30 March 2020

EAPB comments on the amendment of the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak

EAPB very much welcomes the Commission proposal to amend the Temporary State aid Framework. It is very important to quickly and flexibly integrate new urgent funding needs arising in Member States to allow them and their respective national and regional promotional banks (NPBs) to throw their full weight behind funding for the necessary measures to overcome the current health crisis and the economic crisis resulting from it.

National and regional promotional banks and funding agencies are exceptionally equipped to unfold the necessary financial measures, in cooperation with European Investment Bank Group and the wider European financial sector. As they did in the 2007/2008 financial crisis- our members will act as counter-cyclical investors and keep finance flowing to SMEs. National and regional promotional banks across Europe have the capacity of swiftly responding to the expected sharply reduced access to finance. By providing loans and guarantees, as well as advisory services for SMEs affected by the current crisis and many others, they wish to contribute to keeping the EU economy running moving forward. The first measures are already in place and we welcome the quick approval process of the European Commission of the national schemes notified in this difficult context.

We propose the following changes to the Temporary Framework:

- The thresholds referred to in paragraphs 22 and 23 should, in our view, be understood as gross grant equivalent. This would allow greater flexibility in the practical application and could significantly improve the possibilities for responding to economic and social upheavals. This option was already very useful during the financial and economic crisis of 2008 - 2009 and was used in many cases.

We propose the following addition to paragraph 22 lit. a):

- "*Repayable advances also include loans, subordinated loans and silent holdings, provided that their gross grant equivalent can be calculated precisely in advance without the need for a risk assessment (transparent aid). Aid comprised in loans shall be considered transparent where the gross grant equivalent has been calculated on the basis of the reference rate applicable at the time of granting. Aid in the form of capital injections shall be considered transparent only if the total amount of public funds injected does not exceed the maximum amount*".

  If this is not possible, we urge the EC to accept at least the following interpretation with regard to point 3.1:

  "*Repayable advances also include loans, subordinated loans and silent holdings, provided that their total amount does not exceed the maximum amount specified*."

  In such cases, the entire loan/subordinated loan/silent holdings would be treated as a grant. In our opinion, this should be possible in any case. Corresponding adjustments would also have to be made in section 23 lit. a).

- We expressly support the adjustments in paragraphs 25 and 27.

- The granting of promotional loans in Europe is widely characterized by the so-called on-lending procedure. Under this procedure, commercial intermediaries (or "house banks") pass on promotional loans to final borrowers on behalf of the national and regional promotional banks (NPBs)) and assume liability to the NPBs for the promotional loans that are granted. In order to ensure that the intermediaries are prepared to pass on the loans, they can be partially relieved of their liability by means of so-called "compensations" offered by promotional banks. According to the EC proposal, the upper limit for such compensations should be a

maximum of 90%. The current macroeconomic situation, however, makes it necessary in many cases to provide full compensation, i.e. 100%. This is the only way to ensure access to promotional loans, particularly for particularly affected sectors such as the catering, retail and trade fair construction industries, in order to secure their liquidity and survival. In this respect, the promotional banks face requests by both the commercial banking associations and governments to offer promotional loans with 100% compensation. However, this is currently not possible due to State aid rules.
Against this background it is of central importance that the 100% risk relief for the house bank be allowed for the duration of the COVID 19 pandemic for promotion loans passed through. To calculate the aid value, we propose a pragmatic flat-rate procedure in which a flat rate of 20% of the loan amount is to be taken as the aid value.

- points 3.7 and 3.8 should also provide for the possibility of granting low-interest loans.

- In order to ensure that the soft loans do not fall out of the scope of the Temporary Framework, we suggest the following addition to the existing text, as seen below in track-changes:

"Point 27 is replaced by the following:

'(27) The Commission will consider State aid in the form of soft loans or subsidies to public loans in response to the COVID-19 outbreak as compatible with the internal market on the basis of Article 107(3)(b) of the Treaty provided the following conditions are met:

- Furthermore, members seek clarification on the calculation of the guarantee premium/interest rate: Does this mean that the weighted annual premium for a 6 year loan is calculated as (25+50+50+100+100+100)/6=71bp or should the amortization plan also be included, e.g. if its linear, then at 33,4%? The same question applies to loan interest rates.
- Members would also welcome clarification on the question if the base rate as established by the Commission as per January 1, 2020 will remain in full force unchanged throughout the entire year.
- The period within which the guarantees and/loans need to be disbursed should be extended, at least until end of June 2021.

- Our members would welcome clarification whether or not the use of the financing needs to be confirmed ex post as well or not. We understand that, as long as the financing is approved on the basis of the double the annual wage in 2019 or on the basis of 25% total annual turnover for 2019, no ex post monitoring of the use of the funding is required. Does this exception also apply to the situation where the financing amount is based on the self-certification by the beneficiary?

- Members also suggest that the activities under sections 3.6 until 3.10 should also be allowed to be financed via financial instruments and not solely through grants, advance payments and tax reliefs.

- More generally, it is important that promotional institutions having to perform burdensome market gap analysis before funding companies in a very volatile environment should be allowed to do simplified assessments during the crisis.

We stand at your disposal should you have any questions.

The European Association of Public Banks (EAPB) *gathers over 30 member organisations which include promotional banks such as national or regional public development banks and local funding agencies, public financial institutions, associations of public banks and banks with similar interests from 17 EU Member States and countries, representing directly and indirectly the interests of over 90 financial institutions towards the EU and other European stakeholders.*

Avenue de la Joyeuse Entrée 1-5, B–1040 Brussels
phone: +32 / 2 / 286 90 71 • fax: +32 / 2 / 231 03 47 • e-mail: info@eapb.eu • website: www.eapb.eu