline in economic activity.

Another important factor affecting SMEs in Spain was the coronavirus pandemic, the response to which was largely linked to public policy. We see research on these phenomena in Gutiérrez, H. [5] Sánchez, R. M. [9], and others [10], and all of them emphasize the negative impact of the pandemic and the subsequent lockdown on the economy. The lockdown period has passed, but new geopolitical challenges related to the security situation in the world, and in Europe in particular, are a significant factor of uncertainty.

Another important factor of influence, which is closely related to the political and to a large extent influences it, is the factor of cultural differences, the study of which is devoted to the work of Meyer E. [13], in which she emphasizes the peculiarities of Spain - a country of the subregion, focused on tourism.

Formulation of research goals. To assess the impact of political stability on the business environment and prospects for the development of small and medium enterprises in the internal crisis.

In writing the article, a classical approach is used in the form of analyzing the available literature through a systematic analysis. Graphical visualization is also used for in-depth analysis and ease of understanding.

Outline of the main research material. Examining the Catalan crisis of 2017, we can see that the tourism sector, namely the hotel and restaurant industry and the related transport sector, was in dire straits due to the sharp drop in tourist flows. Among the negative consequences is also a decline in the confidence of foreign investors [12], as shown in Fig. 1, which led to a loss of support for existing SMEs and start-ups:

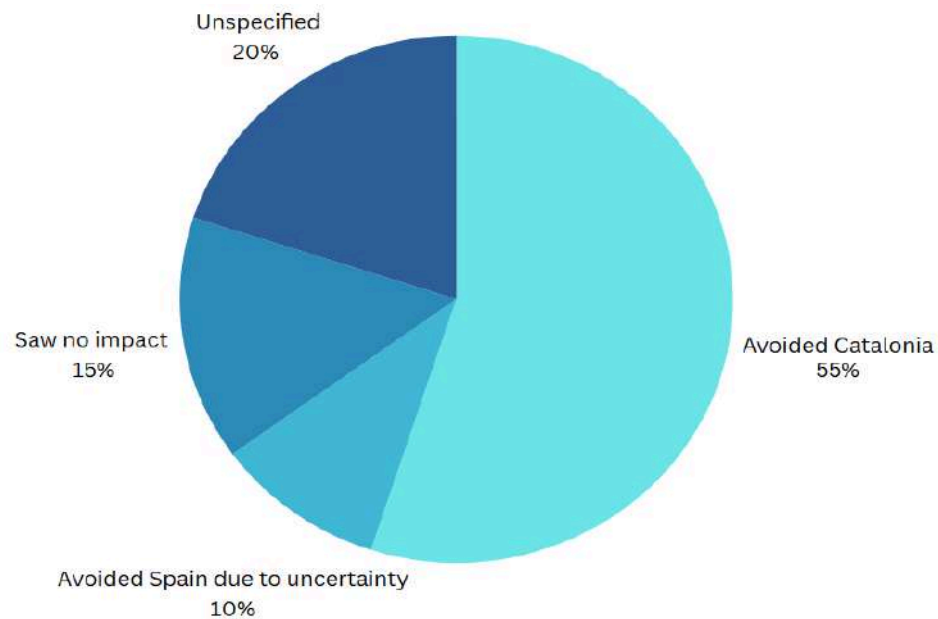


Figure 1 - Impact of Political Uncertainty on Foreign Investment in Catalonia

Source: Prepared by the authors based on [6]

International deliveries, which play a key role in the agricultural sector, for example, slowed down or came to a temporary halt. The situation within the companies also left much to be desired, with many workers divided along ideological lines.

Pedro Sanchez's rise to power in 2018 was marked by a series of controversial measures to improve conditions for SMEs. In the Catalan region, confidence was still low, especially in the context of the formation of a coalition with Unidas Podemos by the incumbent representative government, which led to a strong push for left-wing reforms and social programs and drew sharp criticism from the opposition party, coupled with accusations of encouraging "separatist behavior." In addition to the

political atmosphere, it is also worth noting the government's attempts to support domestic businesses [8]. Such measures included increasing the minimum wage by 22% in 2019, introducing subsidies and tax incentives for established and newly formed start-ups, and increasing investments aimed at the development and transition to green energy in line with the ideological orientation of the European Union. However, such initiatives have caused severe pressure on several parties at once. For example, employers have been confronted with unaffordable wage conditions, which has led to a tendency to reduce the number of employees, affecting the unemployment dynamics shown in Figure 2, and overburdening single-person responsibilities, especially for small family businesses:

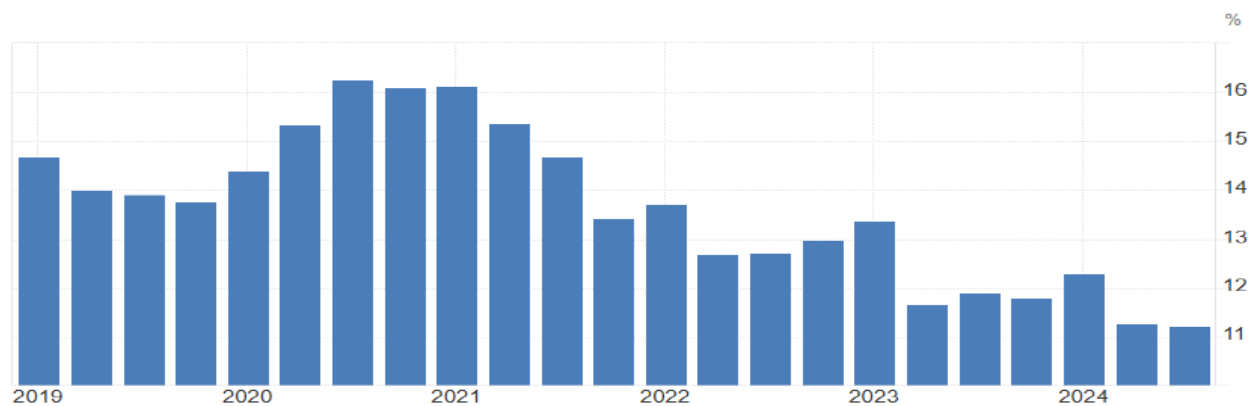


Figure 2 – Spain Unemployment Rate

Source: Source: [11]

The agricultural sector has failed to unlock the potential of green investment due to ever-increasing costs and a systematic lack of centralized government support. Thus, while the reforms have attempted to improve the situation of small and medium-sized enterprises, they have mostly taken the form of financial pressures, leading to a decline in the profitability of Spanish companies.

On March 14, 2020, the Spanish government officially quarantined the country due to the spread of a

respiratory disease known as coronavirus. While the initial measures to prevent the spread were well-intentioned, they also had a downside. The country's key sector, tourism, became the most vulnerable [5]. Reduced tourist flows and early restrictions on mass gatherings and events led to a decline in the hotel and restaurant business, as shown in Figure 3, with more than 40% of businesses failing to stay afloat in the first waves, and small tourist retail businesses only partially able to switch to online sales while retaining some revenue:

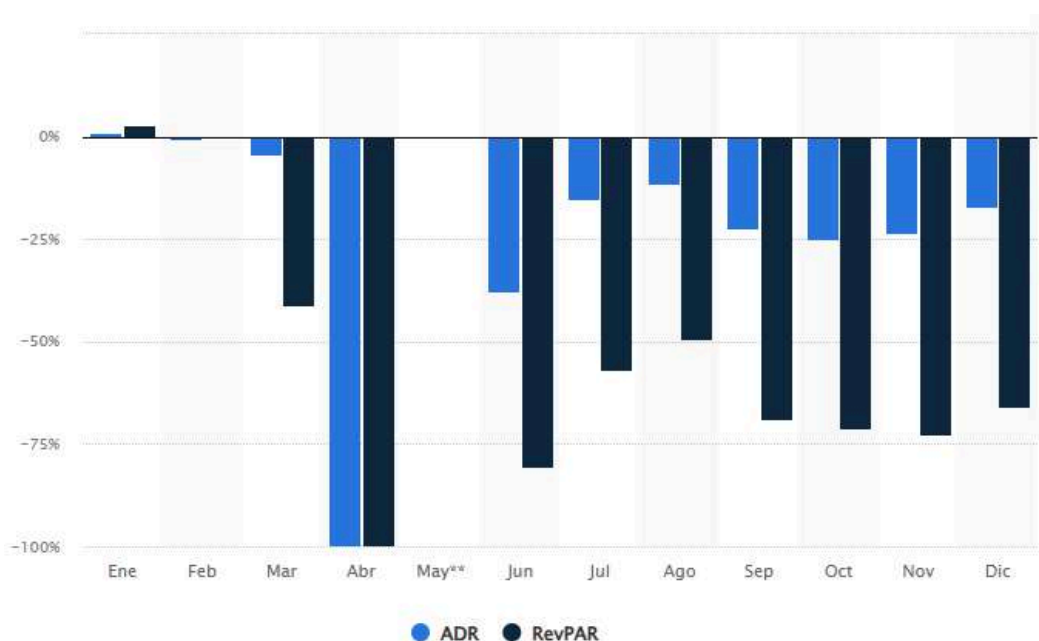


Figure 3 – Impact of the coronavirus on the main profitability indicators of the hotel sector in Spain in 2020

Source: [10]

While SMEs have been struggling in the face of the global crisis, the state apparatus has been wasting time on mutual accusations of inefficiency and has mostly used available resources as arguments of "rightness" rather than actual support for SMEs. A striking example is the ERTE (Expediente de Regulación Temporal de Empleo) program [3], aimed at providing financial support to businesses, which was criticized by the right-wing party, along with accusations of prioritizing large companies, while leaving micro, small and medium-sized enterprises without adequate support. The deferral of corporate income tax and value added tax (VAT) can be considered as successful measures, while the introduction of subsidies to support SMEs and loans to maintain liquidity have been semi-successful, but the potential of these programs has not been unleashed due to bureaucratic red tape, which is reflected in the difficulty of collecting the necessary documentation, as well as the lack of resources of SMEs themselves for full or near full recovery. This approach to support measures created skepticism and increased entrepreneurs' distrust of the government [9].

Conclusions. The performance and dynamics of political stability in Spain have had a strong impact on the efficiency, productivity and overall well-being of SMEs. The polarization between parties, which had several peaks from the global crisis until the post-crisis period, was one of the main reasons for the slowdown in local business development.

For example, the constant fluctuation of approaches and the ideological struggle between the right and the left led to frequent changes in tax legislation, which deprived entrepreneurs of the opportunity to plan for the long term and effectively switch to new conditions for legal business. Moreover, such fluctuations, especially during periods of heightened political tension, have been a demotivating factor for foreign investors against a backdrop of declining confidence.

Despite the attempts made by the current Spanish government in these periods, the measures taken have had little potential because they have become a factor of financial pressure or have had little effect due to the deplorable state of the general financial sphere, which is expressed in high taxes and constantly increasing VAT and

redemption rates. An additional factor hindering the recovery and development of small and medium enterprises was the unrealistic conditions for applications, combined with paperwork. Many companies, especially small and micro enterprises, found themselves in a difficult situation due to the impossibility of collecting the required documents, while companies of all sizes also faced long waiting periods for the processing of applications.

A recent example in the form of the global crisis, which hit key sectors of the country hard, and the ineffectiveness of the measures taken contributed to skepticism and a gap in the trust of SME entrepreneurs in the government. In turn, the government perceived the period of crisis as an arena for mutual recriminations, which led to a deterioration in the quality of attention to the needs of SMEs. Together with the factors described above, there has been a decrease in polarization in the Spanish state apparatus to date, but the consequence has

been a slower pace of development for Spanish SMEs to recover and continue their activities in the post-coronavirus period of upheaval.

Summarizing the impact of political factors on SMEs, it can be noted that, especially in the context of global crises such as the 2008 global crisis and the 2020 coronavirus pandemic, as well as local crises such as the Catalan crisis of 2017, in the absence of consistent approaches and rigorous promotion of political ideologies, SMEs become very vulnerable, but still an important component in the mechanism of the economy and the welfare of the country.

The results can also be of practical use for the experience of Ukraine, which since February 2022 has been in a permanent state of crisis caused by the invasion of an aggressor state. As in Spain, the Ukrainian state apparatus should pay due attention to the development of measures to effectively support SMEs in the face of constantly changing tax and labor laws and general uncertainty.

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