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**REPORT FROM THE COMMISSION**

**State Aid Scoreboard**

**Report on recent developments on crisis aid to the financial sector**

**- Spring 2010 Update -**

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## 1. INTRODUCTION

This spring 2010 State aid scoreboard provides a factual update on crisis aid to the financial services sector. The report covers the volumes of aid authorised by the Commission from October 2008 until 31 March 2010. It also provides an overview on the use of guarantee and recapitalisation measures and the state of play with regard to impaired asset and restructuring cases.

### 1.1. The Commission's policy response to the financial crisis

In order to assist Member States in taking urgent measures to preserve financial stability and to provide legal certainty, the Commission adopted several communications between October 2008 and July 2009, setting out how it would apply State aid rules to government measures aimed at supporting the banking sector in the context of the economic crisis. The primary rationale of this guidance was to ensure that emergency measures taken for reasons of financial stability maintain a level playing field between financial institutions which receive public support and those which do not, as well as between institutions located in different Member States. The Banking Communication<sup>1</sup> of 13 October 2008 was the Commission's first response to the aggravating financial crisis. Based on the principles of the existing guidelines on rescue and restructuring aid,<sup>2</sup> the Banking Communication provides guidance on the criteria for determining the compatibility of State support measures for the financial sector with the requirements of Article 107(3)(b) TFEU within the special circumstances of the crisis. It covers areas such as aid in the form of guarantees, recapitalisation and controlled winding-up of the financial institutions as well as the provision of other forms of liquidity assistance. In particular, the Banking Communication provided detailed guidance on government guarantees for bank liabilities, which were the most widespread response to the crisis in the first phase, when it was necessary to re-start the interbank lending markets.

However, the advancing recession added to the financial turmoil; the next immediate problem was to ensure lending to the real economy as banks started the process of deleveraging, i.e. reducing the level of lending in relation to the size of their capital. This resulted in the increasing need of many banks to strengthen their capital base, also in order to maintain their role of supplier of credit to the economy. State recapitalisations thus became an important tool used by Member States to stabilise the markets. In order to give detailed guidance on how bank recapitalisation measures would be assessed under prevailing crisis conditions, the Commission adopted the Recapitalisation Communication<sup>3</sup> in 8 December 2008.

These communications have provided crucial guidance on how to take effective measures to stabilise the financial markets and aim at ensuring sustained lending to the real economy without creating undue distortions of competition. Indeed, the rescue packages adopted by Member States since October 2008 averted the meltdown of the financial system, with the

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<sup>1</sup> The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis, [OJ C 270, 25.10.2008, pp. 8-14](#).

<sup>2</sup> Community guidelines on State aid for rescuing and restructuring firms in difficulty, [OJ C 244, 1.10.2004, pp. 2-17](#), as extended by [OJ C 156, 9.7.2009, p. 3](#).

<sup>3</sup> Communication from the Commission — The recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition, [OJ C 10, 15.1.2009, pp. 2-10](#).

Commission ensuring coordination between Member States and the necessary coherence of the terms and conditions under which banks can receive State support.

However, despite the State guarantees and recapitalisations, investor confidence remained fragile and deleveraging continued. There was growing consensus that the root causes of the crisis needed to be tackled — the impaired assets on banks' balance sheets. By tackling this issue, the focus of attention shifted away from the rescue operations of the first months of the crisis to the necessary steps for a return to financial viability of the sector as a whole. This implies the need for restructuring for many institutions, which includes the cleaning of balance sheets.

In its Communication on impaired assets<sup>4</sup> of 25 February 2009 the Commission provides guidance on the treatment of asset relief measures by the Member States. This guidance is based on the principles of transparency and disclosure, adequate burden-sharing between the State and the beneficiary and prudent valuation of assets based on their real economic value.

Finally, many of the institutions which have benefited from State aid need to reconsider their business models in order to return to long-term viability without State support. The Commission Communications focusing on guarantees, recapitalisation and impaired assets already set out in detail when an institution would need to present a restructuring plan. The Commission's Restructuring Communication<sup>5</sup> of 22 July clarifies some aspects of restructuring in the context of the present financial crisis. In particular, it gives detailed guidance on how restructuring plans need to address long-term viability, burden-sharing between the bank, its shareholders and the State and distortions of competition created by the aid.

Although the situation still remains fragile, market conditions have stabilised considerably now, almost two years since the crisis materialised. Given the signs of recovery in the financial markets and in Member States' economies at large, the focus is now on progressively reducing banks' reliance on State support. Such phasing-out of support measures needs to be gradual, transparent and coordinated across Member States, so as to avoid negative spillover effects. At the same time, specific situations in the different Member States have to be taken into account. Thus, on 2 December 2009, the Ecofin Council<sup>6</sup> agreed on the need to design a strategy for phasing out support measures that, in principle, should start with the unwinding of the State guarantee schemes in order to encourage the exit of sound banks from State support and induce other banks to address their weaknesses. [On 18 May 2010, the Ecofin Council welcomed the preliminary analysis by the Commission services on the actual use of guarantee schemes and welcomed the Commission's intention to introduce specific pre-requisites in view of the renewed provision of guarantees after 30 June, such as an adequate increase of the guarantee fees based on banks' creditworthiness to bring gradually funding costs closer to market conditions and the requirement for a viability review for banks still heavily relying on government guarantees](#)<sup>7</sup>

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<sup>4</sup> Communication from the Commission on the treatment of impaired assets in the Community banking sector, [OJ C 72, 26.3.2009, pp. 1-22](#).

<sup>5</sup> Communication from the Commission on the return to viability and the assessment of the restructuring measures in the financial sector in the current crisis under the State aid rules, [OJ C 195, 19.8.2009, pp. 9-20](#).

<sup>6</sup> See 2981st Council meeting, Economic and Financial Affairs, Brussels, 2 December 2009, 16838/09 (Press 352): [http://www.consilium.europa.eu/uedocs/cms\\_Data/docs/pressdata/en/ecofin/111706.pdf](http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/111706.pdf).

<sup>7</sup> See 3015th Council meeting, Economic and Financial Affairs, Brussels, 18 May 2010, [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ecofin/114495.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/114495.pdf), DG Competition staff working document – The application of State aid rules to government guarantee

## 1.2. Total volumes of measures approved

In the period between October 2008 and 31 March 2010, the Commission took 161 decisions for the financial sector based on Article 107(3)(b) TFEU. Out of these, 78 decisions were taken in relation to some 40 financial institutions and 83 decisions in relation to almost 40 schemes.

The maximum volume of Commission-approved measures including schemes and *ad hoc* interventions set up by Member States in the wake of the financial crisis amount to €4 131.1 bn. The breakdown into schemes and *ad hoc* cases is summarised in the table below.

	Amount	% of EU-27 GDP <sup>8</sup>
Schemes approved by the Commission	€3 181 billion	25 %
of which guarantee schemes	€2 747 billion	22 %
of which recapitalisation measures	€338.2 billion	2.7 %
of which asset relief interventions	€54 billion	0.4 %
of which liquidity measures other than the guarantee schemes	€41.9 billion	0.3 %
<i>Ad hoc</i> interventions in favour of individual financial institutions	€950.1 billion	7.6 %

## 2. GUARANTEES ON BANK DEBT

The Banking Communication highlighted the danger of the distortive effects of State guarantees on competition and underlined the temporary nature of the admissibility of such aid measures.

Guarantee schemes have proven to be an appropriate and effective tool to address liquidity problems of banks faced with the consequences of a systemic crisis. They have played a significant role in preventing the financial system from collapsing. While the use of guarantees was still very important during the first half of 2009, it decreased significantly thereafter. Already the mere availability of such guarantee schemes was in itself a reassuring signal to the market even without them being much used after summer 2009.

In general, schemes have been approved for periods of 6 months with the possibility of being extended. In total, since autumn 2008, the Commission has approved and subsequently renewed 19 guarantee schemes. Italy, France and the UK decided to terminate their guarantee scheme in late 2009 and early 2010 respectively. The Netherlands amended as of 1 January the pricing of its guarantee scheme to encourage financial institutions to look for alternative ways of funding. The 16 schemes currently in place have been approved by the Commission until 30 June 2010 at the latest. The Commission is currently considering, in coordination

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schemes covering bank debt to be issued after 30 June 2010, 30 April 2010  
<sup>8</sup> [http://ec.europa.eu/competition/state\\_aid/studies\\_reports/phase\\_out\\_bank\\_guarantees.pdf](http://ec.europa.eu/competition/state_aid/studies_reports/phase_out_bank_guarantees.pdf)  
[GDP by Member State, in €million, 1992-2008.](#)

with the Member States, the conditions under which those schemes could be extended beyond that date.

The approximate volume of guarantees authorised by the Commission under schemes from autumn 2008 until 31 March 2010 amounts to €2 747 billion. In addition to schemes approved by the Commission, some Member States have also granted guarantees to individual institutions as rescue measures in order to preserve financial stability in their countries. By 31 March 2010, *ad hoc* guarantees authorised by the Commission amounted to a total of €402.8 billion, of which €240.8 billion for Belgium,<sup>9</sup> followed by France (€54.8 billion), the UK (€53.8 billion) and Germany (€47.8 billion). Analysis of recent issuances of State-guaranteed bonds by rating categories of bond issuers provides evidence that since the end of 2009, guarantee schemes have continued to be used almost exclusively by lower rated banks (i.e. rated A- or below) or unrated banks.

## 2.1 Take-up rate by banks

The take-up rate for guarantees, i.e. the actual use of the measure relative to the approved budget, amounts to 32 %, including individual measures outside of schemes. This represents €993.6 billion for a total of €3 150 billion of authorised guarantees.

The take-up rate differs greatly among Member States. It is at over 50 % in Portugal (51 %), Luxembourg (51 %) and Cyprus (73 %). It is below 20 % in Slovenia (17 %), Sweden (16 %), Belgium (13 % — *ad hoc* measure only), Latvia (12 %) or Greece (7 %).<sup>10</sup>

The take-up rate can, however, not be taken as a valid indicator for the functioning of the schemes. A high take-up in a given Member State is not necessarily an indication of whether the measure is adequate. Low guarantee take-up rates in certain Member States are partly due to the fact that the amounts announced under some schemes are higher than the subsequent real needs, while individual guarantees are in general more ‘tailor-made’ to the actual needs of the beneficiaries.

Finally, a scheme may be effective in restoring financial stability even without take-up, as it is often part of a more general strategy by Member States to reassure financial markets by announcing their commitment to support banks. For example, Finland, Poland and Slovakia have guarantee schemes which have not been used yet.

## 2.2 Evolution over time and signs of exit

As mentioned above, France, Italy and the UK have already chosen not to extend their schemes, and the Netherlands has tightened the pricing conditions of its scheme.

In any event, the use of government guarantees by the banks has been declining since summer 2009, both in terms of numbers of issues and volume of issuances. The observation of euro-denominated bonds benefiting from State guarantees issued by banks in the EU in Figure 1 below shows that the bulk of State-guaranteed bonds was issued in the first quarter of 2009, where guaranteed bond issuances reached a monthly average of 30 % of banks’ total funding.

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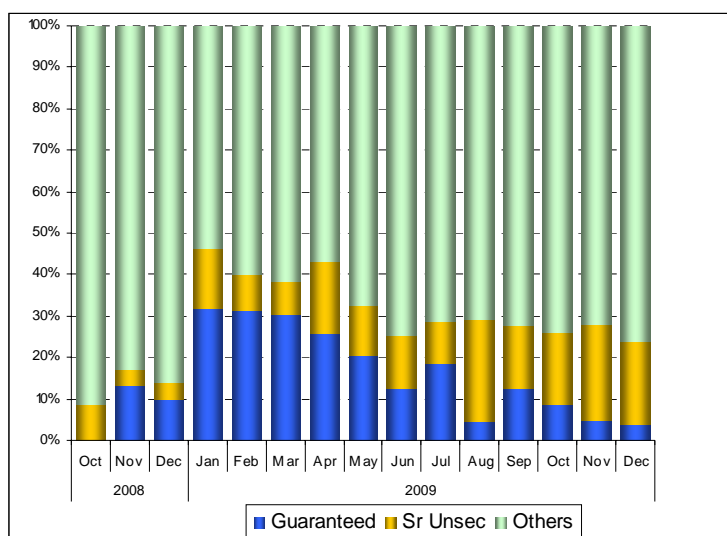
<sup>9</sup> Belgium decided not to put any scheme in place, but to intervene on the basis of individual decisions.

<sup>10</sup> Take-up rates mentioned focus exclusively on guarantees granted on banks’ newly issued debt and ignore blanket guarantees given to bank liabilities in some Member States.

The total amount of guaranteed bonds newly issued then decreased progressively until December 2009, to reach 4 % of banks' total funding, on average.



**Figure 1: Evolution of euro-denominated guaranteed bonds in the total amount of euro-denominated banks' funding (Oct. 2008–Dec. 2009)**



Source: Commission Services  
Sr Unsec : senior unsecured

### 3. RECAPITALISATION MEASURES

Member States reacted quickly to the threats regarding the level of capitalisation of financial institutions by putting in place recapitalisation schemes or granting State aid on an *ad hoc* basis. The total volume of approved recapitalisation measures (both schemes and *ad hoc* cases) by the end of March 2010 stood at €503.1 billion, which corresponds to around 4% of EU GDP, whereas the amount effectively used was €241.6 billion or 2% of EU-27 GDP. Therefore, the average overall take-up rate for recapitalisation measures is around 48%.

By 31 March 2010, the total volume of approved recapitalisation schemes since autumn 2008 amounted to €338.2 billion, whereas by the end of 2009 the amount was €229 billion. Of this €338.2 billion, representing 2.7% of EU-27 GDP, around €92.3 billion was effectively used. At the same time, authorised *ad hoc* measures amounted to €164.9 billion, with €149.2 billion being used. As the figures suggest, *ad hoc* measures have a significantly higher take-up rate (27% for schemes and 90% for *ad hoc* cases). This significantly higher take-up rate is mainly due to the fact that *ad hoc* measures were designed for a specific financial institution and mostly had to be implemented immediately and in full.

As regards the schemes, since late 2008, 14 Member States have introduced recapitalisation schemes. Eight of these Member States adopted pure recapitalisation schemes, whereas the remaining opted for holistic schemes covering also guarantees or liquidity measures. Five out of these 14 schemes have by now expired.

Like the guarantee schemes, most of the recapitalisation schemes were set up between the end of 2008 and the middle of 2009. From mid-July 2009 until 31 March 2010, relatively few new schemes were notified to the Commission: in this period the Commission approved 3 recapitalisation schemes and one scheme providing for both guarantees and recapitalisation. However, in the same period, 9 existing schemes were extended. In the first quarter of 2010, only one new recapitalisation scheme and a few *ad hoc* interventions were approved. So far,

13 Member States have not put recapitalisation schemes in place. Eight Member States did not adopt any recapitalisation measures at all (schemes or *ad hoc* interventions).

#### 4. IMPAIRED ASSETS

Many banks have had to deal with their impaired assets, often in combination with other restructuring measures. By 31 March 2010, seven Member States had introduced impaired assets measures (Austria, Belgium, France, Germany, Ireland, the Netherlands and the UK). The nominal amount of total assets covered by these asset relief interventions reached €376 billion<sup>11</sup>. The approved asset relief interventions encompass schemes as well as *ad hoc* interventions.

In relative terms, by 31 March 2010 the approved asset relief measures amounted on average to 3% of EU GDP (compared to 0.8% in July 2009). The substantial increase in this ratio can be explained by the approval of a major asset relief scheme in Ireland and an individual restructuring case in the United Kingdom. These two measures account for around 80% of the overall amount of approved impaired assets measures.

Since autumn 2008, only Germany and Ireland have introduced asset relief schemes. No specific amount was allocated to the German scheme, which expired at the end of January 2010 without having been used. The total volume of asset relief interventions approved under the Irish scheme amounts to €54 billion or 29% of its GDP.

Since the beginning of the financial crisis, six Member States (Austria, Belgium, France, Germany, the Netherlands and the United Kingdom) have asked for approval in individual asset relief cases, not falling under a scheme. Overall, the total volume of approved individual asset relief interventions amounted to €322 billion by 31 March 2010, of which 77% were granted by the UK and 10% by Germany. In relative terms, the approved individual asset relief measures represent 14% of GDP in the UK, whereas the average between Member States adopting *ad hoc* measures is 2.6%.

#### 5. RESTRUCTURING

In general, temporary measures have proven to be an important tool in coping with the crisis. In a number of instances, however, individual banks will need to undergo much more significant structural reforms. This is necessary for the return to viability of the individual banks as well as the financial sector in the EU as a whole, for re-establishing a sound level playing field across institutions and for the smooth functioning of the internal market.

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<sup>11</sup> Nominal assets covered reduced by the first loss tranche retained by the bank.

*Criteria and circumstances triggering the obligation to present a restructuring plan*

The criteria and specific circumstances which trigger the obligation to present a restructuring plan have been explained in the Banking Communication, the Recapitalisation Communication and the Impaired Assets Communication.

They refer in particular, but not exclusively, to situations where a distressed bank has been recapitalised by the State, or where a bank benefiting from asset relief has already received State aid in whatever form that contributes to coverage or avoidance of losses (except participation in a guarantee scheme) which altogether exceeds 2% of the total bank's risk-weighted assets. The degree of restructuring will depend on the seriousness of the problems of each bank.

By contrast, in line with those Communications (in particular point 40 of the Recapitalisation Communication and Annex V to the Impaired Assets Communication), where a limited amount of aid has been given to banks which are fundamentally sound, Member States are required to submit a report to the Commission on the use of State funds comprising all the information necessary to evaluate the bank's viability, the use of the capital received and the path towards exit from reliance on State support. The viability review should demonstrate the risk profile and prospective capital adequacy of these banks and evaluate their business plans.

Up to 31 March 2010, the Commission has been dealing with close to 40 restructuring cases in 13 Member States. Two of these cases involve two different Member States, another case even three. Out of these restructuring cases, 13 cases have been finalised by a Commission decision.

The Commission does not impose any specific restructuring measure from the outset and there is no specific business model that is rejected in principle. The starting-point of the analysis is always the restructuring plan submitted by a Member State. In that respect, the first priority when dealing with the restructuring of banks is to ensure that they can operate in a profitable way without State support. The benchmark of long-term viability may call for different solutions across banks, ranging from limited restructuring with no divestments to an orderly winding-down of unviable entities.

Any restructuring plan has to adequately address measures to limit distortions of competition. Taking account of the market circumstances of each case and the scale of State intervention, measures to limit competition distortion may include divestments, temporary restrictions on acquisitions by beneficiaries and other behavioural safeguards.

If, in all restructuring cases that have been dealt with by the Commission, the principles of the Restructuring Communication have been carefully applied, account has also been taken of the specificities of each individual case. Reaching the right balance between the multiple aspects of a restructuring case requires thorough knowledge of the facts and specificities of each bank. However, the principles guiding the Commission's approach are clear and consistently applied across cases.

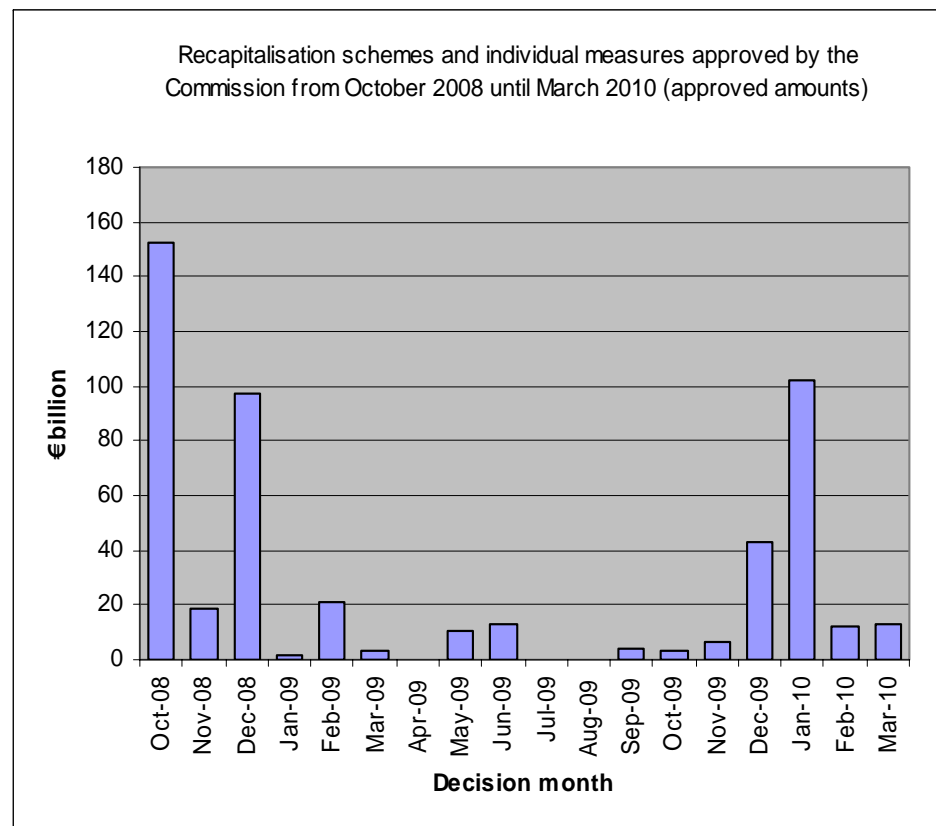
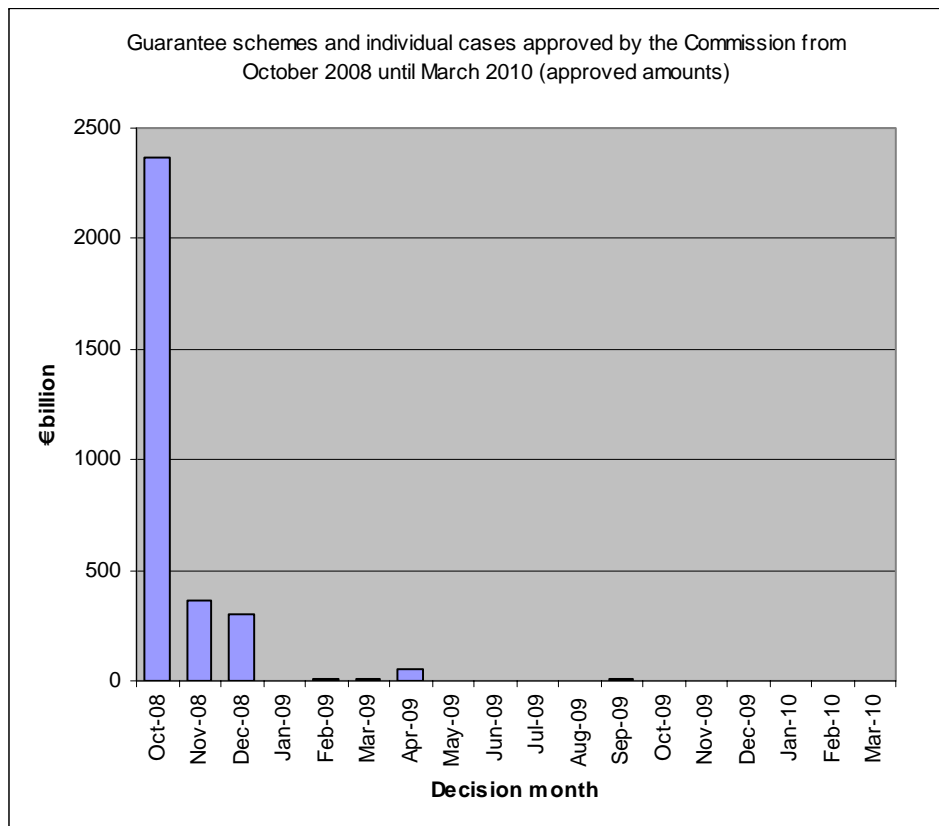
## **6. CONCLUSION**

Competition policy and in particular the coherent and predictable enforcement of State aid rules has played an important role in the response to the crisis. The extraordinary rescue measures at the beginning of the crisis have proven successful as they were capable of restoring financial stability and of supporting the economic recovery. As this recovery, albeit

still fragile, seems to assert itself, it is important to continue the necessary restructuring of the banking sector, including the cleaning of balance sheets and the strengthening of banks' risk-bearing capacity, in order for the banks to be able to perform their function of lenders to the real economy without State support. Likewise, as the economic environment continues to stabilise, it is appropriate to steer towards transparent and coordinated phasing-out of the different support schemes, starting with government guarantees, in order to create conditions for a progressive return to normal market functioning.



**ANNEX 2 – Dynamics of approved guarantee and recapitalization measures**



### **ANNEX 3 - Financial crisis measures by instrument**

Financial crisis measures approved until 31 March 2010 (approved amounts in €billion)

Member State	Guarantee schemes	Recapitalisation schemes	Liquidity intervention schemes	Asset relief intervention schemes	Individual cases
Belgium					274.5
Denmark	580*	13.4			6.3
Germany	400	80		x	107.6
Ireland	376			54	25.6
Greece	15	5	8		
Spain	200	99	30		
France	265	23.95			62.2
Italy	n.a	20			
Cyprus	3				
Latvia	4.27				3.3
Luxembourg					7.32
Hungary	5.35	1.07	3.87	0.04	
Netherlands	200				56.2
Austria	75	15		x	0.5
Poland	4.62	4.62			
Portugal	16	4			0.5
Slovakia	2.8	0.66			
Slovenia	12		x		
Finland	50	4			n.a
Sweden	156	4.71			0.5
United Kingdom	381.87	62.79			405.6
<b>Total EU27**</b>	<b>2746.9</b>	<b>338.2</b>	<b>41.9</b>	<b>54.0</b>	<b>950.1</b>

Source: DG Competition.

\* High figures of approved guarantees in Denmark and Ireland are due to blanket guarantees given to bank liabilities. For approved amount of Irish guarantee scheme: data source Council Report of 9.6.2009.

\*\* Certain totals include estimates and approximations.

## **ANNEX 4 – Additional information**

### **Additional data, statistics and indicators, previous State aid Scoreboards available online**

For more detailed information on State aid policy developments, facts and figures, see DG Competition's State aid Scoreboard, published twice a year in spring and autumn on

[http://ec.europa.eu/comm/competition/state\\_aid/studies\\_reports/studies\\_reports.cfm](http://ec.europa.eu/comm/competition/state_aid/studies_reports/studies_reports.cfm)

### **State aid cases (State aid Register)**

The Commission's State aid Register provides detailed information on all State aid cases which have been the object of a final Commission decision since 1st January 2000 as well as block exemption measures submitted by Member States. It is updated daily and thus ensures that the public has timely access to the most recent State aid decisions.

[http://ec.europa.eu/comm/competition/state\\_aid/register/](http://ec.europa.eu/comm/competition/state_aid/register/)

### **Annual Report on Competition Policy**

The Commission publishes an Annual Report on Competition Policy which summarises the most important policy and legal developments as well as the latest case-law.

[http://ec.europa.eu/comm/competition/annual\\_reports/](http://ec.europa.eu/comm/competition/annual_reports/)

### **Competition Policy Newsletter**

The Competition Policy Newsletter, which is published three times a year by DG Competition, includes a series of articles on specific legislative developments as well as interesting case-law. <http://ec.europa.eu/comm/competition/publications/cpn/>

### **State aid Weekly e-News**

The State aid Weekly e-News, launched in 2006, is distributed free of charge to more than 3500 subscribers. It sets out the activities of the Commission in the area of State aid, including the latest legislative developments, Commission decisions, news, upcoming events, reports and studies. [http://ec.europa.eu/competition/state\\_aid/newsletter/index.html](http://ec.europa.eu/competition/state_aid/newsletter/index.html)

### **EFTA State aid Scoreboard**

The EFTA Surveillance Authority (ESA) publishes an annual scoreboard on the volume of state aid granted in Iceland, Liechtenstein and Norway.

<http://www.eftasurv.int/information/pressreleases/2008pr/dbaFile14074.html>