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**Working Paper**

## COVID-19 credit-support programmes in Europe's five largest economies

Bruegel Working Paper, No. 03/2021

**Provided in Cooperation with:**

Bruegel, Brussels

*Suggested Citation:* Anderson, Julia; Papadia, Francesco; Véron, Nicolas (2021) : COVID-19 credit-support programmes in Europe's five largest economies, Bruegel Working Paper, No. 03/2021, Bruegel, Brussels

This Version is available at:

<https://hdl.handle.net/10419/237623>

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# COVID-19 CREDIT-SUPPORT PROGRAMMES IN EUROPE'S FIVE LARGEST ECONOMIES

JULIA ANDERSON, FRANCESCO PAPADIA AND NICOLAS VÉRON

In 2020, European governments mitigated the economic impact of COVID-19 lockdowns and other pandemic-fighting programmes through a host of initiatives. These included efforts to support credit, such as guarantees for bank loans, particularly to small- and medium-sized enterprises (SMEs). We present and analyse detailed information about those national credit-support programmes implemented in the context of fiscal policy, in Europe's five largest national economies (besides Russia) in 2020: France, Germany, Italy, Spain and the UK. The information was collected through thorough examination of published material and extended exchanges with national authorities and financial sector participants.

The analytical part of the paper focuses on two aspects:

- 1 How countries have dealt with the many trade-offs that emerged in designing and implementing the programmes;
- 2 What explains the differentiated usage of the facilities in the examined countries, as well as its levelling off in the second half of 2020.

Section 1 defines and describes the programmes. Section 2 presents the trade-offs we identified in programme design and implementation. Section 3 explores the factors explaining actual usage in the five countries and over time. Section 4 concludes. Annexes provide details on the programmes for each country (Annex 5) and in summarised matrix form (Annex 4).

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**Recommended citation:**

Anderson, J., F. Papadia and N. Véron (2021) 'COVID-19 credit-support programmes in Europe's five largest economies, *Working Paper* 03/2021, Bruegel

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## Acknowledgement

The authors are grateful to Ugo Albertazzi, Olivier Blanchard, Marcello Bofondi, Daniel Bouzas, David Buettner, Fredrik Bystedt, James Chew, Rebecca Christie, Francesco Columba, Fabrizio Coricelli, Pierre Darbre, Zsolt Darvas, Maria Demertzis, Lilas Demmou, Luc Dresse, Carlos Gómez Fernández, Guido Franco, Juan Diez Gibson, Alessandro Gullo, Mark Hallerberg, Hendrik Hartenstein, Patrick Honohan, Alexandre Jeanne, Benedikt Kolb, Kari Korhonen, Alexander Lehmann, Antoine Mathieu-Collin, Erik Nielsen, Stephen Pegge, Jean Pisani-Ferry, Niko Plennis, Alessandro Privitera, Sébastien Raspiller, Simon Ray, Alicia Sanchis, Dietmar Schwarz, Enrico Sette, Isabelle Vaillant, Guntram Wolff and Stavros Zenios for valuable feedback and encouragement.

## 1 National credit support programmes

COVID-19 lockdowns limited the spread of the virus, but also the circulation of money. In the first lockdown, from March to May 2020, Europeans reduced their consumption by 13 percent<sup>1</sup>. Even as dust gathered in deserted shops and workspaces, however, employees, suppliers and creditors still had to be paid.

Borrowing money is one of the main ways for businesses facing a revenue shortfall to maintain their liquidity – together with, say, cutting costs or selling assets. In their campaigns to support private-sector liquidity, European governments have provided loan guarantees and other credit support measures, together with tax deferrals, wages subsidies, other grants and loan moratoria.

### Scope of analysis

By choice, we only include in our analysis credit-support programmes that are (i) country-specific<sup>2</sup> and (ii) implemented in the context of fiscal policy. As a consequence, we do not include credit-support actions implemented by the European Central Bank (ECB), such as the corporate bond purchasing scheme<sup>3</sup> and the bank refinancing operations<sup>4</sup>. Our second criterion excludes the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME), whose stated objective is to enhance the effectiveness of monetary policy measures<sup>5</sup>. In the rest of this paper, the term 'credit-support programmes' is used to refer only to those programmes that fall within our scope of analysis thus defined. Our defined scope also excludes loan moratoria, though these programmes are complements to credit support.

The bulk of the credit-support programmes were announced as headline envelopes for guaranteed loans. On 27 March 2020, for instance, the German government announced €50 billion in grants for businesses and a €756 billion envelope to back loan guarantee programmes (though it was later clarified that the envelope dedicated to guarantee programmes was substantially smaller, ie €550 billion)<sup>6</sup>. This kind of announcement makes the credit support component appear dominant. In all surveyed countries, headline envelopes of credit support represent more than half of the rescue funds announced for businesses (Figure 1, Panel A) and are worth between 14 percent and 20 percent of GDP (Panel B). The envelopes, however, bear little relation to actual need and, as shown below, actual

<sup>1</sup> 2020 Q2. Source: Eurostat.

<sup>2</sup> The EIB programmes are briefly explored below, given their similarity to national programmes, but not separately included in our quantitative analysis.

<sup>3</sup> Under the Pandemic emergency purchase programme (PEPP) initiated in March 2020.

<sup>4</sup> Such as the targeted longer-term refinancing operations (TLTROs).

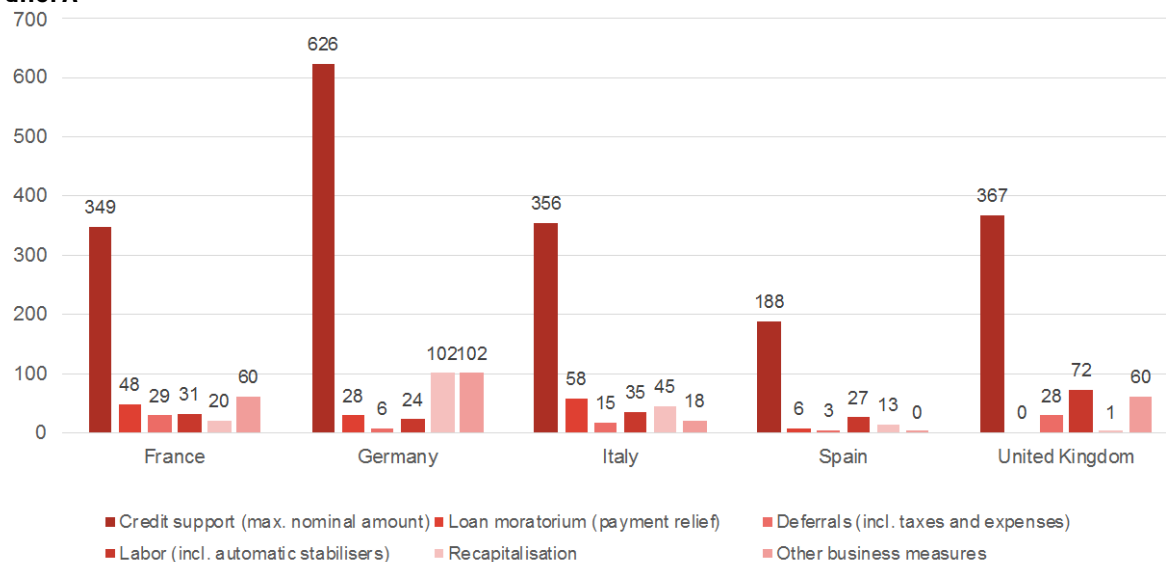
<sup>5</sup> *"When interest rates are low, it is likely to be difficult for some banks and building societies to reduce deposit rates much further, which in turn could limit their ability to cut their lending rates. In order to mitigate these pressures and maximise the effectiveness of monetary policy, the TFSME will, over the next 12 months, offer four-year funding of at least 10% of participants' stock of real economy lending at interest rates at, or very close to, Bank Rate. Additional funding will be available for banks that increase lending, especially to small and medium-sized enterprises (SMEs)".* Bank of England TFSME market notice, available at: <https://www.bankofengland.co.uk/markets/market-notices/2020/term-funding-scheme-market-notice-mar-2020>.

<sup>6</sup> The envelope contains two elements: a €400 billion for guarantees mainly to large firms through the Economic Stabilisation Fund (WSF, for Wirtschaftsstabilisierungsfonds) and a €150 billion increase in the lending capacity of the public financial institutions Kreditanstalt für Wiederaufbau (KfW). In addition, €100 billion out of the €600 billion WSF fund are allocated to support KfW in case it fails to raise funds on capital markets. Of these €100 billion, KfW had demanded €38 billion as of January 2021. See Answer of the Federal Government to formal question from members of parliament (<https://dip21.bundestag.de/dip21/btd/19/204/1920416.pdf>) and Budget 2020 ([https://www.bgbl.de/xaver/bgbl/start.xav#\\_bgbl\\_%2F%2F%5B%40attr\\_id%3D%27bgbl119s2890.pdf%27%5D\\_1612867870111](https://www.bgbl.de/xaver/bgbl/start.xav#_bgbl_%2F%2F%5B%40attr_id%3D%27bgbl119s2890.pdf%27%5D_1612867870111)).

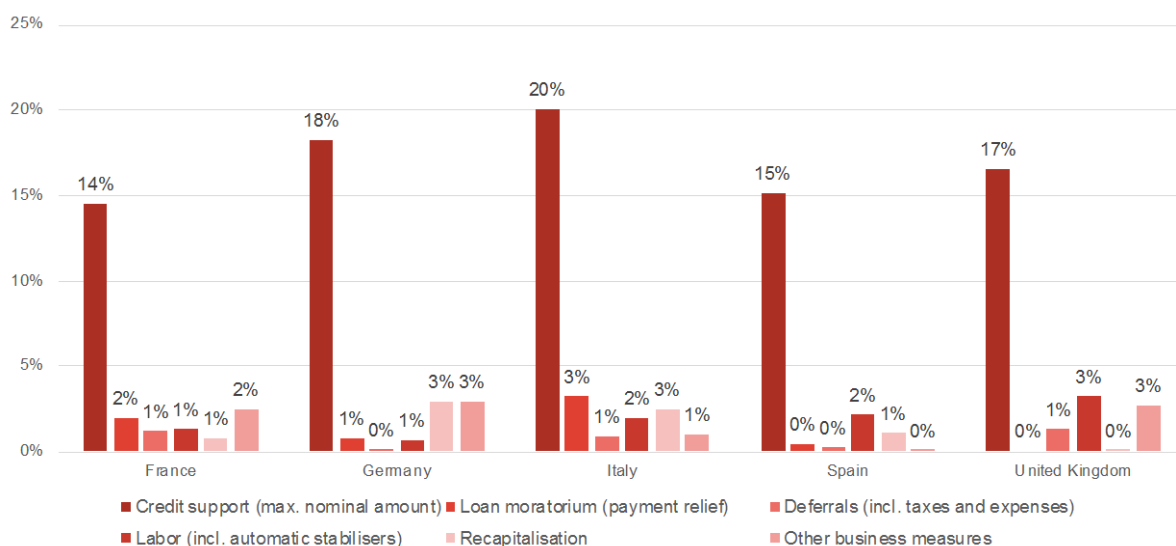
usage. Furthermore, credit support typically only costs public finances a fraction of the announced envelopes, since they tend not to be used to the fullest possible extent (see section 3) and most guaranteed loans are expected to be repaid.

**Figure 1: Announced support measures for businesses under COVID-19-related programmes in € billions (Panel A) and as % of 2019 GDP (Panel B)**

**Panel A**



**Panel B**



Source: Bruegel (2020) based on public announcements as of August 2020 or latest major announcement. Note: For loan moratorium, figures represent actual payment reliefs as estimated by the ECB (2020c). Deferrals (taxes and expenses) correspond to the 2020 budget impact (i.e. excludes intra-year deferrals). Spending announced and ratified by national governments for 2020. Excludes automatic stabilisers except for labour support measures (eg short-time work schemes). For loan moratoria, figures represent actual take-up as reported by the EBA (2020) and include both legislative and non-legislative moratoria. Limitations of the EBA data is detailed in the notes to Table 6. For Italy, figures exclude a €200 billion envelope for SACE export guarantees which was announced but not implemented in 2020. 'Credit support' includes small or regional programmes not included in the rest of this analysis. 'Other business measures' include direct recapitalisations, grants and other targeted subsidies.

Table 1 lists the main credit-support programmes announced and implemented in the five countries in the wake of the COVID-19 pandemic up to 30 June 2020 (see Annex 1 for a full list of all of the programmes included in this analysis).

**Table 1: Main COVID-19-related credit support programmes implemented in France, Germany, Italy, Spain and the UK**

<b>Credit support programmes</b>	<b>Number of programmes</b>	<b>Envelope of programmes (% total)</b>
Guarantee on loans and other non-trade credit	14	92%
Guarantee on trade credit	3	2%
Purchase of debt securities	2	5%
Funding of loans	1	See note
Subordinated loans	1	1%
Wholesale refinancing of loan portfolio	1	0%
<b>Total</b>	<b>22</b>	<b>100%</b>

Source: Bruegel. Note: Germany's KfW programme, which provides both loan guarantees and funding, is included here as one loan guarantee programme. In the UK, four programmes were announced under one envelope. For the purpose of this table, we split the envelope equally among the four programmes. Two regional guarantee programmes in Germany are extensions of existing schemes and were not announced with envelopes, so that their envelopes are not included here. GBP converted to EUR using exchange rate on 4 November 2020.

Table 1 shows that, in these five countries, guarantees on loans (and other non-trade credit) have been the preferred credit-support instrument and account for the vast majority of the announced volumes<sup>7</sup>. These programmes cover bank loans, but also promissory notes and overdrafts and invoice finance facilities, among others. In the rest of this paper, we refer to these programmes simply as 'loan guarantees'.

Nine of the ten largest programmes are loan-guarantee programmes (the tenth is the Bank of England's debt security purchase programme). These nine headline programmes account for 90 percent of the total envelope volumes. They are listed in Table 2.

<sup>7</sup> This is consistent with other OECD countries (OECD, 2020b).

**Table 2: Largest COVID-19 loan guarantee programmes in the five countries**

Country	Responsible body	Facilities	Date announced (2020)	Headline envelope (€ billion)
France	Ministry of Economy and Finance, via BPIfrance	70%-90% guarantees on loans	March 25	307
Germany <sup>2</sup>	Ministry of Finance (Bundesministerium der Finanzen, or BMF), via the Economic Stabilisation Fund (WSF)	Up to 90% guarantees on loans mainly to large corporations	March 23 but only approved by the European Commission on July 8 (Commission approval came within days for the other programmes in this table) <sup>8</sup>	400
	KfW	80%-100% guarantees on loans (including financing); syndicated loans	March 23; coverage increased to 100% on April 15	150
Italy <sup>3</sup>	SACE export credit agency (part of CDP group)	70%-90% guarantees on loan and other credit to large corporations and SMEs	April 8	250
	Central fund for SME guarantees (Fondo Centrale di Garanzia PMI)	80%-100% guarantees on loan and other credit to SMEs and mid-caps	March 17	100
Spain <sup>4</sup>	ICO	60%-80% guarantees on loans; 70% on promissory notes	March 24; extended to promissory notes on May 5; envelope increased on 3 July	179
UK <sup>5</sup>	British Business Bank (BBB)	80% guarantees on loan and other credit	March 23	92
		80% guarantees on loan and other credit to large corporations	April 20	92
		100% guarantees on loans	May 4	92

Source: Bruegel based on Kreditanstalt für Wiederaufbau (KfW), Bundesministerium für Wirtschaft und Energie (BMWi), Bank of Italy, French Ministry of Economics and Finance, Spanish Instituto de Crédito Oficial (ICO), UK Treasury, Bank of England, Google Finance (for currency exchange rates). Notes:

(1) In all cases, the envelope amount refers to the maximum nominal amount of credit committed.

(2) In the KfW envelope, we do not include the €100 billion allocated to support KfW in case it fails to raise funds on capital markets. WSF stands for Wirtschaftstabilisierungsfond.

(3) Commitments by the Fondo Centrale di Garanzia PMI are capped by its endowment. As of 17 March, the Fondo was set to guarantee up to €100 billion in loans. However, its endowment has since been increased, though no announcements have been made about changes in the envelope. The announced €100 billion envelope for the Fondo Centrale di Garanzia PMI includes provisions for the SME loan moratorium guarantee programme. The announced €200 billion envelope for SACE

<sup>8</sup> The slow approval was probably linked to the recapitalisation programmes within the WSF, which is not discussed here.

relates to the value of share of facilities under guarantee. For comparability, this figure is converted using the average of 80% guarantee coverage (i.e. to €250 billion).

A €200 billion programme to guarantee export credit, to be run by SACE, was announced on April 8 2020 but not expected to be implemented until 2021. It is therefore not included in this analysis. CDP stands for Cassa Depositi e Prestiti; SACE stands for Servizi assicurativi del commercio estero.

[4] €140 billion announced in two stages: €100 billion on March 24 and €40 billion on 3 July 2020. The second package is aimed at funding new investment projects. The announced €100 billion + €40 billion envelopes relate to the value of the share of facilities under guarantee (e.g. 80% of the facilities). For comparability, this figure is converted using the historical average of 76% guarantee coverage. Amounts include the €4 billion allocated to the promissory note guarantee programme on Spain's Mercado Alternativo de Renta Fija (MARF) and the €0.5 billion allocated to the counter-guarantee programme operated by CERSA.

[5] In the UK, four programmes were announced under one envelope. For the purpose of this table, we assume that the envelope is shared equally among the four programmes. GBP converted to EUR using exchange rate on 4 November 2020.

## **The central role of public financial institutions**

As Table 2 illustrates, public financial institutions play a central role as the administrators of national credit-support programmes on behalf of the respective governments. They administer 17 out of the 22 programmes listed in Table 1, and 8 out of the 9 largest loan-guarantee programmes in Table 2. The exception is the German €400 billion guarantee programme for large corporations, which is implemented directly by the Ministry of Finance (BMF).

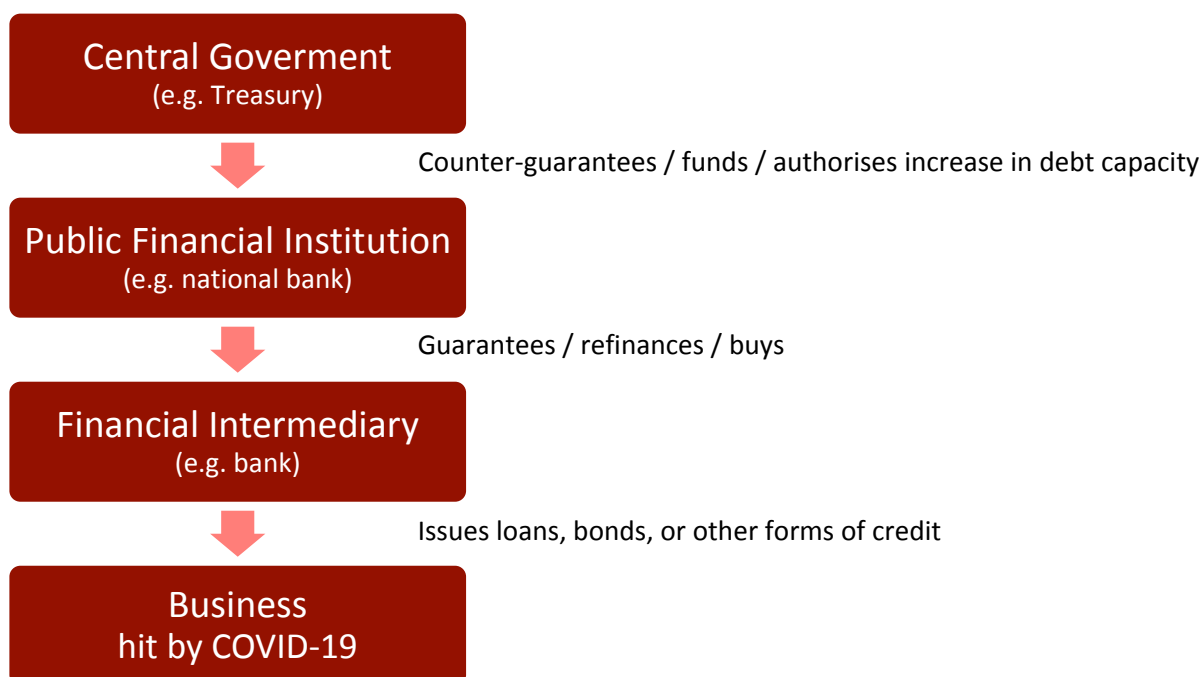
Figure 2 correspondingly illustrates the typical set-up. For example, under loan-guarantee programmes, a business applies to its bank for a loan. The bank assesses the request and refers the application to a national public financial institution in order to be granted a public guarantee on a portion of the loan (60 percent-100 percent). If the loan qualifies, the guarantee becomes a liability for the public financial institution. The central government, in turn, supports the balance sheet of the public financial institution through, eg fresh funding or a state counter-guarantee. Guarantees on trade credit follow a similar approach.

Among credit-support programmes other than loan guarantees, a minority do not rely directly on the participation of either public or private-sector financial intermediaries. Such programmes may be implemented by the central government directly, or through credit guarantee networks or with the help of private consultants. The Bank of England's bond purchase scheme (the COVID Corporate Financing Facility or CCFF), for example, functions without the direct involvement of private-sector intermediaries. Under this scheme, the Bank of England buys bonds directly on primary and secondary markets. The central government is, however, involved because losses incurred by the Bank of England under the scheme are indemnified by the Treasury.

Public financial institutions tend to be highly idiosyncratic. Whereas most are fully state-owned, Italy's CDP is partially owned by other shareholders. The way they are supported by the government also differs. The state bears a contingent liability in all countries. However, this liability is direct in some cases (eg in the German WSF programme where the guarantee is directly issued by the Minister of Finance) and indirect in others (eg in the German KfW programme, where KfW must use its own funds first). The fiscal liability may take different forms and mechanisms in these different circumstances, ultimately with varying consequences for taxpayers (see IMF, 2020b). In some cases, the contingent liability is supplemented by additional funds for the public financial institution on the asset side (eg the Federal Government will support KfW for up to €100 billion if KfW fails to raise funds on capital markets).



**Figure 2: Typical functioning of credit-support programmes**



Source: Bruegel.

Table 3 provides more detail on each of the public financial institutions involved in the headline guarantee programmes.

**Table 3: Public financial institutions in the headline loan-guarantee programmes**

Country	Implementing institution	Legal form and supervision	Ownership	Central government's fiscal liability
France	Bpifrance (known before 2013 as Banque Publique d'Investissement) <sup>9</sup>	Private-sector <i>société anonyme</i> with a banking license, under direct ECB supervision	Caisse des dépôts et consignations (CDC) 50%, French state 50%. CDC is itself a public financial institution which is fully owned by the French government.	The Treasury is the guarantor.
Germany	Kreditanstalt für Wiederaufbau (KfW)	Corporation under public law, supervised by Germany's BaFin	Federal Republic of Germany 80%; 16 States ( <i>Bundesländer</i> ) 20%	The Treasury is the guarantor of last resort. KfW to use its own funds first. The Federal Government also supports KfW in case it fails to raise funds on capital markets (up to €100 billion).
Italy	Central Guarantee	Public fund	Ministry for Economic	The Treasury is the

<sup>9</sup> Bpifrance was created in 2013 through the merger of several public operators (OSEO, CDC Entreprises, and Fonds Stratégique d'Investissement). References to Bpifrance pre-2013 refers to these predecessor entities.

	Fund for SMEs	managed on behalf of the Ministry for Economic Development by Mediocredito Centrale (full name “Banca del Mezzogiorno – MedioCredito Centrale”), a bank fully owned by the Italian government since 2017 and directly supervised by the Bank of Italy under ECB supervisory oversight	Development	ultimate guarantor. Endowment increase funded by the Italian State.
	SACE export credit agency	joint-stock company, supervised by the Bank of Italy, the Institute for the Supervision of Insurance and the Court of Auditors.	Fully owned by Cassa Depositi e Prestiti (CDP). CDP is itself owned 83% by the Italian Ministry of Economy and Finance and 16% by private banking foundations <sup>10</sup> .	The State counter-guarantees SACE's obligations.
Spain	Instituto de Crédito Oficial (ICO)	Corporate state-owned entity, supervised by the Bank of Spain	Fully owned by the Spanish government. Attached to the Ministry of the Economy and Digital Transformation.	The Treasury is the ultimate guarantor.
United Kingdom	British Business Bank (BBB) <sup>11</sup>	Public limited company; no independent supervision	Fully owned by the UK government. Attached to the Department for Business, Energy and Industrial Strategy (BEIS).	BEIS is the ultimate guarantor and all programme costs are covered by the Treasury.

Source: Bruegel based on OECD (2009, 2013, and 2020a), exchanges with relevant national authorities.

All of the public financial institutions in Table 3 (or their predecessors) share experience of administering guarantee schemes in times of stress. In the aftermath of the 2007-2009 global financial crisis, public guaranteed loans to SMEs more than doubled in Italy and the UK and rose by more than a third in France and Spain (OECD, 2013).

Thanks in part to this prior experience, public financial institutions reacted relatively quickly to the COVID-19 crisis. In fact, most public financial institutions built on existing programmes, expanding their coverage or relaxing the eligibility criteria. The volumes, however, have been unprecedented. For

<sup>10</sup> 66 banking foundations which also typically have equity participations in Italian banks.

<sup>11</sup> The British Business Bank (BBB) was created in 2014 through the combination of Capital for Enterprise Limited (CfEL), a limited company owned by the Department for Business Innovation and Skills (BIS), and of the BIS SME policy teams. References to BBB pre-2014 refers to CfEL.

instance, only six months into the COVID-19 crisis, Bpifrance had guaranteed €115 billion worth of loans, or over three times more than in the whole of 2019<sup>12</sup>.

## State aid control

The EU state aid framework generally prohibits national governments from subsidising or otherwise selectively supporting local businesses<sup>13</sup>. The possible exceptions are enumerated in the Treaty on the Functioning of the European Union (TFEU) and further specified in European Commission regulations<sup>14</sup>. Most public guarantees are viewed by the Commission as state aid, to the extent that they are provided under preferential terms (eg premiums that do not reflect market risk)<sup>15</sup>.

All but one of the programmes included in this analysis received exemptions from the general prohibition on state aid, by specific European Commission decision<sup>16</sup>. These exemptions were, for the most part, granted on the basis of Article 107(3)(b) TFEU. This article allows for large government interventions where there is a “*serious disturbance*” in the economy of an EU country<sup>17</sup>. In March 2020, the European Commission ruled that COVID-19 qualifies as such a serious disturbance (first for Italy, then for the entire EU) and, as it did in 2008<sup>18</sup>, adopted a Temporary Framework (‘TF’) designed to support the speedy processing of Article 107(3)(b) TFEU state aid notifications<sup>19</sup>.

<sup>12</sup> Bpifrance 2019 Annual Report, available at: <https://www.bpifrance.fr/content/download/118487/981300/version/1/file/EPIC%20Bpifrance%202019%20Annual%20Report.pdf>.

<sup>13</sup> Programmes that meet the following four criteria are considered state aid: (i) the intervention is made by the state or involves a transfer of state resources, (ii) the intervention gives the recipient an advantage on a selective basis, (iii) competition has been or may be distorted, and (iv) the intervention is likely to affect trade between member states. See Vademecum [2008].

<sup>14</sup> The General Block Exemption Regulation or GBER declares certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty [Commission Regulation (EU) N°651/2014 of 17 June 2014]. Specifically, the so-called *De Minimis* regulation allows state aid in the form of guarantees with coverage up to 80% for loans up to €1.5 million over a 5-year period provided the beneficiary is not subject to collective insolvency proceedings nor fulfils the criteria under its domestic law for being placed in collective insolvency proceedings at the request of its creditors. [Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de-minimis* aid].

<sup>15</sup> A public guarantee scheme is deemed market-conform (and thus, not constituting aid) only if it satisfies the following criteria: (i) it is closed to companies in difficulties; (ii) it is linked to specific transactions and limited in time and amount; (iii) it covers 80 percent or less of the outstanding loan (or other financial obligation); (iv) its premiums cover normal risks, administrative costs and an adequate remuneration of capital; (v) premiums are reviewed once a year (to ensure conformity with (iv)); (vi) the terms are set out in a transparent manner (eg eligible companies). For SMEs, and provided that conditions (i) to (iii) are met, the Commission applies a safe-harbour premium or allows for a single premium (avoiding the need for individual ratings of beneficiary SME) for guaranteed amount up to €2.5 million per company (in a given scheme). See Vademecum [2008] and Commission Notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees [2008].

<sup>16</sup> The exception is the CDP’s programme for the wholesale refinancing of loan portfolio, which increases the budget of the existing ‘Piattaforma Imprese’ scheme without changing its terms and conditions other than price.

<sup>17</sup> Aid to firms negatively impacted by the economic fallouts of COVID-19 may also be granted on the basis of Article 107(3)(c) TFEU (as further specified in the Rescue and Restructuring State aid Guideline) and on the basis of Article 107(2)(b) TFEU. Under Article 107(3)(c) TFEU, Member States may grant aid to firms facing acute liquidity needs and support undertakings facing financial difficulties. Under Article 107(2)(b) TFEU, Member States may grant aid to compensate for damage directly caused by the COVID-19 outbreak, such as damage directly caused by quarantine measures precluding the beneficiary from operating its economic activity.

<sup>18</sup> European Commission, ‘Communication: Temporary framework for State aid measures to support access to finance in the current financial and economic crisis’ C(2008) 270/02.

<sup>19</sup> Communications C(2020) 112, 13 March and C(2020) 1863, 19 March. The latter (TF) was amended on 3 April 2020 [C(2020) 2215], 8 May 2020 [C(2020) 3156], 29 June 2020 [C(2020) 4509] and 13 October 2020 [C(2020) 7127].

The TF sets broad guidelines for state aid granted to firms on the basis of Article 107(3)(b). Importantly, undertakings that were already in difficulty on 31 December 2019 are ineligible to receive state aid (Box 1). While initially set to expire on 31 December 2020, the TF was prolonged multiple times, and most recently until 30 June 2021<sup>20</sup>.

Most state aid measures deployed in the context of COVID-19<sup>21</sup> have been notified under the TF. Of the 21 programmes that received exemptions from the general prohibition on state aid, 18 were notified under the TF. The remaining three are guarantees on trade credit, an instrument that is not covered under the TF (but is still notified under Article 107(3)b TFEU).

#### **Box 1: EU definition of 'undertakings in difficulty' (UID)**

An undertaking is in difficulty when at least one of the following circumstances occurs:

1. More than half of its capital has disappeared as a result of accumulated losses\*;
2. It is subject to, or fulfils the criteria for, collective insolvency proceedings;
3. It has received and is still subject to aid or restructuring;
4. In the case of an undertaking that is not an SME, where, for the past two years:
  - (1) the book debt to equity ratio has been greater than 7.5 and
  - (2) the EBITDA interest coverage ratio\*\* has been below 1.0.

\*other than an SME in existence for less than three years (or, for SMEs carrying out R&D and innovation activities, within 7 years from its first eligible sale).

\*\* ratio of earnings before interest, tax, depreciation and amortisation (EBITDA) to interest payments

The TF also includes conditions that specifically apply to loan-guarantee programmes. Box 2 describes these.

<sup>20</sup> C(2020) 7127, 13 October 2020. It was further prolonged to December 2021 in January 2021 (C(2021) 564).

<sup>21</sup> 269 out of 317 as of 5 November 2020.

## Box 2: Conditions on loan-guarantee programmes under the TF

Under the TF, loan-guarantee programmes must have the following characteristics:

*Minimum premia:* increase with loan duration and are lower for SMEs, as set out in the following table (bp=basis point, a hundredth of a percentage point):

Type of recipient	For 1st year	For 2nd-3rd years	For 4th-6th years
SMEs	25bps	50bps	100bps
Large enterprises	50bps	100bps	200bps

*Maximum length of the programme:* guarantees may be granted until 30 June 2021.

*Maximum amounts:* for loans with a maturity beyond 30 June 2021, the overall amount of loans per beneficiaries shall not exceed

- Double the wage bill for 2019; or
- 25% of 2019 total turnover; or
- With appropriate justification, enough to cover the liquidity needs of the coming 12-months (18-months for SMEs).

For loans with a maturity before 30 June 2021, the amount of the loan principal may be higher with appropriate justification.

*Usage:* the guarantee shall relate to investment and/or working capital loans.

*Maximum duration of the guarantee:* up to six years

*Maximum coverage:* 90 percent, provided losses are sustained proportionally and under the same conditions by the credit institution and the State

With the exception of maximum amounts, the conditions above may be modulated, eg a shorter duration can offset a higher coverage.

For guarantees that are channelled through financial institutions, the TF specifies that the financial institutions must pass on the advantages of the public guarantee to the final beneficiaries. These advantages can be passed on in the form of higher volumes, a riskier portfolio, lower guarantee premiums or lower interest rates than would have prevailed without the public guarantee.

The TF sets an upper bound on the benefits individual beneficiaries can derive from the public credit-support programmes. However, these conditions leave much space for national variations – allowing, for example, some countries to offer 90 percent guarantees while others limit the guarantee coverage to 60 percent. Furthermore, the framework does not cover all aspects of the programmes, notably leaving the size of the envelope up to national governments. We discuss these differences in more detail in section 2.

## The prudential framework

Credit institutions are subject to prudential rules that dictate the minimum amount of capital and liquidity they must hold. Public guarantees benefit from preferential treatment in this regard. Under the EU Capital Requirements Regulation (CRR)<sup>22</sup>, reduced capital requirements apply to the portion of exposures covered by eligible public guarantee schemes (up to 0 percent). In order to be eligible for reduced capital requirements, a public guarantee must meet the conditions set out in the CRR<sup>23</sup>, mainly that the state guarantee be unconditional and irrevocable. All the main credit support programmes considered in this analysis are eligible.

Because of the COVID-19 crisis, prudential rules have been modified to ensure that lenders are not deterred from participating in the public support programmes because of capital constraints. Public guaranteed credit, in particular, has been granted favourable treatment by a combination of EU guidelines<sup>24</sup>, new EU legislation<sup>25</sup> and ECB statements<sup>26</sup>. These changes reduce the minimum provision requirements for non-performing exposures (NPEs) which are covered by public guarantee schemes to 0 percent<sup>27</sup>. The prudential treatment of public guarantees is an important benefit for banks, which will be further discussed in section 3.

## The role of the European Investment Bank

On 26 May 2020, the European Investment Bank established the structure and business approach of a European Guarantee Fund (EGF) to tackle the economic consequences of the COVID-19 pandemic. The EGF is a €25 billion fund set up by EU countries and managed by the EIB. The EIB calculates that the incentive impact of the EGF could leverage up to €200 billion of additional lending.

EGF support takes the form of guarantees for portfolios of loans originated by national promotional banks, local banks and other financial intermediaries. The ultimate beneficiaries are private firms, public sector companies active in the area of health, and venture capital and debt. EGF instruments also include asset backed securitisations of bank loan portfolios, equity investments in venture capital and private equity funds. The EGF will support the operations of the EIB and the European Investment Fund (EIF), which will carry out the operations.

In addition to the EGF, the EIB plans to dedicate liquidity lines of €10 billion to support bank lending to SMEs and mid-caps, €10 billion to purchase of asset-backed securities of bank SME loan portfolios, and €1 billion for the speedy financing of guarantee schemes (mobilising up to €8 billion).

<sup>22</sup> Regulation (EU) No 575/2013.

<sup>23</sup> Eligibility of guarantees as unfunded credit protection under CRR Part Three, Title II, Chapter 4 (Credit risk mitigation).

<sup>24</sup> Interpretative Communication on the EU's accounting and prudential frameworks ('Supporting businesses and households amid COVID-19') of 28 April 2020.

<sup>25</sup> Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic (OJ L 204, 26.6.2020, p. 4–17), also known as the 'CRR Quick Fix'.

<sup>26</sup> 20 March 2020, 'ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus', available at: <https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200320-4cddbcbf466.en.html>.

<sup>27</sup> Specifically, the measures "align the minimum coverage requirements for non-performing exposures that benefit from guarantees granted by national governments or other public entities with those for non-performing exposures that benefit from guarantees granted by official export credit agencies", namely 0 percent for the first seven years of the NPE vintage count.

## 2 Design choices and trade-offs

Public policy is the art of trade-offs, of balancing objectives against one another. In designing credit support programmes, policymakers face difficult trade-offs. Take risk assessment for example. How much documentation should governments require from applicants? More documentation allows for better fraud detection. But onerous documentation requirements slow disbursements and many firms are not in a position to wait. How much fraud should be tolerated for the sake of speed? The answer depends on each government's preferences.

The primary objective of credit-support programmes is to rapidly counter the liquidity shortfalls caused by the lockdowns and the ensuing low demand, thus protecting viable but illiquid businesses from turning insolvent because of the pandemic. Such help can be especially vital for micro-businesses, the self-employed and SMEs, which find it difficult to access bank financing, even in normal times.

Ideally, all firms with viable business models should be saved, and only those. But distinguishing viable from unviable businesses requires accurate information, perfect foresight and a lot of time. Lacking that, policymakers can opt to help all firms indiscriminately. This strategy maximises reach and speed, but is very expensive and may even hamper future growth prospects if it ends up 'zombifying' parts of the economy. In practice, policymakers must design programmes in a way that optimises benefits against costs – and they must do so under intense time pressure, speed being critical to the measures' success.

The first cost to be taken into account is borne by taxpayers. A share of the government-sponsored credit will not be repaid, incurring costs for the public purse in the medium term. In the UK, for instance, the Office of Budgetary Responsibility estimated that called guarantees will cost the British government £20 billion in 2020-2021 (OBR, 2020).

Design choices that minimise costs increase the risk of wrongly excluding firms with viable business models. Lower guarantee coverages (eg 80 percent), for example, increase banks' incentives to run rigorous credit checks, thus minimising transfers to non-viable or fraudulent firms. But lower coverages also affect banks' ability to support distressed businesses on a large scale and may slow down disbursements.

Policymakers must also consider the impact of their programmes on long-term economic growth. Some sectors may not recover fully from the COVID-19 crisis. Public support for those sectors may interfere with efficient downsizings or consolidations, thus propping up unviable firms and zombifying parts of the economy (importantly, the risks of zombification related to loan moratoria are not discussed here).

Zombie firms sap resources at the expense of more productive rivals and have been blamed for poor macroeconomic performance in the past (eg Banerjee *et al*, 2020). To reduce their emergence, programmes could focus on future-oriented industry. But short of perfect foresight, restrictions designed to stave off zombies risk erroneously excluding promising businesses. In the context of COVID-19, Gagnon (2020) argued that zombie firms should not be a concern as the economy is operating below potential. Killing zombies in a crisis context can only make things worse: GDP immediately suffers while reallocation takes time. Furthermore, the uncertainty about the shape of the post-COVID-19 economy remains massive and will only lift gradually<sup>28</sup>.

<sup>28</sup> As *Financial Times* columnist Kate Allen put it (4 February): "The support postpones the need to address questions we simply cannot yet answer: which of the hardest-hit sectors – such as travel, entertainment, physical retail and

A third cost to consider is the cost imposed on the financial sector. Loose credit requirements and artificially-low interest rates maximise the programmes' reach. However, they may also propel a wave of non-performing loans (NPLs) that impair banks' profitability (though it must be noted that banks benefit from cheap funding through ECB lending programmes, such as the TLTRO). Features that promote wide take-up of the programmes must be balanced against their costs for financial sector stability.

The design challenge is thus to maximise the number of firms with viable business models that receive support quickly (ie the programme's reach), all the while containing the negative effects for taxpayers, long-term growth and banks. Table 4 summarises the resulting trade-offs.

Although not addressed here, it should be noted that the scope of complementary support measures also affects the design of credit-support programmes. Some governments prioritised direct transfers over credit support, so that generous grant schemes, for instance, may be counterbalanced by less generous credit support.

**Table 4: Impacts of design choices on the reach of credit-support programmes, on public funds, on the risks of zombification and on the health of the financial sector**

Design choice	Programme reach	Public funds at risk	Zombification risk	Financial sector impact
Long-running programme (up to June 2021)	+	-		
High guarantee coverage (up to 100%)	+	-	-	+
High amount per firm (up to 25% 2019 turnover)	+	-	-	
Long maturity (up to 10 years)	+	+	-	-
Grace period on repayment (up to 2 years)	+	-		
Capped interest rates	+		-	-
Subsidised costs (eg interest)	+	-	-	
No refinancing of existing debt	+	+	+	-
No constraints on dividends, management remuneration, share buyback, etc	+			
No requirement of forward-looking assessment	+	-	-	
Looser credit criteria (as defined in TF/De Minimis)	+	-	-	-
Simplified screening procedure	+	-	-	
Prioritise hard-hit sectors	+		-	
Explicit backing of the central government	+	-		
Prioritise SMEs and micro-enterprises	+	-		-

Source: Bruegel based on country information summarised in Annex 4.

Note: [+] indicates a desirable impact while [-] indicates an undesirable impact.

*hospitality – will revive, and to what extent? Will companies encourage workers back to the office, and how will economic clusters such as cityscapes change as a result?* See <https://www.ft.com/content/ac2828ad-7930-43ef-a227-1cbd8ff8c018>.



As to how policymakers position themselves on these trade-offs, we observe five choices that are common across the five countries analysed. First, SMEs are prioritised: all the main public guarantee programmes feature higher coverage levels (up to 100 percent) and simpler assessment procedures for smaller firms. This suggests a greater tolerance of losses when it comes to smaller businesses, which tend to have smaller buffers and be less diversified in their sources of both revenue and financing, and are thus more vulnerable to shocks (IMF, 2020a). Second, dividend payments are banned by all major programmes. Third, all countries chose to run their programmes for as long as the TF allows for (or two months short of it in the UK). Fourth, except for the German 100 percent guarantee programme, eligibility criteria are very close to those set out under the TF or *De Minimis* regulation<sup>29</sup>. And finally, all major guarantee programmes meet the updated CRR criteria for lenders to benefit from capital relief on the portion of the loan under guarantee.

Beyond these similarities, countries positioned themselves quite differently on the trade-offs discussed above. Table 5 summarises our reading of the position taken by each country on the features listed in Table 4. The analysis relates to the main loan-guarantee programmes, and focuses on the conditions offered to SMEs (which account for more than 50 percent of programme usage in all countries; see Figure 5). See Annex 4 for a full account of the main programmes, including those targeting large companies.

**Table 5: Countries' positions on the design trade-offs for loan-guarantee programmes to SMEs**

	France	Germany	Italy	Spain	UK
<b>Businesses reached</b>	++		+++	---	
<b>Public funds at risk</b>		+++	---		--
<b>Risk of zombification</b>		+++	---	++	--
<b>Financial sector impact</b>	---		+++		+++

Source: Bruegel.

Notes: Countries were rated on each of the features listed in Table 4 on a scale from 0 to 3. The colour scheme presents country's relative performance on each of trade-offs, with green signifying desirability e.g. Italy presents the lowest impact on the financial sector but the highest risk of zombification (in red). The table reflects the programme conditions as of November 1<sup>st</sup> 2020. See details in Annex 2.

Table 5 shows that France has pursued reach aggressively. A wide reach is achieved through mandated extra-low interest rates (close to 0 percent) and amounts per firms that are as generous as the TF allows for (25 percent of 2019 turnover), among other things. On the downside, this strategy places a relatively high burden on banks while increasing the risk of zombification and thus of a future drag on growth.

Spain lies at the other end of the spectrum in terms of reach<sup>30</sup>. Its programme offers the lowest guarantee coverage, up to 80 percent compared to 90-100 percent elsewhere. The programme leaves both taxpayers and the financial sector moderately exposed, notably because of the high amounts per firm on the one hand, and the low guarantee coverage on the other.

<sup>29</sup> Deviations are observed in Italy, but they are small. The main programmes exclude firms that present exposures classified as 'non-performing' or 'probable default' as of 31 January for SMEs and mid-caps and 29 February 2020 for large corporations, compared to 31 December 2019 under the TF. The main French programme initially excluded undertakings subject to collective insolvency proceedings since 1 January 2020, but this restriction was removed in May 2020.

<sup>30</sup> Note however that, on 17 November 2020, the Spanish government relaxed some of the conditions of the ICO loans, extending the maximum maturity date from five to eight years and extending the grace period from 12 months to 24 months for loans with original maturities is no longer than 24 months. See the Spanish Annex for details.

The Italian and British programmes weigh more heavily on the public coffers than on the financial sector. Among other things, both offer high guarantee coverage (up to 100 percent), long maturities (up to 10 years) and subsidised fees. These features raise the risk of zombification (as previously mentioned our analysis here ignores the risk of zombification that may come from moratoria, as exist in the cases of France, Germany, Italy and Spain). While the risk for taxpayers and of future zombification is greater under the Italian programmes, they also achieve greater reach than their British counterpart – partly thanks to the prioritisation of hard-hit sectors.

Finally, Table 5 suggests that Germany has achieved a relatively balanced position on the trade-offs explored here. While the German programmes achieve average reach, the potential impact on public funds and banks is minimised. The conditions for accessing its 100 percent programme is unique in its stringency; it is restricted to firms that have been active since at least 1 January 2019, that have made a profit in years 2017-2019 or in 2019, and that have more than 10 employees<sup>31</sup>. Germany also appears to have contained the risk of zombification relative to the other countries, thanks to an absolute prohibition on debt refinancing, a non-sectorial approach, and the absence of any subsidies on costs.

Policymakers faced difficult trade-offs in designing the schemes. But beyond the design choices other factors affect how many firms receive support and the costs to governments. These include the scale of resources dedicated to the good execution of the programme (eg expert staff), the legal certainty ensured to banks (eg clear guidelines for credit checks), and *ex-post* features to disincentivise the abuse of the public guarantee schemes without slowing the disbursement (eg rigorous *ex-post* evaluations and public disclosure of the relevant information).

### 3 Differences in usage across countries and over time

Some programmes are widely used, others much less. In Spain, loan commitments guaranteed under the programme reached 9 percent of GDP by December 2020. In Germany, the comparable figure was only 1 percent (Figure 4). What explains such differences?

#### Observed differences in usage

By ‘usage’ we mean the loans actually committed to individual companies under the support programme, as opposed to the headline envelopes referred to in section 1. Not all such commitments result in actual lending, because some businesses may obtain a bank’s agreement for a guaranteed loan but then opt to not use it<sup>32</sup>. Nevertheless, we take these commitments as the most relevant metric of programme implementation.

Figure 3 shows the evolution of government-backed credit support under the various programmes in the different countries. The figures capture 15 programmes, namely the 14 credit-guarantee programmes and one corporate debt-purchase programme for which usage figures were made

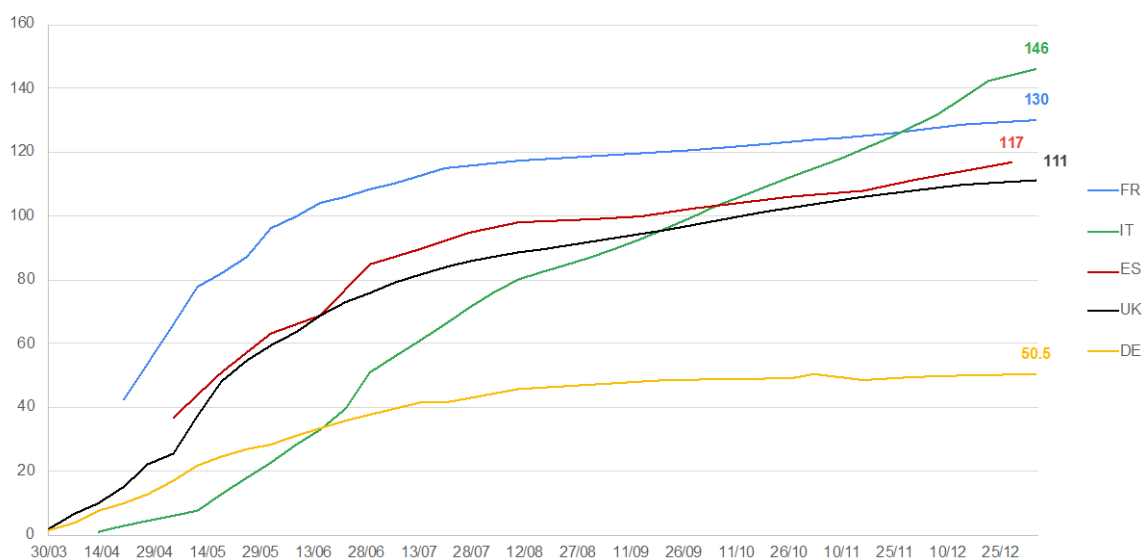
<sup>31</sup> This last exclusion criterion was removed on 6 November 2020 ([https://www.kfw.de/KfW-Konzern/Newsroom/Aktuelles/Pressemitteilungen-Details\\_616256.html](https://www.kfw.de/KfW-Konzern/Newsroom/Aktuelles/Pressemitteilungen-Details_616256.html)).

<sup>32</sup> In Germany, for instance, about a third of KfW-guaranteed loans that have been approved has not yet been used as of July 2020. Evidence submitted to and reviewed by the EBA suggests that, as of September 2020, German firms had made less use of the guaranteed funds obtained than their French, Italian and Spanish counterparts.

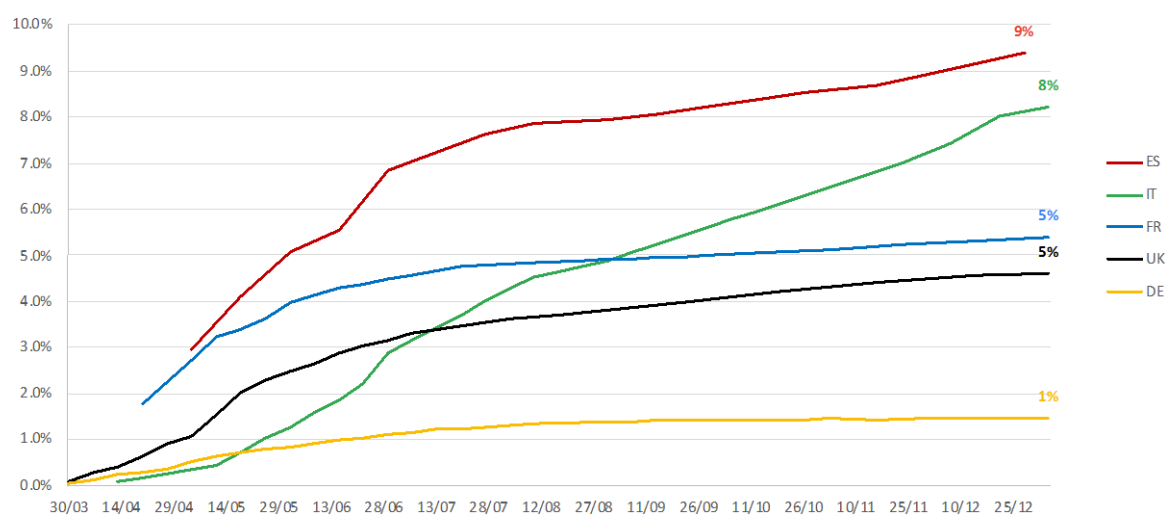
available. In each country, these programmes represent at least 90 percent of the programmes reported in Table 1 (in terms of envelope). Annex 3 details all the programmes included in Figure 3.

**Figure 3: Government-backed credit support to businesses in billion € (Panel A) and as % 2019 GDP (Panel B), as of end-2020**

**Panel A**



**Panel B**



Source: Bruegel based on KfW, BMWi, Italian Treasury (Task Force per l'efficiente e rapido utilizzo delle misure di supporto alla liquidità), French Ministry of Economics and Finance, ICO, UK Treasury, Bank of England.

Note: See Annex 3 for details of the programmes included and methodological note.

Credit-support programmes broadly fall in three categories: (i) programmes targeted at micro, small and medium-sized enterprises (SMEs)<sup>33</sup>; (ii) programmes targeted at larger companies<sup>34</sup> and (iii) 100

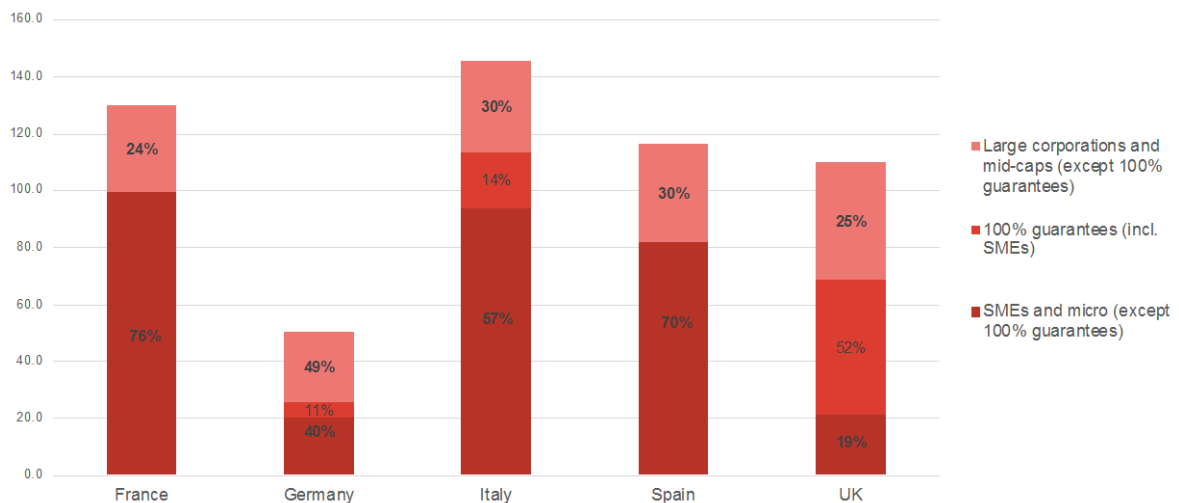
<sup>33</sup> Defined as enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding €50 million (or £45 million in the UK).

percent guarantee programmes which tend to be open to companies of all sizes but, since they are capped at €30,000 - €800,000 per firm (following state aid rules), are most attractive to smaller firms.

Figure 4 breaks down usage of the main credit support programmes into these three categories. The split between large firms and smaller ones is remarkably similar across all countries. Large firms capture around 25-30 percent of usage everywhere but in Germany, where the share is nearly 50 percent (Panel A). But the high proportion of credit to large firms in Germany reflects the low participation of smaller firms rather than an over-representation of the larger ones. Indeed, as a share of GDP, large German firms used the programmes at the same rate as in the other countries, but small firms less so (Panel B). This is consistent with the fact that conditions on the 100 percent guarantee programmes are relatively stringent (more details below). As a share of GDP, Spain dominates for both large companies and SMEs. In the UK, the 100 percent guarantee programme dominates both as a share of total usage and as a percentage of GDP.

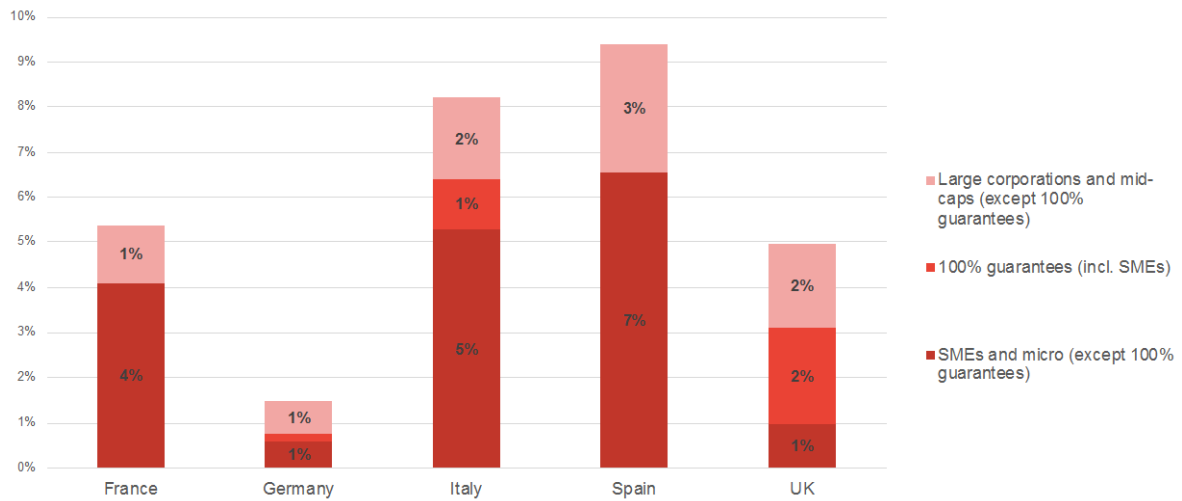
**Figure 4: Usage of the main credit-support programmes, by programme type in billion € (Panel A) and as a share of 2019 GDP (Panel B)**

**Panel A**



<sup>34</sup> Defined as enterprises which employ 250 persons or more and which have an annual turnover exceeding €50 million (or £45 million in the UK).

## Panel B



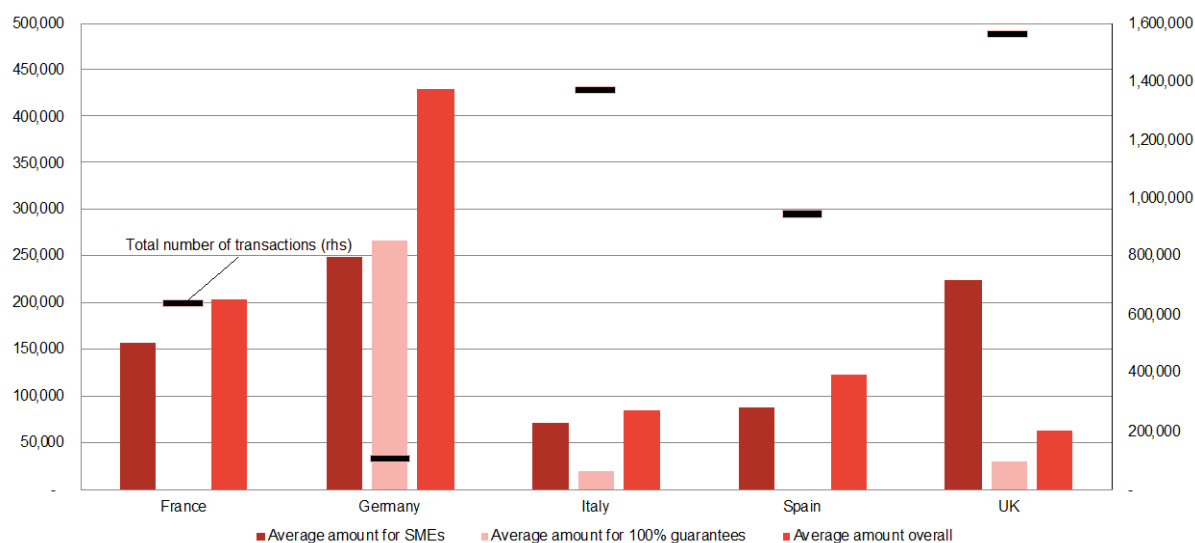
Source: see Figure 3.

Note: Because of lack of data, for Italy, all SACE guarantees are allocated to large corporation, even though the programme is also open to SMEs. For Germany, all loans under €3 million are allocated to SMEs (consistently with KfW's own methodology). Includes the same programmes as Figure 3, except for Germany where the regional programmes are excluded because of lack of information about the break-down by company size (approx. 7% of total usage).

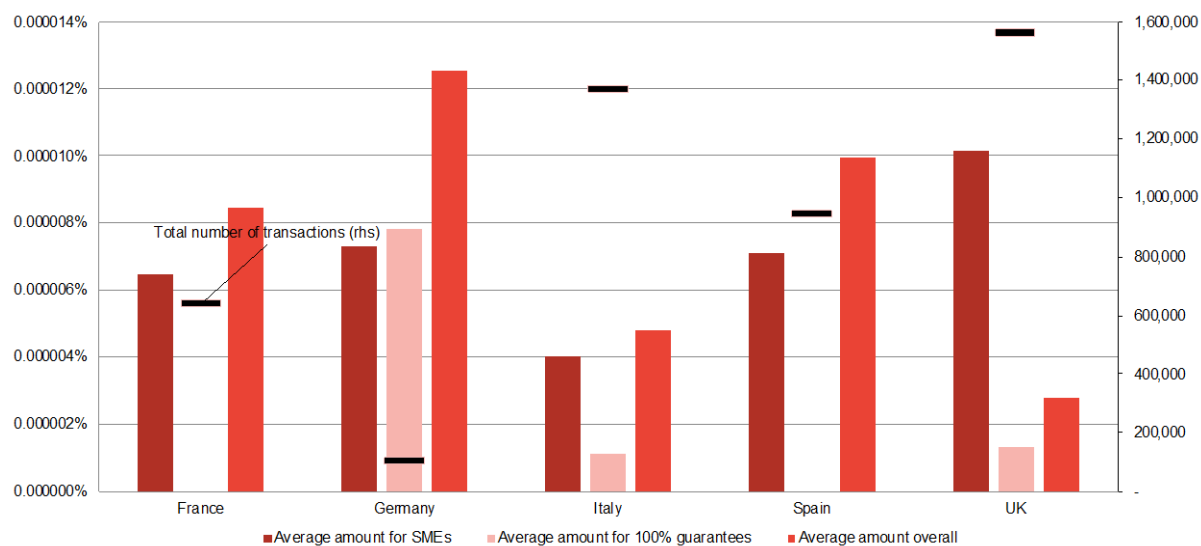
Figure 5 shows the average size of the guaranteed credit instruments (overall, to SMEs only and for 100 percent guarantees only). It reveals different patterns across countries. Italy and the UK saw many lower-value transactions, in part reflecting the low caps on their 100 percent guarantee programmes (€30,000 in Italy and £50,000 in the UK). Germany, on the other hand, is characterised by few high-value transactions. France and Spain lie somewhere in between these two extremes.

**Figure 5: Average amount per transaction under the main credit-support programmes, by programme type in € (Panel A) and as a share of 2019 GDP (Panel B)**

**Panel A**



**Panel B**



Source and note: see Figure 4.

An explanation of the different levels of usage of the facilities across the different countries is a first step in assessing the effectiveness of the programmes. It will also help understand what their impact could be on national economies and on the competitive positions of firms in the recovery phase.

As well as differences between countries, we consider the time dimension. In four of the five countries, the usage of the programmes gradually levelled off in most of the covered countries, from weekly growth rates of 6-7 percent in June 2020, to 1 percent in September. The exception is Italy, which caught up after a late start. The stabilisation has been apparently unaffected by health-related shocks: there has been no visible acceleration of usage to match the dramatic rise in COVID-19 cases (and consequent social distancing measures) seen since late 2020.

The rest of this section first addresses the differences between countries in usage, and then the differences over time.

### An ideal model

Ideally, one would like to have a quantitative approach to answer the question about the different usage across countries, modelled on the following equation:

$$\frac{U}{Y} = a N + b C + m CON + c E + l CB + g H + d S + \varepsilon$$

Where:

- **U** is the actual usage of the credit support programmes, in €
- **Y** is GDP, also in €

#### *Demand factors*

- **N** is a measure of firms' liquidity needs. These depend on private sector indebtedness, size of liquidity buffers, scale of other public support programmes and drop in GDP, caused in turn by the economy's sectorial composition and the severity of the lockdown, among other things
- **C** is the cost for beneficiaries: e.g. interest rates, conditionalities such as constraints on dividends or manager pay
- **CON** are the eligibility constraints: e.g. UID test, other excluding criteria (e.g. forward-looking assessment), eligible transactions (e.g. refinancing allowed)

#### *Supply factors*

- **E** is for the ease of use of the programme (namely the administrative burden on banks and/or beneficiaries)
- **CB** is the cost and benefit for banks, e.g. cap on interests, capital relief, other conditions on banks
- **H** is a measure of banking sector health pre-crisis (e.g. capital ratio),
- **S** is the total envelope of the credit support programme, in €, which can be influenced by the fiscal space available to the country

a, b, c, d, l, m and g are parameters, and it is expected that a, c and g >0 while l and m <0.

Intuitively, the usage of credit support programmes should be positively related to the liquidity need of firms, the health of the relevant bank, and the ease of using the programmes. Furthermore, higher costs for banks and firms and stricter eligibility constraints should dampen usage of the public programmes.

The signs of d and l, by contrast, are undetermined *a priori*, because the effect of the envelope size is primarily psychological and thus hard to gauge; and the cost to the firm is the return to the bank and it is not obvious which side prevails.

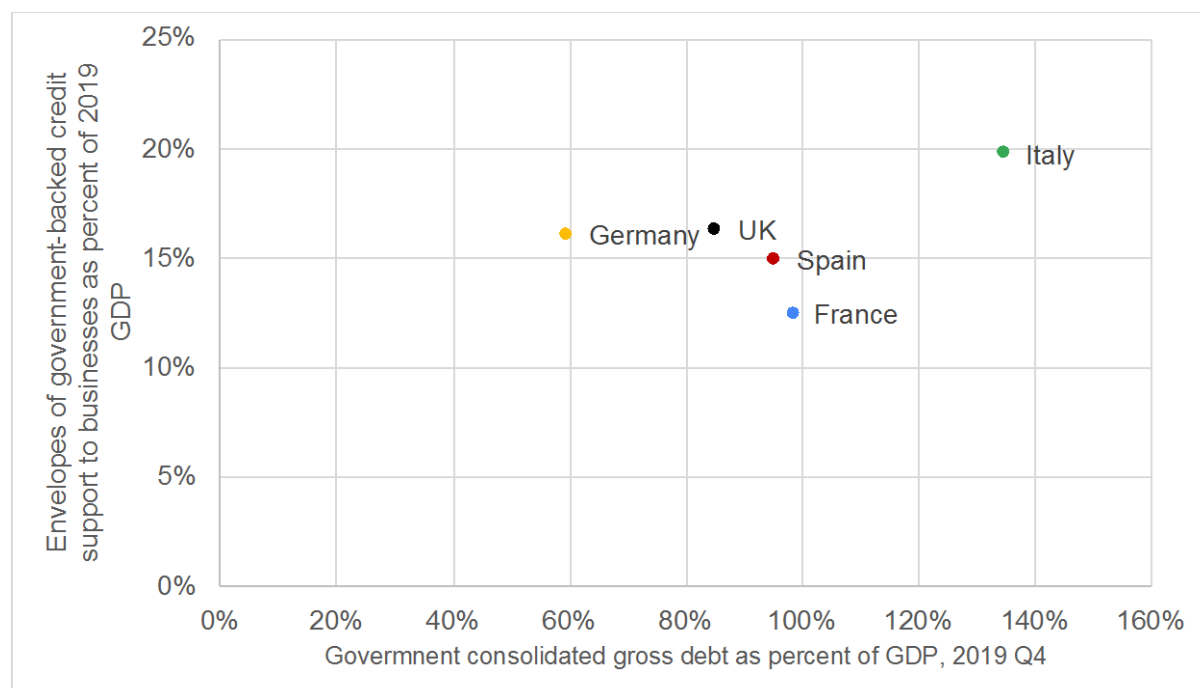
Estimating an equation of the kind written above is not possible, anyway: first because identifying precise empirical quantities for all the variables is not straightforward; and second, most importantly, because with five countries in our sample, there are just too few degrees of freedom. Adding more countries to our sample would have mitigated this problem, but would also have exceeded our research resources.

Instead, we use the equation as a framework when thinking about actual programme usage – to help disentangle the respective roles of supply of, and demand for, credit support in driving the observed volumes. This model underpins the following exploration of the potential explanatory factors of credit support usage across countries. We note, however, that analysing these correlations simultaneously is not equivalent to looking at them separately – some complex interactions are not captured.

### National fiscal capacity

Concerns were formulated at the start of the crisis by various observers<sup>35</sup> that more highly indebted EU countries would be fiscally constrained in extending business assistance, thus putting companies established on their territory at a competitive disadvantage. And indeed, Germany, the least-indebted country in our sample, announced early a very large €756 billion envelope, while Spain, Italy and France, announced ostensibly more modest efforts (Figure 6)<sup>36</sup>.

**Figure 6: Envelopes of main government-backed credit-support programme compared to government debt (as % 2019 GDP)**



Source: Bruegel based on Eurostat. Note: see Figure 3.

Actual usage, however, as Figure 7 suggests, shows an altogether different relationship to debt burdens. The amount of credit support used in low-debt Germany has been relatively small, while that in higher-debt Spain, Italy and France has been greater. If there is a correlation between government debt and credit support usage, it is a positive one. Relatedly, there is no relationship between the size of the envelope and the level of usage (Figure 8). In Spain, when usage came close to matching the envelope, the latter was simply increased so that it did not act as a practical constraint<sup>37</sup>. So while

<sup>35</sup> See for instance <https://www.ft.com/content/65f22d03-fca2-4ac9-a4e4-65789e19cf9f>.

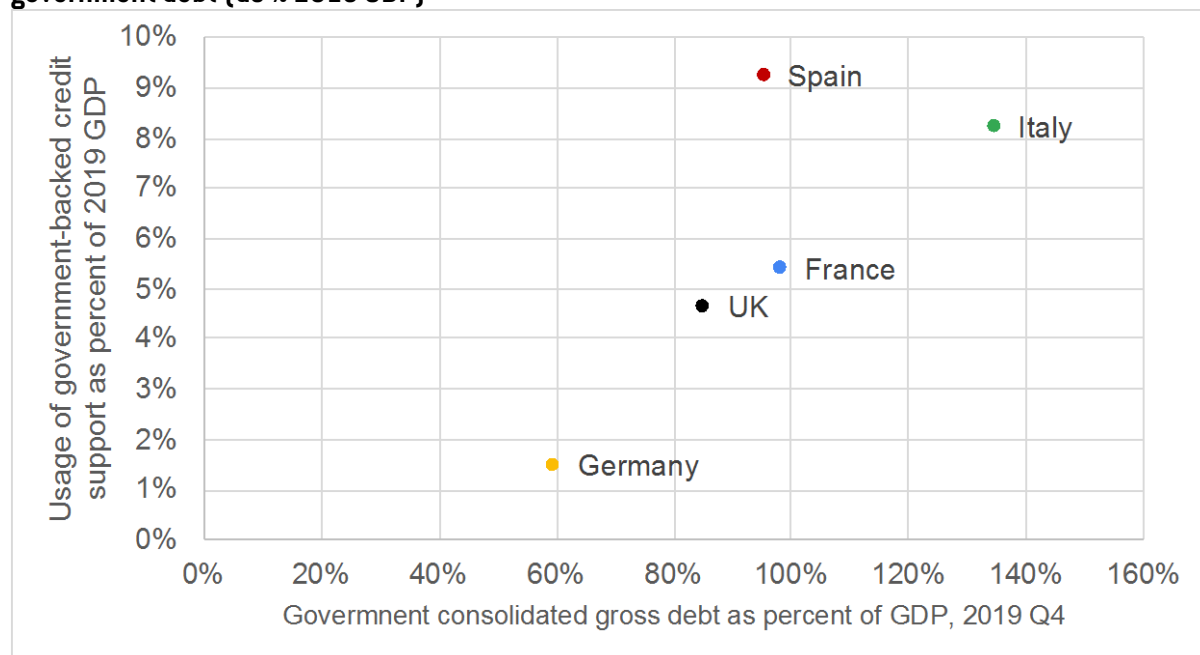
<sup>36</sup> Note that EU fiscal rules under Stability and Growth Pact were suspended until December 2021. Statement of EU ministers of finance on the Stability and Growth Pact in light of the COVID-19 crisis of 23 March 2020.

<sup>37</sup> Though the second package, announced on 3 July, has a different scope than the first package. The first package is aimed at supporting businesses' working capital needs, while the second more narrowly targets SMEs and is limited to funding new investment projects.



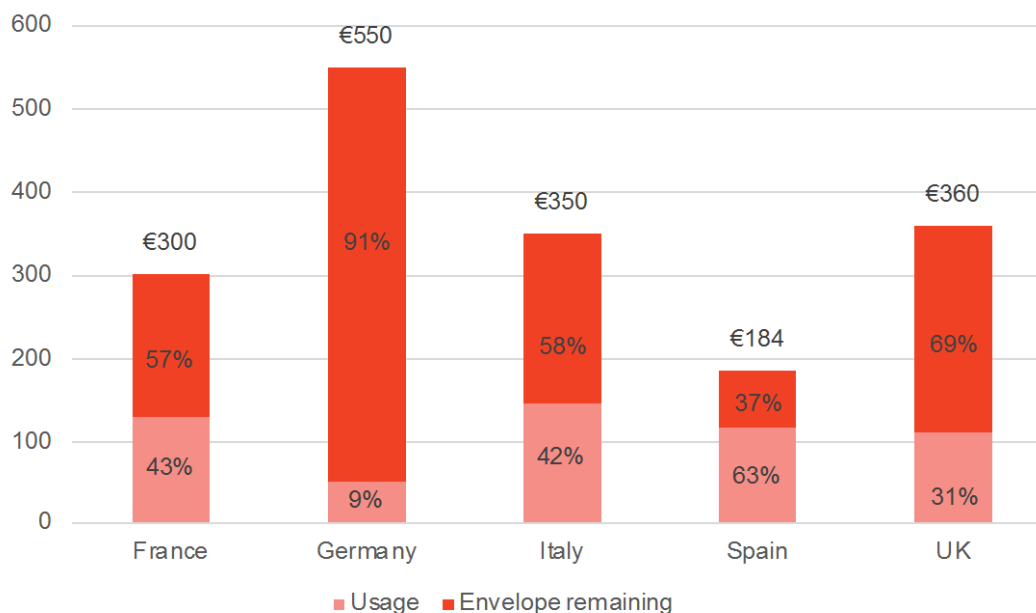
national fiscal capacity may have influenced the setting of the envelope size, it has not played an observable role in explaining the usage patterns displayed in Figure 3.

**Figure 7: Usage of the main government-backed credit-support programmes compared to government debt (as % 2019 GDP)**



Source: Bruegel based on Eurostat. Note: see Figure 3.

**Figure 8: Usage of the main government-backed credit-support programmes, in billion € and as a share of total envelopes**



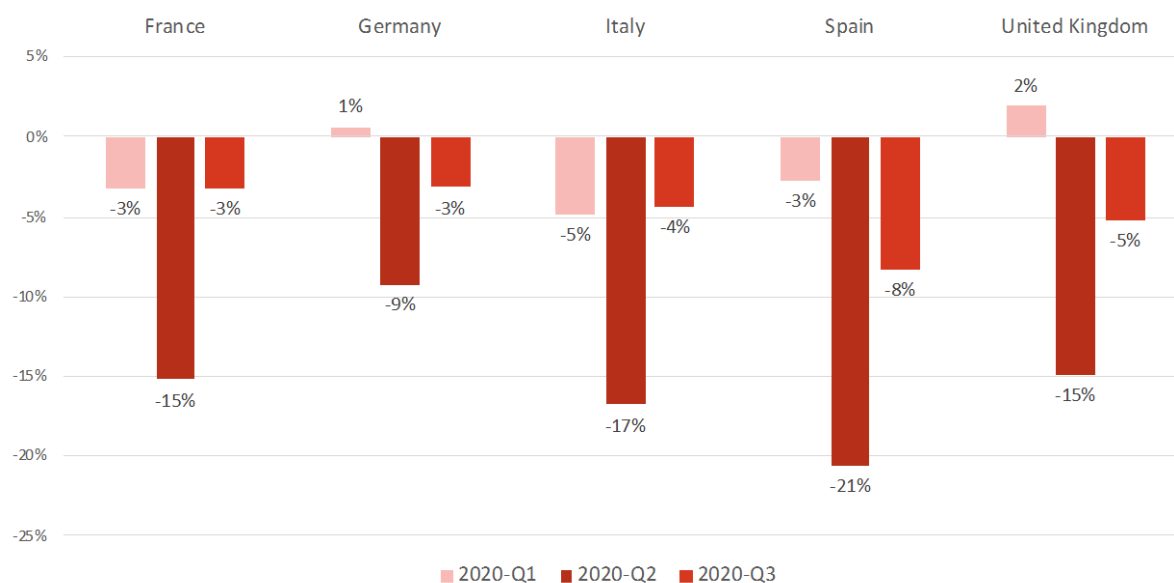
Source: Bruegel based on Eurostat. Note: see Figure 3.

### Liquidity needs of firms

For a given firm, the greater the revenue shock, and the smaller the liquidity buffers, the higher the need for liquidity support to manage expenses, to refinance existing debt, and/or to build precautionary buffers.

The five countries included in this analysis suffered unequal economic shocks as measured by GDP. These differences reflect divergences in the severity of lockdown, the structure of national economies, and the quality of governance (Sapir, 2020). The depth of GDP losses is correlated to the liquidity stress suffered by firms. GDP figures suggest that the pandemic hit businesses hardest in Spain and mildest in Germany (Figure 9). France, Italy and the UK lie in between these two extremes.

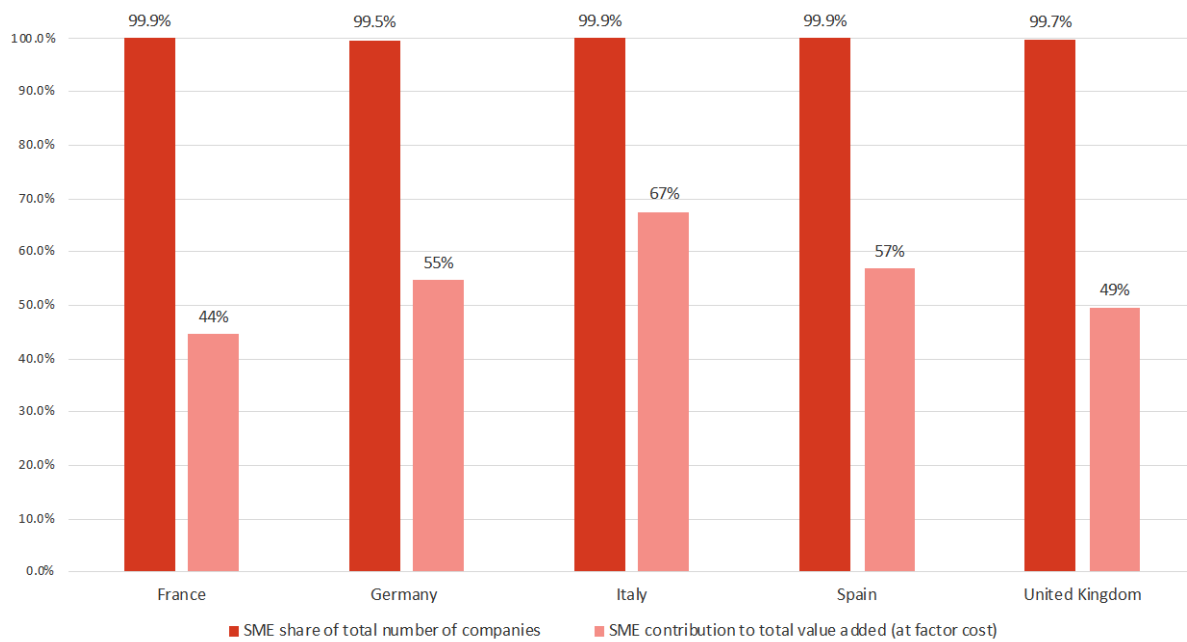
**Figure 9: Change in gross domestic product (GDP) in Q1-Q3 2020 (compared to the same quarter of previous year)**



Source: Eurostat. Note: GDP at market price, unadjusted data, figures as of February 2021

The economic structure of each country also determines firms' aggregate demand for liquidity. SMEs are more likely to need government support. For an equal revenue shock, smaller firms are more vulnerable than their larger counterparts since they have, on average, thinner equity cushions, lower liquidity buffers, fewer financing options and less-diversified revenue sources (IMF, 2020). Figure 10 shows that while SMEs are the backbone of all European economies, their contributions to value added are greatest in Italy and least in France.

**Figure 10: The importance of micro-enterprises and SMEs (2018 or latest available data)**



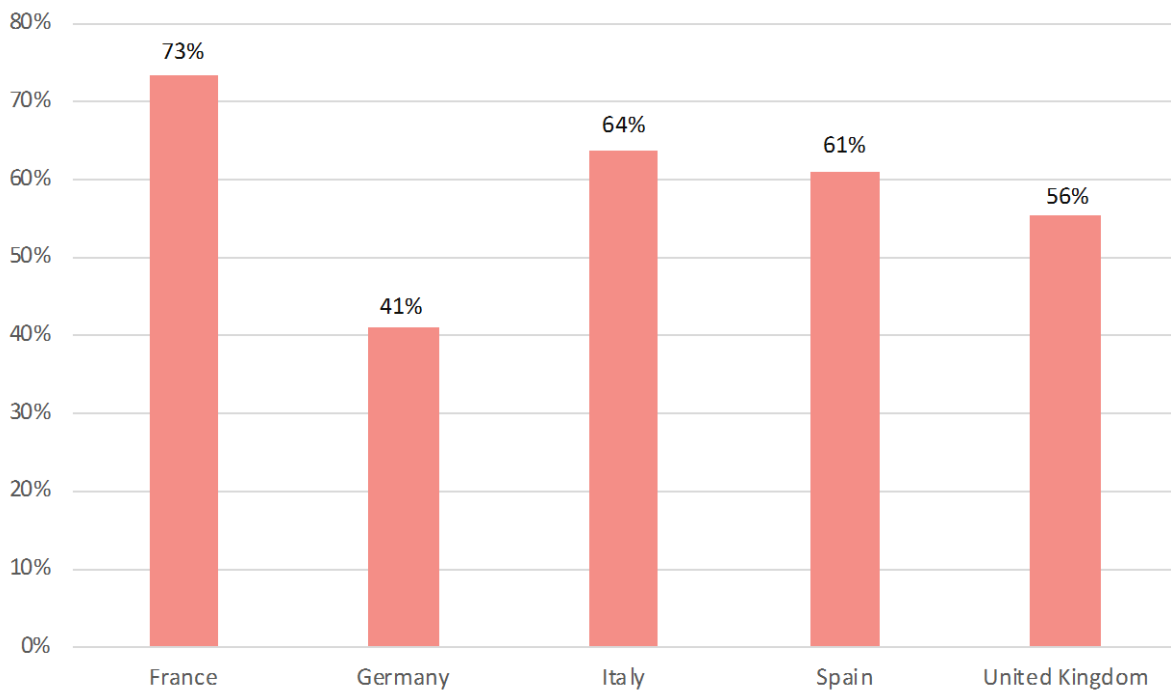
Source: Eurostat. Note: Eurostat defines micro-enterprises and SMEs as firms with up to 249 employees.

The state of firms' balance sheets pre-crisis also determined how much cash they required to withstand the revenue shock. Debt creates liquidity needs for borrowers, for interest and principal payments. Thus, other things being equal, the higher the debt, the higher the liquidity need of firms suffering a revenue shock. But high levels of debt may also deter borrowers (as well as lenders) if they fear a worsening of their debt position.

It is worth noting that there does not appear to be a relationship between the contribution of SMEs to the economy and their share of take-up of the programmes (as reported in Figure 4).

Figure 11 indicates that, in 2019, corporate debt was highest in France (short-term as well as overall), lowest in Germany (59 percent) and intermediate in the other three countries. Note however that the figures include firms of all sizes and it is not clear how they extrapolate to SMEs.

**Figure 11: Corporate debt as a % of GDP (non-consolidated, 2019 Q4)**

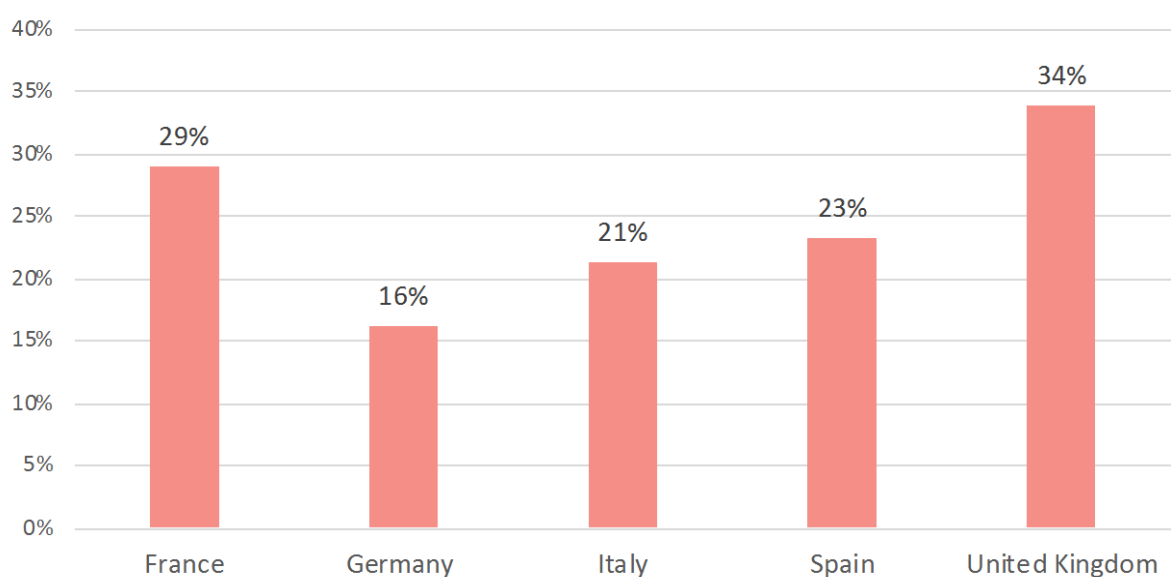


Source: Banque de France 'Endettement des Agents non financiers - Comparaisons internationales'.

Note: Net of intra-firm transfers.

Insights from the global financial crisis have confirmed that firms entering into a crisis with high cash buffers are better placed to weather a downturn (Joseph *et al*, 2020). Figure 12 shows variations in corporate liquid assets across countries. British and French firms entered the crisis with the largest cash reserves, Germans with the smallest. Note that, as with Figure 12, the figures include firms of all sizes – SMEs may display different patterns.

**Figure 12: Corporate liquid assets in 2019 (% of GDP)**

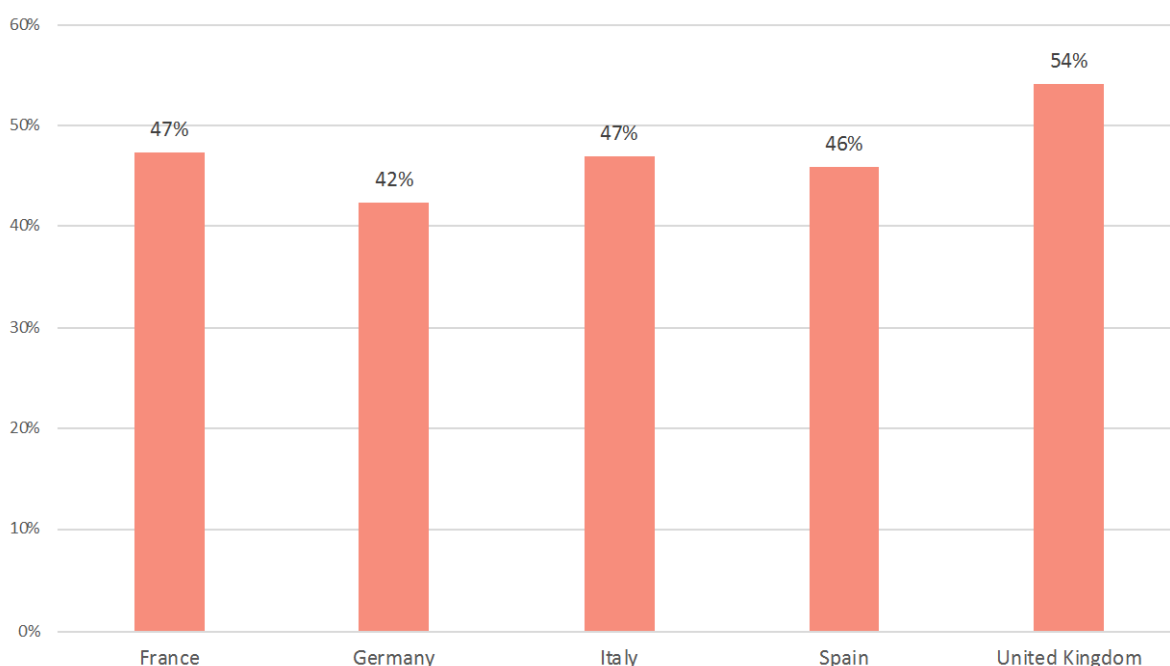


Source: Bruegel based on Eurostat, non-consolidated financial balance sheets.

Another indicator of firms' liquidity need is provided by a firm-level analysis conducted by the OECD (2020c). The study estimates that, in the absence of government intervention, 42-54 percent of firms would face a liquidity shortfall after 10 months of confinement. These estimates are based on a realistic two-wave scenario and assume different shocks to firms in different sectors.

The figures narrowly fluctuate across countries: from 42 percent in Germany to 54 percent in the UK (Figure 13). However, because of data limitations, the figures are less reliable for Germany and the UK<sup>38</sup>. Figure 13 suggest that the vulnerabilities to a liquidity shortfall are broadly comparable across the five countries.

**Figure 13: Share of firms facing a liquidity shortfall after 10 months under a two-wave scenario and no policy intervention**



Source: OECD (2020c). Note: based on ORBIS firm-level data, figures are less reliable for Germany and the UK.

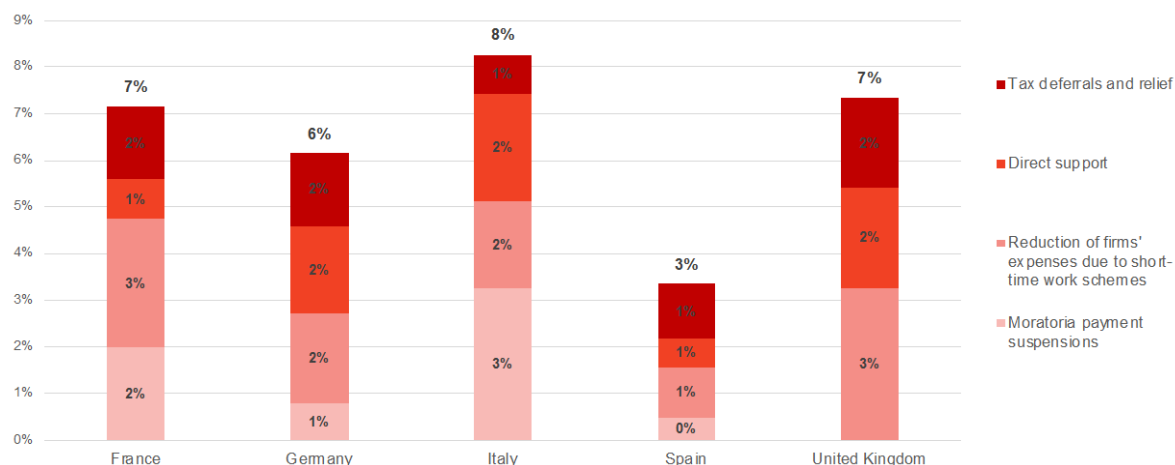
Finally, firms' need for credit support is determined to a great extent by the availability of public support from other programmes. These include business grants, tax deferrals, direct recapitalisation and labour support schemes, such as short-time work. Germany stands out as the country with the largest programmes other than credit support (14 percent of GDP), while Spain trails at 3 percent (Figure 14).

Both Germany and the UK offer small-value grants to micro-enterprises and SMEs<sup>39</sup>. These grants may have substituted for smaller-value credit support, thus explaining the high value per transaction for SMEs (as described in Figure 5) as well as the lower share of loans to SMEs in Germany (as described in Figure 4).

<sup>38</sup> Also note that, in November 2020, the Bank of Italy estimated that 20 percent of firms would face a liquidity shortfall in December 2020 compared with 47 percent according to the OECD (Bank of Italy, 2020). However, the Bank's estimate excludes non-incorporated firms, a common corporate structure in the sectors most hit by the pandemic, which represent around 20 percent of Italian value added.

<sup>39</sup> An estimated €15 billion in the UK for grants of £10,000 and £25,000 per company (depending on the rateable value of properties, estimate by the Office for Budget Responsibility or OBR). €6.2 billion in Italy for grants to up to €800,000 per company.

**Figure 14: Usage of non-credit based government support to businesses**



Source: Bruegel based on ECB (2020c).

Early in the pandemic, national authorities and banks in France, Germany, Italy and Spain introduced legislative and non-legislative moratoria on loan repayments for business borrowers in financial difficulty<sup>40</sup>. Moratoria eased short-term liquidity pressures on businesses by allowing borrowers to postpone debt repayment by several terms. Loan moratoria thus act as complement to the guarantee programmes in easing liquidity stress. They do so for a limited period, however. In a sample of banks that report to the EBA<sup>41</sup>, virtually all moratoria were due to expire by December 2020, and more than half had expired by September (EBA, 2020)<sup>42</sup>. Table 6 presents the share of loans under moratoria granted by banks that report to the EBA (estimated by the EBA) as well as the estimated payment relief provided by the moratoria (estimated by the ECB)<sup>43</sup>. Note that the EBA data suffers from several shortcomings. First, it is consolidated and thus includes loan moratoria granted in all countries (including non-EU) in which banks operate. Second, it only includes EBA-reporting banks thus excluding a significant share of German banks in particular<sup>44</sup>. And finally it is a snapshot as of June 2020, thus only capturing moratoria implemented during the first wave of COVID-19.

<sup>40</sup> For details of these measures in EU countries refer to EBA (2020).

<sup>41</sup> <https://www.eba.europa.eu/eba-publishes-updated-list-reporting-institutions-2020>.

<sup>42</sup> As of 2 December 2020, the EBA reactivated its Guidelines on legislative and non-legislative moratoria until end-March 2021, leading to possible extensions.

<sup>43</sup> See <https://www.eba.europa.eu/eba-publishes-updated-list-reporting-institutions-2020>.

<sup>44</sup> See <https://www.bruegel.org/2020/05/banking-regulation-in-the-euro-area-germany-is-different/>.

**Table 6: Moratoria issued by EBA-reporting banks on loans to non-financial companies (NFCs) as a percentage of total outstanding NFC loans (Consolidated, June 2020)**

	<b>% of loans under moratoria</b>	<b>Estimated payment relief of loan moratoria</b>	<b>Broad moratoria?</b>
<b>France</b>	12.0%	2.0%	Yes, non-legislative
<b>Germany</b>	1.0%	0.8%	Yes, legislative
<b>Italy</b>	15.0%	3.3%	Yes, legislative
<b>Spain</b>	6.0%	0.5%	Yes, legislative and non-legislative
<b>United Kingdom</b>	No data	No data	No, non-legislative <sup>45</sup>

Source: Bruegel based on EBA (2020) for the % of loans under moratoria; ECB (2020c) for estimated payment relief. Note: Figures include both legislative and non-legislative moratoria. Figures also include loans to counterparties of all regions that are granted moratoria and, therefore, for some countries, these exposures may be particularly driven by their banks' presence in other countries (including non-European Economic Area countries) through their subsidiaries.

Table 7 summarises the seven country indicators just discussed (except loan moratoria) and ranks countries on the basis of these indicators<sup>46</sup>. The higher the score, the greater the need for credit support compared to other countries. Italy leads, closely followed by France and Spain. Germany and the UK have the lowest scores. This simple analysis suggests that firms' liquidity needs can partly explain the differences in usage across countries. Countries with the highest scores have seen the highest levels of disbursements, while those with the lowest scores have disbursed the least.

**Table 7: Summary of country indicators of firm liquidity need**

	<b>France</b>	<b>Germany</b>	<b>Italy</b>	<b>Spain</b>	<b>United Kingdom</b>
Cumulative GDP change as of 2020 Q3	-7%	-4%	-9%	-11%	-7%
SMEs' share of value added	44%	55%	67%	57%	49%
Corporate debt	73%	41%	64%	61%	56%
Corporate liquid assets	29%	16%	21%	23%	34%
Firms facing liquidity shortfall	47%	42%	47%	46%	54%
Usage of non-credit public liquidity support	6%	7%	6%	3%	7%
Loan moratorium (payment relief)	2%	1%	3%	1%	0%
<b>Firm liquidity need (comparative, normalised score)</b>	<b>0.1</b>	<b>0.0</b>	<b>0.5</b>	<b>1.0</b>	<b>0.0</b>

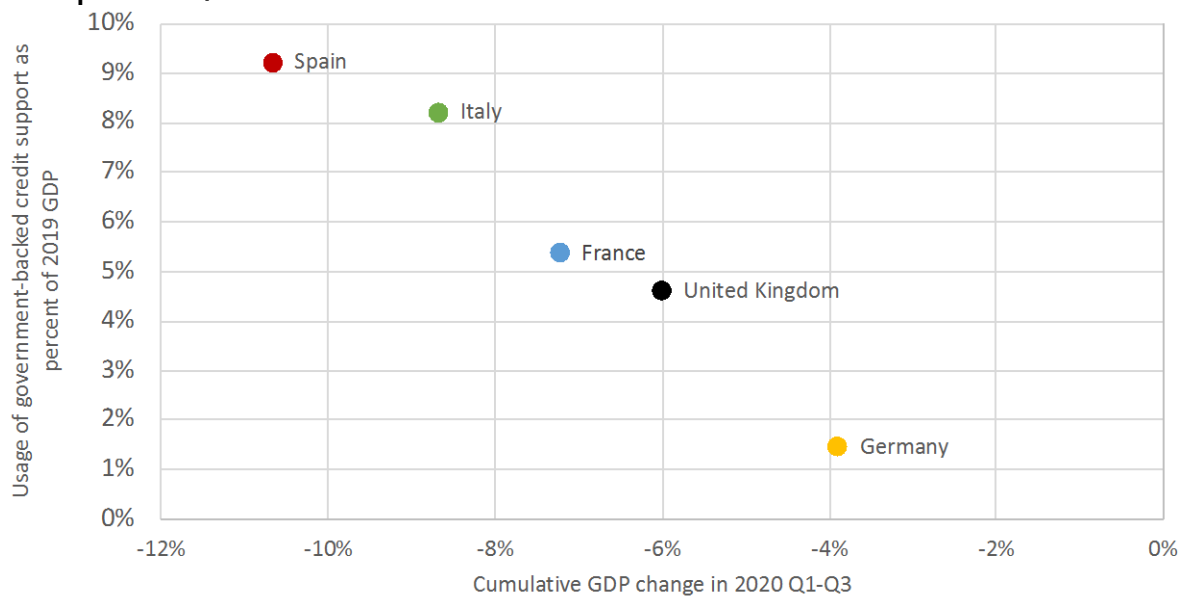
Source: Bruegel.

Out of all the liquidity need factors considered, the best predictor of usage of the credit-guarantee programmes is the GDP loss (Figure 15): companies in worse-hit economies used credit support the most.

<sup>45</sup> Industry-wide flexibility for commercial mortgages through which banks commit to providing capital payment holidays and amending existing facilities.

<sup>46</sup> Each of the liquidity need indicators is min-max normalised. It is then assigned a positive sign if it contributes to increasing liquidity needs and a negative sign otherwise. Normalised indicators are then summed for each country, yielding a score between 0 and 1. A 50 percent weight is applied to the OECD estimate of firms facing liquidity shortfall and to loan moratorium data to reflect the limitations in data.

**Figure 15: Relationship between usage of the main credit-support programmes and cumulative GDP loss up to 2020 Q3**

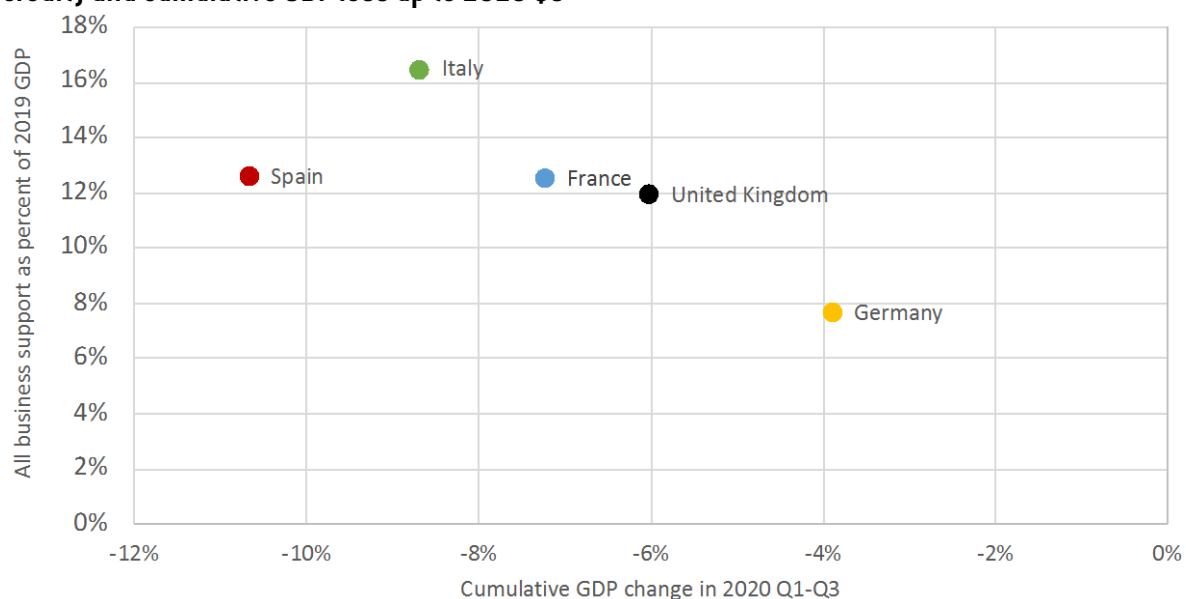


Source: Bruegel based on ECB (2020c).

The availability of other, non-credit, support also affects the extent to which firms require state-backed credit. On average, firms use credit measures more when there is less non-credit based support (eg grants). But credit and non-credit based support do not appear to be fully substitutable. As illustrated in Figure 14, Spain underspends the other countries in all categories of non-credit based support and the total business support it provides to business is lower, given the GDP loss in the country, than that of the other four countries. This means that it does not fully make up for the spending gap with credit support (Figure 16).



**Figure 16: Relationship between usage of all the business support programmes (credit and non-credit) and cumulative GDP loss up to 2020 Q3**



Source: Bruegel based on ECB (2020c).

### Programme costs for firms

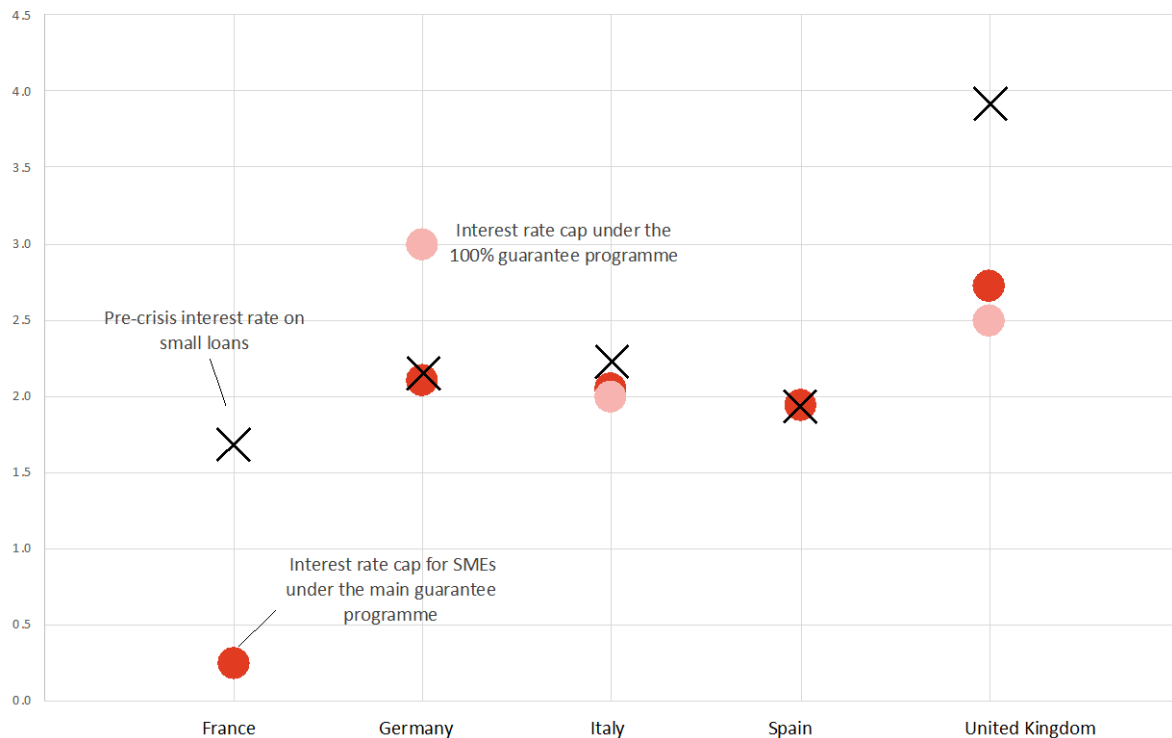
The rest of this section explores design features of the programmes and their impact on usage. For simplicity, the analysis largely focuses on conditions applicable to micro-enterprises and SMEs (including all 100 percent guarantee programmes). Indeed, Figure 4 shows, smaller companies account for most of the usage (50 percent or more of total) and for most of the variations in usage across countries (SME usage varies between one and six percent of GDP while that of larger firms is more stable across countries).

Firms that use the credit-support programmes incur costs. To encourage wide participation, governments designed the programmes to ensure their affordability. They have done so by imposing caps on interest rates, by subsidising some of the costs and/or by mandating grace periods for repayments. In France’s headline loan-guarantee programme, for instance, lenders may not, in the first year, charge interest rates higher than their funding costs (which are close to 0 percent).

Even where there is no cap, state aid rules require that interest rates reflect the presence of a state guarantee. In other words, the loan must be cheaper than it would have been without the guarantee<sup>47</sup>. This has the effect of pushing interest rates down (and more so where coverage ratios are higher). Figure 17 shows the interest rates under the main guarantee programmes for SMEs. These rates are equal to or lower than pre-crisis market rates in all countries but Germany. The drop is most dramatic in France and the UK.

<sup>47</sup> Guarantees are also subject to a guarantee fee, which rate is set under the temporary framework. This fee is payable by either beneficiary companies (France, Germany, UK) or lenders (Italy, Spain), depending on the country. When it is paid by lenders, we assume that the fee is passed onto borrowers, except in Spain where rates are capped to pre-COVID-19 levels.

**Figure 17: Average effective lending rate to an SME participating in the main programmes compared to market rates before the COVID-19 crisis**



Source: Bruegel based on Bank of England, ECB.

Note: Pre-crisis interest rate as of February 2020, on loans under €250,000. For the UK, due to lack of comparable data, the February 2020 interest rates are those applicable to SMEs overall, resulting in an upward bias.

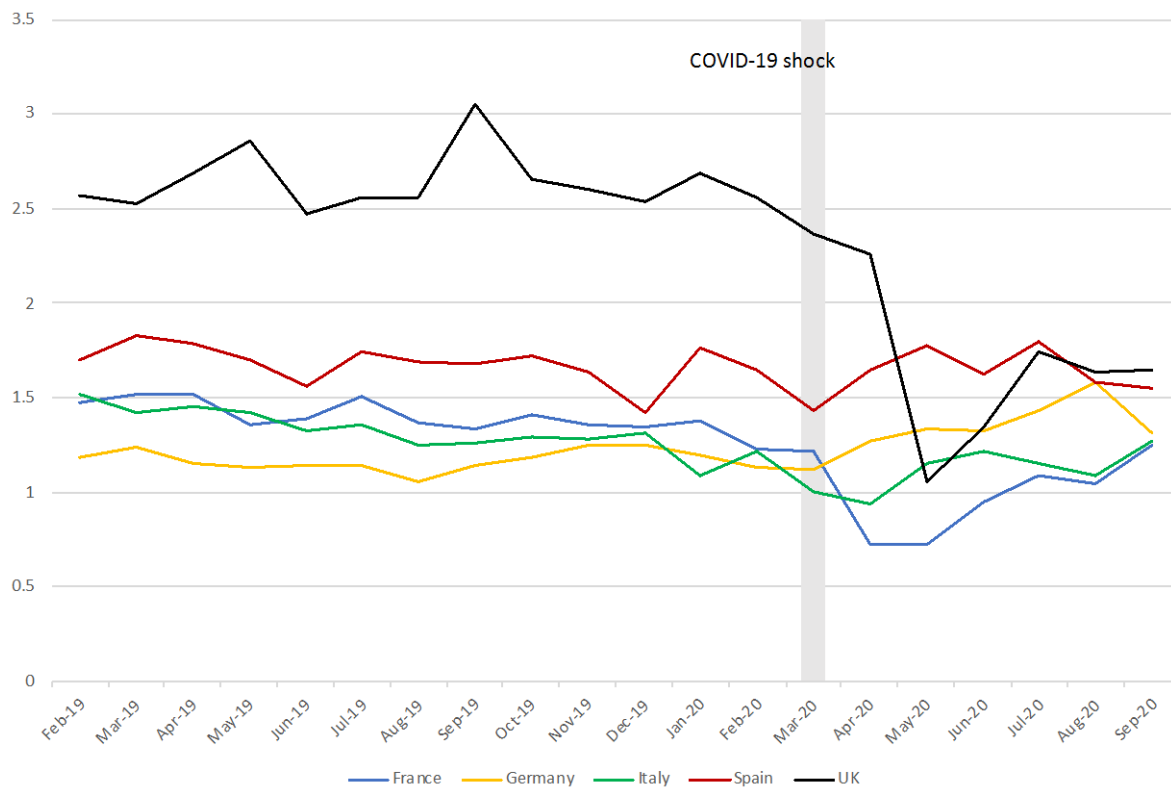
In Italy and the UK, rates for SMEs under the non-100 percent programmes are set at market rate. It is thus significant that rates have, largely thanks to the action of central banks, decreased significantly in these countries.

Figure 18 shows the change in effective interest rates paid by non-financial corporations (NFCs). Costs decreased dramatically in the UK (from 2.6 percent in February to 1.1 percent in May), in line with major reductions in the policy rate<sup>48</sup>. France also saw a significant decline (from 1.2 percent to 0.7 percent over the same period), which is consistent with the extensive usage of the ultra-low-rate guarantee programme.

In Spain, where interest rates are capped at pre-COVID-19 levels and where guarantee coverage is comparatively low (80 percent), average rates broadly remained within their pre-crisis range. In Italy, where the largest programmes do not impose caps on interest rates, rates dropped in March and April 2020, but swiftly returned to pre-COVID-19 levels by May. Given the increased level of risk and longer average maturities of credit issued during the crisis, even stable rates imply good deals for SMEs. Germany is unique in having seen average rates increased. This is consistent with the fact that only a smaller share of the lending happened within the public programmes (16 percent).

<sup>48</sup> The Bank of England's bank rate was reduced from 0.75 percent to 0.1 percent. The ECB, whose equivalent rate was already at -0.5 percent, engaged in quantitative easing.

**Figure 18: Bank interest rates on loans to NFCs**



Source: Bruegel based on ECB, BoE.

Table 8 summarises the conditions of the main loan-guarantee programmes for micro-enterprises and SMEs. France’s programme stands out as very attractive for firms: credit is provided at cost and beneficiaries are exempt from paying anything in the first year. The Italian and British programmes also feature very advantageous conditions: high coverage, long maturities and subsidised costs. The German programme, with its 3 percent rate, and the Spanish programme, with coverage only up to 80 percent, are the least attractive.

**Table 8: Conditions for micro-enterprises and SMEs under the main loan guarantee programmes**

	France	Germany	Italy	Spain	UK
<b>Maturity (years)</b>	6	10 for 100% guarantees, 6 otherwise	10 for 100% guarantees; 6 otherwise	5 <sup>49</sup>	10 for 100% guarantees; 6 otherwise
<b>Grace period (years)</b>	1 for principal and interest payments	2 for principal	2 for principal under 100% guarantee; none otherwise	1 for principal <sup>50</sup>	2 for principal and interest under 100% guarantee; interest only otherwise
<b>Interest rate</b>	At cost (around 0.25%) in the first year, 1%-2.5% thereafter <sup>51</sup>	3% for 100%, 1%-2.1% otherwise <sup>52</sup>	2% for 100%, market rate otherwise (accounting for the guarantee)	Pre-COVID-19 (accounting for the guarantee)	2.5% for 100% guarantees, market rate otherwise (accounting for the guarantee)
<b>Guarantee fee</b>	Paid by borrower	Included in interest rate	Subsidised	Paid by lender	Subsidised for 100% guarantee; otherwise passed on to borrower
<b>Subsidised costs</b>	None	None	Guarantee fee	None	Interests in year 1; guarantee fee for 100% guarantee

Source: Bruegel. Note: conditions as of 1 November 2020.

For larger firms, programmes impose additional costs in the form of restrictions on their internal operations: bans on the payment of dividends, caps on management remuneration, and restrictions on share buybacks, relocation to tax havens, and/or redundancies. Even where it is not explicitly stated, these restrictions, by their very nature, mostly apply to mid-caps and large corporations.

Table 9 shows that such restrictions were imposed in all countries. Spain stands out as the country with the fewest restrictions.

<sup>49</sup> Extended to eight years as of 17 November 2020. See the Spanish Annex for details.

<sup>50</sup> Extended to two years as of 17 November 2020. See the Spanish Annex for details.

<sup>51</sup> Including guarantee premium.

<sup>52</sup> Including guarantee premium.

**Table 9: Restrictions on beneficiaries' internal operations under the main guarantee programmes**

	Dividends	Buybacks	Management pay	Tax avoidance	Labour
France	✓	✓		✓	
Germany	✓	✓	✓		
Italy	✓	✓			✓
Spain	✓ <sup>53</sup>			✓	
UK	✓	✓	✓		

Source: Bruegel. Note: conditions as of 1 November 2020.

### Eligibility constraints

Not all firms are eligible for the programmes. Applying in all countries, EU state aid rules under the Temporary Framework require that guarantees only be granted to companies that were not in difficulty on 31 December 2019 (see section 1). It is unclear, however, how great a share of firms this constraint excludes.

The TF also stipulates that only those firms that have been impacted by the COVID-19 pandemic are eligible for help under the notified programmes. But there may be different ways to operationalise this requirement. If loosely interpreted, most firms would qualify, since COVID-19 has been a global shock. Some governments, however, prefer a stricter interpretation. Such is the case in Spain, where the authorities opened an investigation into ICO (Instituto de Crédito Oficial) guarantees to ensure that only firms directly impacted by lockdown benefitted from the programme<sup>54</sup>.

In Germany, the 100 percent guarantee programme is restricted to firms active since at least 1 January 2019 and beneficiaries must have made a profit in years 2017-2019 or in 2019 only. Until 6 November 2020, companies with fewer than 10 employees were not eligible (since then, the programme has been expanded to include these smaller firms).

The impact of these constraints can be expected to be reflected in the approval rates of the programmes. Unfortunately, approval rates are computed very differently across countries (when at all), making comparisons difficult<sup>55</sup>. What is known is that in France<sup>56</sup>, Italy<sup>57</sup> and Germany<sup>58</sup>, almost

<sup>53</sup> The 6 May 2020 Resolution from the Secretaría de Estado de Economía y Apoyo a la Empresa established that firms cannot use the financing obtained from guaranteed loans to pay dividends, firms may pay dividends using other income. See <https://www.legaltoday.com/practica-juridica/derecho-mercantil/societario/dividendos-y-derecho-de-separacion-del-socio-en-relacion-con-los-erte-y-los-prestamos-ico-2020-05-21/>.

<sup>54</sup> See [https://www.elconfidencial.com/empresas/2020-12-08/gobierno-pwc-investigan-creditos-6000-empresas-avales-ico\\_2861127/](https://www.elconfidencial.com/empresas/2020-12-08/gobierno-pwc-investigan-creditos-6000-empresas-avales-ico_2861127/).

<sup>55</sup> Approval rates represent the share of successful applications, computed as the number of approved applications divided by the number of submitted applications. There are, however, many different ways to measure the numerator and denominator of this ratio. In France for instance, the reported approval rate refers to number of applications approved by the public administrator as a share of the number of *eligible* applications *processed* by that public administrator. In Germany, Italy and the UK, it refers to the number of applications approved by public administrator as a share of *total* number of applications *received* by that public administrator (which includes applications that are still being processed). Italy also reports the number of applications received by banks. Spain does not publish any data on approval rates. There may also be differences in the way banks report application received, e.g. anecdotal evidence in France suggests that a share of rejected applications are not formally rejected, and thus not accounted for.

<sup>56</sup> As of 18 December 2020. Source: Ministère de l'Économie, des Finances et de la Relance, 'Prêt Garanti par l'État Tableau de Bord', available at: [https://www.economie.gouv.fr/files/files/directions\\_services/covid19-soutien-entreprises/Tableau%20de%20bord%20PGE%20au%2018%20decembre.pdf](https://www.economie.gouv.fr/files/files/directions_services/covid19-soutien-entreprises/Tableau%20de%20bord%20PGE%20au%2018%20decembre.pdf).

all SMEs applications received by the public administrators have been approved (97 percent or more according to official statistics). But these figures do not account for rejections by banks.

Lenders also conduct credit risk assessments, which are likely more stringent when they retain a share of the risk (ie coverage ratio lower than 100 percent). In France, Bpifrance clarifies that lenders may deny credit to firms with bad credit scores<sup>59</sup>. Some programmes explicitly require lenders to conduct credit risk assessment. In Italy, lenders are subject to the usual legal requirement to check customers' creditworthiness (as well as anti-money laundering and anti-mafia assessments). In Germany, lenders must check that beneficiaries are structurally sound and competitive in the long term. In the UK, lenders are required to assess the viability of the borrower's business proposition<sup>60</sup>. These requirements are however stipulated in general terms and difficult to enforce in practice.

In France and Italy, where evidence at the level of banks is available, approval rates for new SME credit has been much higher than usual (around 90 percent)<sup>61</sup>. In the UK, 72 percent of applications received by British lenders have been approved<sup>62</sup>. But this low rate may reflect slower processing times rather than higher rejection rates since the rate includes applications not yet approved in addition to rejected ones. The figure also includes applications where the customer has withdrawn her application (including where she has been successful with a different lender). A survey conducted for UK Finance found a rate in the 80-90 percent range<sup>63</sup>.

## Operational constraints

As discussed in section 1, all surveyed countries had prior experience with credit-guarantee programmes in times of crisis. On 17 March 2020, Italy was the first European country to announce a guarantee scheme in the COVID-19 context. In the following ten days, Germany, the UK, Spain and France followed (in that order). Schemes were deployed with unprecedented rapidity. Our discussions with private and public participants suggest that the first few weeks were difficult in all countries – a combination of unprecedented application volumes combined with a move to remote work and digitisation of the entire process. Issues were fixed quickly however, and by mid-April, usage passed the €10 billion mark in all countries but Italy.

Programme usage in Italy reached €10 billion a month after France, Germany, Spain and the UK. By the time programmes in other countries picked up pace in mid-May, a wide gap had emerged between Italy and the other countries.

<sup>57</sup> As of 1 January 2021. Source: Banca d'Italia, 'Adesione alle moratorie', available at: <https://www.bancaditalia.it/focus/covid-19/tabelle-moratorie.pdf>.

<sup>58</sup> Figures communicated by KfW.

<sup>59</sup> Banque de France score above 5+.

<sup>60</sup> Except for 100 percent guarantees.

<sup>61</sup> For Italy, refer to the Bank of Italy report 'Adesione alle moratorie', available at: <https://www.bancaditalia.it/focus/covid-19/tabelle-moratorie.pdf>. For France, figures include all credit (including those not under state guarantee). Refer to Banque de France report 'Accès des entreprises au crédit' available at: <https://www.banque-france.fr/statistiques/credit/credit/acces-des-entreprises-au-credit>.

<sup>62</sup> As of 13 December 2020. Approval rate for CBILS, CLBILS and BBLS. Report by HMT on behalf of accredited lenders.

<sup>63</sup> BVA BDRC and UK Finance, SME finance monitor, available at: <https://www.bva-bdrc.com/products/sme-finance-monitor>.

The Bank of Italy launched an inquiry into the matter. In a report presented to the Italian Parliament on 11 June 2020, the Bank identified four main causes for the slow disbursement<sup>64</sup>:

1. Operational difficulties experienced by the banks and their subcontractors because of the exceptionally large number of applications and because of the closure of bank branches and the transition to remote work. The study reported large and enduring differences across banks in their loan processing time. The Bank's analysis suggests that these differences are not related to efficiency or capitalisation, but rather idiosyncratic and temporary (unidentified) factors.
2. Operational difficulties experienced by the public administrator (Fondo Centrale di Garanzia PMI) related to the gradual implementation of their online application platform and the preparation of standardised forms. The report found that, for guarantees on loans under €25,000, the average processing times increased from 4 to 10 days over the April-May 2020 period but stabilised around 5 days by mid-May. For larger loans, processing times similarly increased and did not abate until June.
3. Legal requirements, not relaxed under the credit-support programmes, for banks to carry out robust credit assessments and anti-money laundering checks.
4. The novelty of the regulatory framework. The main guarantee programme was first established on 17 March (Art. 49 of Legislative Decree 18). However, it was replaced by another article on 9 April (Art. 13 of Decree 23), which was only converted into law on 5 June with amendments.

In principle, the first three drivers may have also existed and affected usage in the other countries. However, it is possible that, because of pre-existing inefficiencies in the banking system and public administration, operational challenges were addressed more slowly in Italy.

Based on our informal exchanges with market participants, however, it is the fourth cause, or legal risk, that appears to have been most responsible for the slow start. Provisions can change in the time between a decree is announced and its conversion into law. This created uncertainty for participants. In the case of the main guarantee programme, it took two and a half months for the plan to crystallise into law, and the provisions did change significantly over this period – thus vindicating lenders' initial reticence<sup>65</sup>.

### **Incentives for lenders**

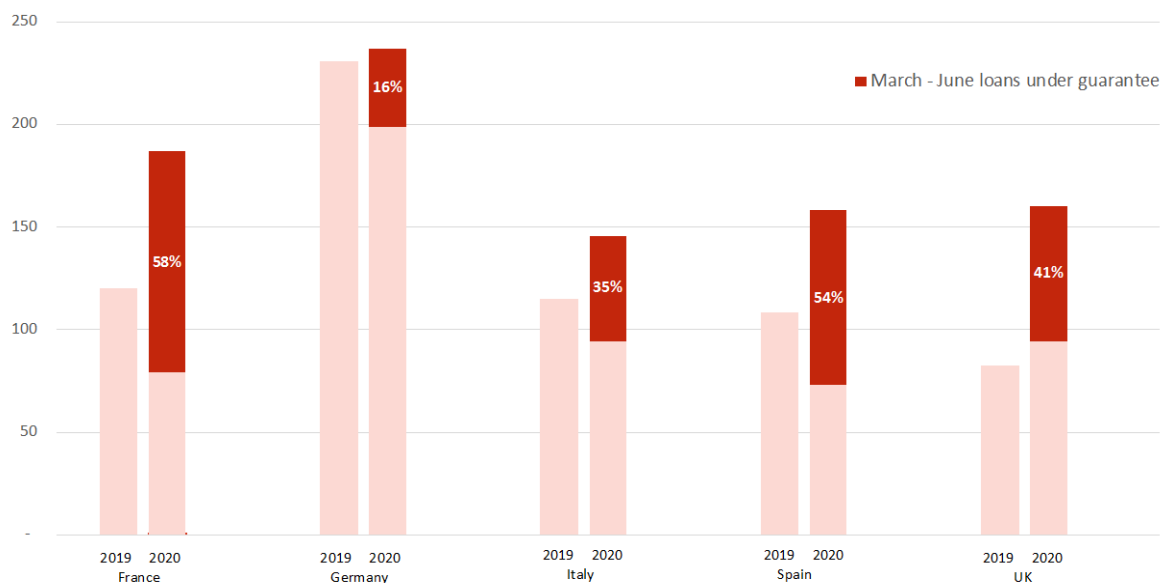
Since the start of the crisis in March 2020, bank loans to NFCs have accelerated significantly with respect to the same period in 2019 in all countries except Germany, which only saw a modest increase. Guaranteed loans make up a dominant share of that growth as Figure 19 illustrates (over 100 percent in all countries but the UK)<sup>66</sup>. Figure 19 compares credit support usage with the total flows of bank loans to non-financial corporations (NFCs) in the observed countries, from March to June 2020 (the peak period for usage) to be compared with the same period of 2019.

<sup>64</sup> Hearing of Paolo Angelini at the Parliamentary Commission of Inquiry on the Banking and Financial System available at: <https://www.bancaditalia.it/media/notizia/audizione-di-paolo-angelini-alla-commissione-parlamentare-d-inchiesta-sul-sistema-bancario-e-finanziario/>.

<sup>65</sup> For example the maximum amount for 100 percent guarantees was increased from €25,000 to €30,000.

<sup>66</sup> Note that credit guarantee's share of new lending has declined from 16-58 percent in June to 25-47 percent in September.

**Figure 19: Government-backed guaranteed lending to businesses as a share of new lending (March to June 2020, billion €)**



Source: Bruegel based on ECB, BoE.

Note: New lending to non-financial corporations (NFC) as reported in the Monetary Financial Institutions (MFI) balance sheet statistics as pure new loans, non-seasonally adjusted. Loans other than revolving loans and overdrafts, convenience and extended credit card debt. The UK figures do not include the corporate debt purchase programme. Usage figures are as reported in Figure 3.

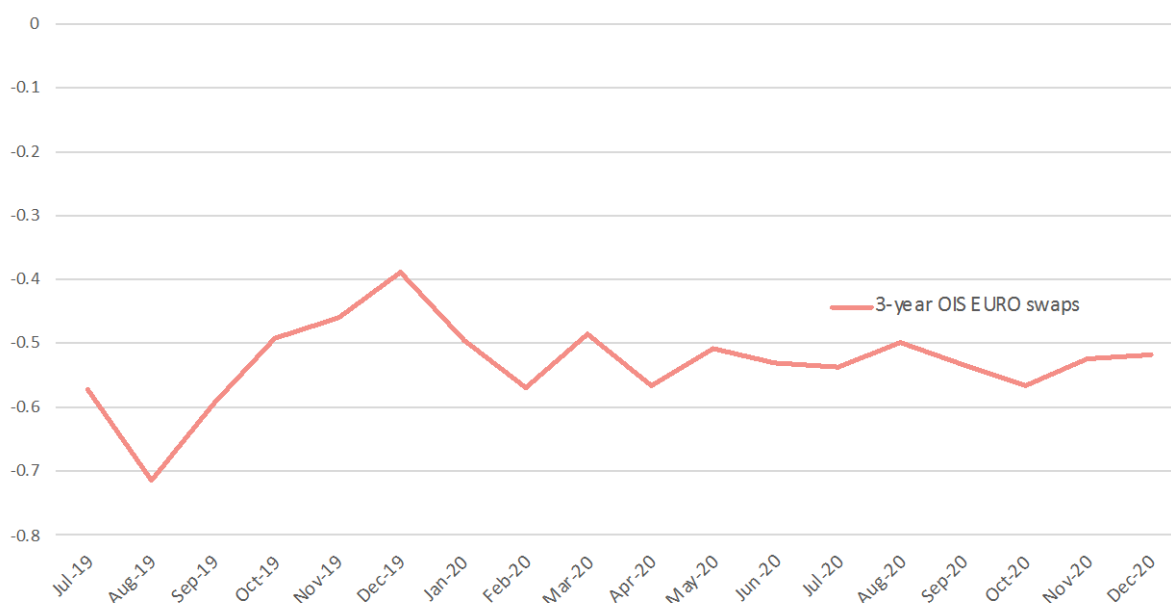
Are COVID-19 credit support programmes good business for banks? As discussed in previous sections, all programmes greatly constrain the interest lenders may charge, and average interest rates have dropped significantly in most countries (especially when taking into account the shift towards riskier SME borrowers and longer maturities).

On the other hand, costs of funding for lenders have remained low, thanks to sizable reductions in the ECB's refinancing rate (ie TLTRO rates reduced to between -1 percent and 0 percent) as well as increases in bank deposits from households (see Figure 20). Furthermore, the ECB temporarily extended its collateral pool to include public guarantees – thus further easing funding constraints<sup>67</sup>.

<sup>67</sup> 7 April 2020, 'ECB announces package of temporary collateral easing measures', available at: <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200407-2472a8ccda.en.html>.



**Figure 20: Lenders' costs of funding (monthly 3-year OIS EURO swaps)**



Source: Bloomberg. Note: Monthly average rate.

For lenders, the primary benefit of the programmes is capital relief. Credit covered under all of the main public guarantee programmes qualifies for credit risk mitigation for the purposes of the EU Capital Requirements Regulation (CRR). In other words, guaranteed exposures benefit from lower risk weights for credit risk, or lower factors in the calculations of minimum coverage requirements for non-performing exposures. Furthermore, and thanks to the temporary prudential changes describe in section 1, lenders can apply a 0 percent weighting factor on defaulted exposures secured by public guarantee schemes. This means that lenders can earn interest income on the full loan while having to mobilise limited capital.

In June 2020, banks in Italy and Spain applied average risk weights of 9 percent and 12 percent, respectively, on their guaranteed exposures (EBA, 2020)<sup>68</sup>. This compares with average risk weights of 54 percent for non-guaranteed NFC exposures (EU average)<sup>69</sup>. These percentages translate into risk-weighted asset reductions of around €45 billion in Italy and €35 billion in Spain<sup>70</sup>. The corresponding free capital can be directed towards other profitable uses.

From the perspective of banks' shareholders, capital relief mitigates the negative impact of lower interest rates by raising returns on equity (ROE). In Spain, ROEs on guaranteed loans to SMEs are around 500pp higher than pre-COVID-19 loans according to Autonomous Research (2020). That is even assuming a doubling of risk (and associated costs).

Benefits from capital relief are greater when debt refinancing is allowed. Indeed, guaranteeing existing exposures frees up capital for other more remunerative activities, such as consumer lending. In Spain, one of the countries where refinancing is allowed, refinancing represents around 20 percent of total

<sup>68</sup> Based on a total European sample of 78 banks.

<sup>69</sup> The same study also reports risk weights of 30 percent for France, however this comparatively high figure reflects the fact that state guarantee only become effective two months after the loan origination.

<sup>70</sup> Based on average coverage ratios reported in EBA (2020) and on usage as of 15 November 2020. See note on the limitations with of the EBA data above.

usage. But debt refinancing can also hurt lenders' interest income. Indeed, in light of the recent drop in interest rates, rates on refinanced debt will be lower than those originally applied (as documented in Figure 18).

Table 10 summarises the costs and benefits for lenders under each country's main programme(s) for SMEs (and largely mirrors the analysis provided in Table 8, but this time from the perspective of lenders). No programme stands out as especially attractive for lenders. Table 8, but this time from the perspective of lenders). No programme stands out as especially attractive for lenders.

**Table 10: Cost and benefits for lenders under the main credit support programmes to SMEs**

	France	Germany	Italy	Spain	UK
<b>Guarantee coverage</b>	90%	80%-100%	80%-100%	80%	80%-100%
<b>Grace period (years)</b>	1 for both principal and interests	2 for principal	2 for principal under 100% guarantee; none otherwise	1 for principal <sup>71</sup>	1 for principal
<b>Interest revenue</b>	At costs (close to 0%) in the first year, 1%-2.5% thereafter	3% for 100%, 1%-2.1% otherwise shared with KfW	2% for 100%, market rate otherwise	Pre-COVID-19 prices, minus guarantee fee paid by lender [see footnote 47]	2.5% for 100%, market rate otherwise
<b>Capital relief</b>	Yes	Yes	Yes	Yes	Yes
<b>Refinancing of existing debt allowed?</b>	Yes but discouraged	No	Yes but new loan must be 25% larger	Yes	Yes but limited to 20% of lenders' public guarantee portfolio

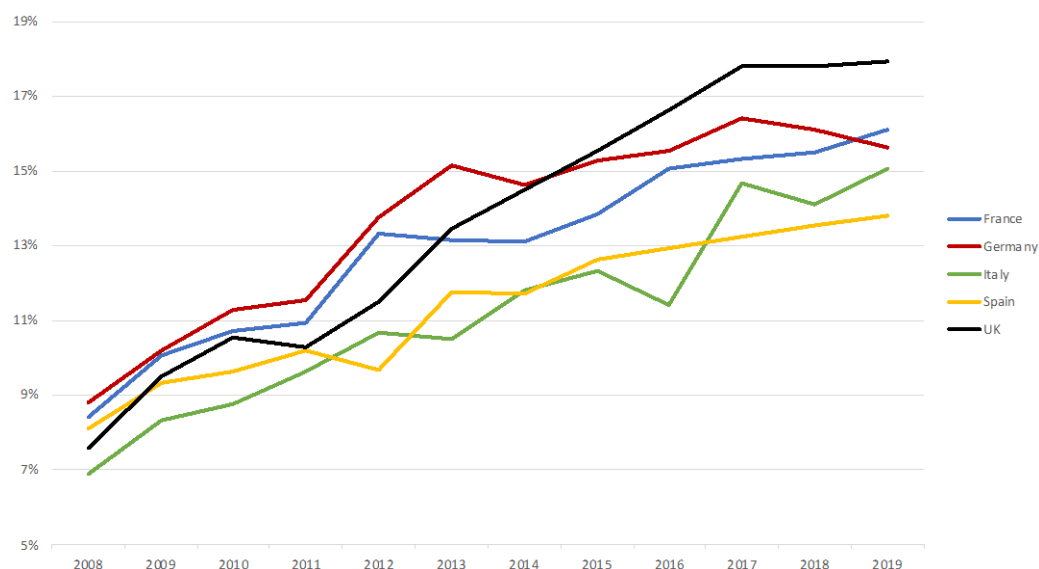
Source: Annex 4. Note: conditions as of 1 November 2020.

### Health of banks

Banks entered the COVID-19 crisis with significantly stronger capital and liquidity buffers than they had at the time of the global financial crisis (Figure 21). At this level of aggregation, cross-country differences within our sample of countries, while not entirely negligible, are not salient compared with the general improvement.

<sup>71</sup> Amended as of 17 November 2020. See the Spanish Annex for details.

**Figure 21: Tier 1 capital ratios**



Source: ECB, yearly averages.

Note: Consolidated data of domestic banking groups and stand-alone banks (not-including foreign controlled subsidiaries and foreign controlled branches), covering nearly 100% of the EU banking sector balance sheet.

### Summarising findings on cross-country differences

Our analysis suggests that differences in the use of credit-support programmes are largely explained by demand factors, namely differences in the liquidity needs of firms. GDP loss, in particular, is highly correlated with usage. Overall, our findings suggest that the programmes' costs for borrowers have had only a secondary impact on usage. Facing very low rates, French firms may have been more willing to incur new debt than their German counterparts with the same liquidity needs. Yet low rates do not appear to have pulled usage above what GDP loss would suggest.

On the supply side, two factors stand-out. First, operational challenges and legal uncertainty can contribute to delayed usage of credit-support schemes (as apparently happened in Italy). This suggests the importance of contingency planning and preparedness, including by having a legal framework in place that can be promptly operationalised in case of future shocks affecting the liquidity of businesses (IMF, 2020b). Second, comparatively disadvantageous conditions placed on lenders do not appear to have constrained usage in the concerned countries. Perhaps lenders faced too high a reputational cost should they fail to participate in the government rescues.

Design features may have affected the degree to which lenders and borrowers allocated the demand for credit between the various programmes. In the UK, for instance, most of the support (52 percent) is accounted for by 100 percent guarantees, compared with only 14 percent in Italy and 11 percent in Germany. And indeed, the UK's 100 percent guarantee programme is very attractive to borrowers (including subsidised interest in the first year), and a good proposition for lenders. The German equivalent, on the other hand, features high interest and stringent eligibility constraints.

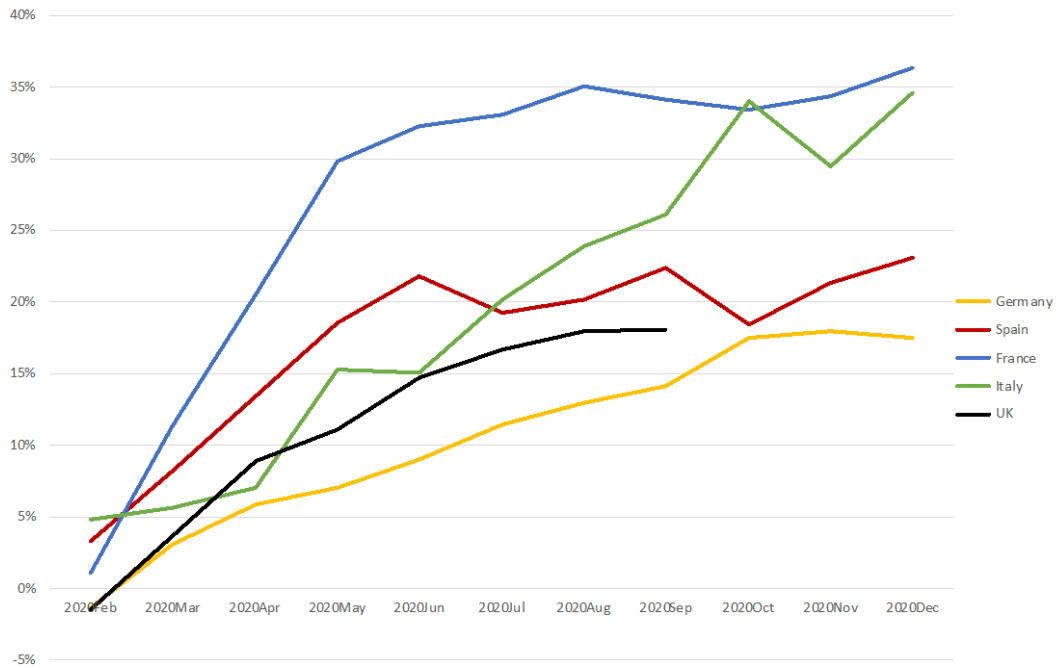
### Slow-down in usage

Usage of the programmes began to slow in June 2020, except in Italy. To understand this slowdown, it is useful to look at the aggregate monetary and credit changes that followed the start of the outbreak in

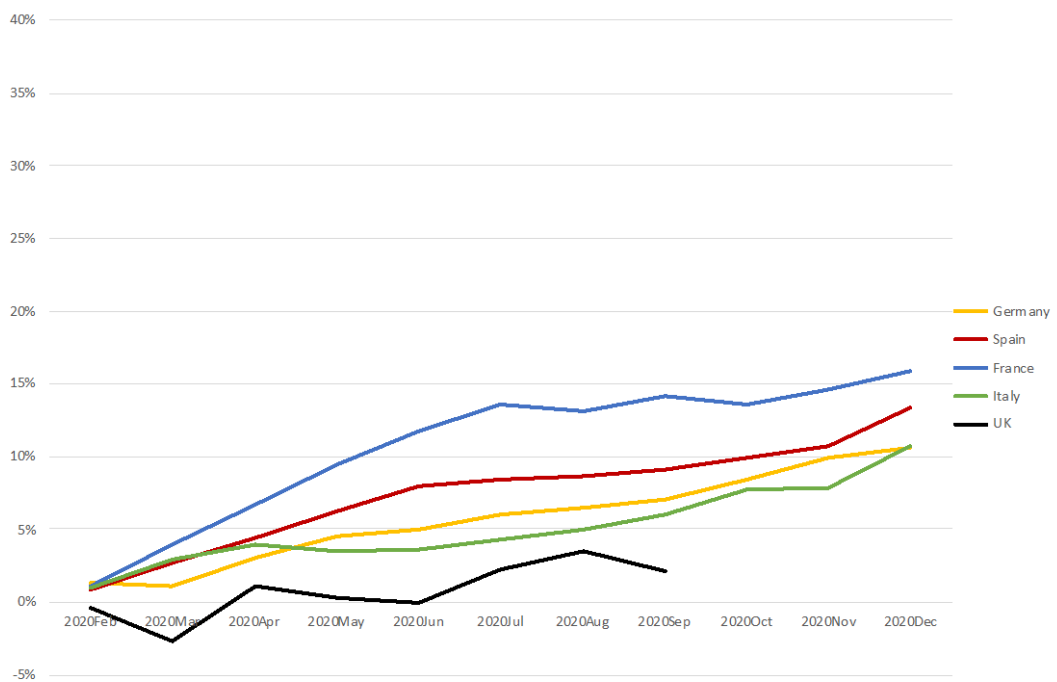
March and endured until June 2020. Between April and June of 2020, at the peak of the pandemic's first wave, all countries saw an acceleration of overnight deposits held by households and, especially, firms (Figure 22) and an acceleration of credit to firms (Figure 23).

**Figure 22: Change in bank deposits relative to January 2020 of NFCs (Panel A) and households (Panel B)**

**Panel A**

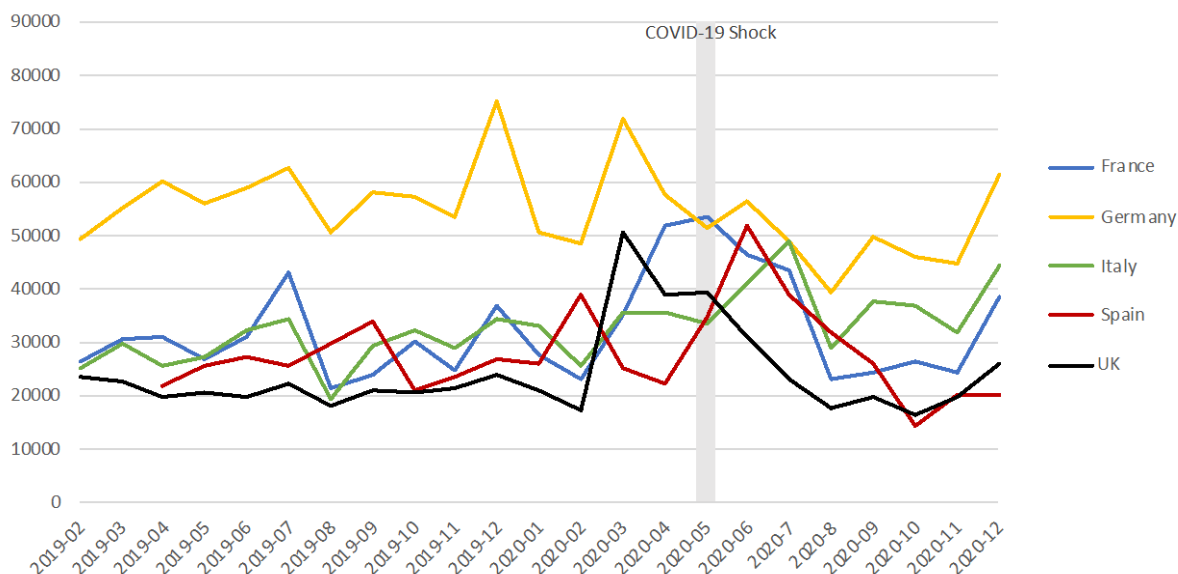


**Panel B**



Source: ECB, values for UK not reported after September 2020.

**Figure 23: New loans to NFCs (billion €)**



Source: Bruegel based on ECB, BoE. Note: Pure new business; loans other than revolving loans and overdrafts, convenience and extended credit card debt. Net of renegotiations.

It is noteworthy that the acceleration and then the stabilisation of growth rates of new loans to NFCs broadly match the behaviour of the usage of the guarantees shown in Figure 3, where the acceleration in the first three months of the programme was followed by a slowdown (except in Italy which had to make up for a slow start).

The ECB *Bank Lending Survey* suggests that demand largely accounts for the observed slowdown in lending and thus credit support usage. Indeed, between the second and the third quarters of 2020 there was a dramatic fall in demand for bank loans in the euro area: while in the second quarter a net balance of 62 percent of banks saw an increase in demand, in the third quarter the net balance had moved to -4 percent. The fall was particularly sharp in Spain and France, where the usage of the guarantees slowed more markedly. The fall was much more limited in Italy, where usage continued to increase. There is also evidence of some tightening of credit supply in the *Bank Lending Survey*, but much more limited than the change in demand. This tightening was most pronounced in Spain, and to a more limited extent in Italy.

While the data do not allow a causal interpretation *per se*, the changes in bank credit and deposits as well as the information in the *Bank Lending Survey* can be seen as components of an overall development. The COVID-19 shock caused an increase in firms' demand for loans, mostly for working capital. It also increased the quantity of household deposits<sup>72</sup>. Banks could fund loans to firms from the increased deposits and from favourable ECB financing, particularly the TLTRO. The increase in bank intermediation was facilitated by the state guarantees. These were heavily used in the first months of the crisis and allowed firms to accumulate sizable liquidity buffers in the form of overnight deposits with banks. Once all of the eligible demand was met, guarantees plateaued and lending returned to pre-COVID-19 levels. The tightening of bank credit supply in the third quarter of 2020 and reduced demand for loans for investment needs also contributed to a slowdown of credit.

<sup>72</sup> This is, according to ECB (2020d) the counterpart of a saving shock from households rather than a precautionary reaction to the uncertainty caused by the crisis.

It is unclear whether most firms took out the maximum amount authorised under the programmes. In the UK, where the government allowed firms to top-up in November 2020 under the 100 percent guarantee, only 4 percent of existing beneficiaries increased their loans (by £9,000 on average). This suggests that most firms had taken out the maximum. However, one cannot exclude that firms were hesitant to take on more debt because of its burden. Yet this explanation does not fit well with the fact that, given the concurrent increase of corporate deposits witnessed in all countries, increased gross debt did not correspond to increased net debt and therefore should not make the firms' financial positions more vulnerable.

## 4 Conclusions

At the time of writing, European credit-support programmes are the subject of much debate. That debate goes both ways – backwards and forwards. The backward-looking debate boils down to the trade-offs that we explored in section 2. Different choices made by different countries under massive uncertainty in spring 2020 are now being revisited with the benefit of hindsight, including the emergence of new information about undesired aspects or even outright fraud (a theme that has gained particular prominence in the UK in relation to loans that were fully government-guaranteed)<sup>73</sup>. Some governments have already promised severe *ex-post* evaluations<sup>74</sup>.

The forward-looking debate is fuelled by the concern that the corporate sector may already be overly indebted and that the necessary speed and comprehensiveness of action could not fully take into account the long-term viability of firms. These concerns have not stopped governments from both extending and relaxing their guarantee programmes in the wake of second and third infection waves. However, further government intervention – if necessary – may need to take different forms so that it does not generate an unmanageable debt overhang within a large subset of the private sector, nor burdens the economy with low-productivity firms. As a response, various kinds of more targeted 'solvency support' options are being explored. These come with trade-offs of their own, which in many respects are more challenging than those we analysed for credit-support programmes.

As a consequence, 2021 may see markedly different policy choices compared to 2020. While forms of national credit support may continue (and an enhanced and prolonged Temporary Framework was announced in January 2021<sup>75</sup>), the mix of parameters and drivers will be increasingly different from those presented in this paper, the analysis in which stops at the end of 2020. In addition, the availability of fiscal resources for either credit or solvency support could become constrained in new ways in 2021, depending on broader developments in the EU fiscal debate.

With that limited timeframe in mind, we have stopped short of a fully-fledged evaluation, for which we had neither the research resources nor the data access. Even so, a few tentative conclusions emerge from our analysis.

First, as national governments implemented credit-support programmes to prevent the massive negative shock of the COVID-19 pandemic and related lockdowns from immediately leading to a crippling wave of corporate insolvencies, they were not ostensibly constrained by fiscal capacity. In

<sup>73</sup> Daniel Thomas and Stephen Morris, 'A giant bonfire of taxpayers' money', *Financial Times*, 21 December 2020.

<sup>74</sup> As discussed, Spanish authorities opened an investigation into ICO guarantees to ensure that only firms that have been directly impacted by lockdown benefited from the programme.

<sup>75</sup> C(2021) 564.

other words, differences in credit-support programmes do not appear to have caused single market fragmentation, and it thus appears that potentially harmful procyclicality has been effectively mitigated in that area, up to end-2020 at least. Credit-support programmes have not, however, fully substituted for non-credit forms of support where these have been lacking (ie in Spain).

Second, the usage of the offered facilities was significantly different in different countries, dominated by the demand for liquidity support by firms rather than by supply constraints or the characteristics of the programmes. The severity of the GDP loss largely determined firms' demand for credit. Low interest rates do not appear to have driven levels of lending beyond what could be expected in response to GDP loss.

Third, after an initial burst, the usage of the facilities plateaued as firms seem to have satisfied, around the middle of 2020, their liquidity needs. Indeed, much of the guaranteed funds seem to be working as liquidity buffers.

More research will be needed to reach firmer conclusions. Ideally that should include: smaller countries than the five large ones we focused on; non-European benchmarks, particularly other large advanced economies that introduced credit-support programmes of their own, such as Japan, South Korea and the United States; and more granular, firm-level data that would allow a more refined analysis of the programmes' impact and effectiveness. Several aspects of the COVID-19 shock have been unprecedented, leading to massive policy experimentation, if not improvisation. It is to be hoped that over the next few years, the multiple new data points generated by this episode will significantly expand collective insights on how to wield policy instruments such as credit-support programmes to the best possible effect.

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## Annex 1. Credit support programmes included in the analysis

COUNTRY	DATE ANNOUNCED	ENVELOPE	INSTRUMENT	UNDERLYING CREDIT INSTRUMENT	RESPONSIBLE BODY	PUBLIC FINANCIAL INSTITUTION?	HEADLINE PROGRAMME?	MEASURE (LONG DESCRIPTION)	STATE AID?
France	25-Mar	€300 bn	Guarantee on loans	Loan	BPIfrance	yes	yes	Loan guarantees for all companies	yes
France	30-Jun	€30bn	Subordinated loans	Loan	Ministry of Finance and Economics	no	no	Subordinated loans	yes
France	15-Apr	€12bn	Guarantee on trade credit	Trade credit	BPIfrance and Caisse Centrale de Réassurance (CCR)	yes	no	State guarantee for the reinsurance of domestic and international trade credit insurance risks	yes
Germany	23-Mar	No estimate	Guarantee on loans	Loan	Regional guarantee banks (Bürgschaftsbanken)	no	no	Regional loan guarantees scheme for SMEs and mid-caps (loan up to €3.1 million)	yes
Germany	23-Mar	No estimate	Guarantee on loans	Loan	BMWi via PwC	no	no	Regional loan guarantees for SMEs and mid-caps (loans over €20 - €50 million) (g)	yes
Germany	23-Mar	€400bn	Guarantee on loans	Loan	BMWi via WSF	no	yes	Loan guarantees for large corporations	yes
Germany	23-Mar	€150bn	Guarantee on loans	Loan	KfW	yes	yes	Loan re-financing and guarantees	yes
Germany	16-Apr	€30bn	Guarantee on trade credit	Trade credit	BMWi and BMF	no	no	Guarantees for export credit insurance	yes

Germany	23-Mar	€30bn (Bruegel estimate)	Guarantee on loans	Loan	Regional development banks (Landesförderinstitute)	yes	no	Regional loan guarantees for SMEs and mid-caps (loan over €3.1 million)	yes
Italy	17-Mar	€220bn	Loan moratorium (guarantee on)	Loan	MCC via the Fondo di garanzia per le PMI	yes	no	Public debt moratorium for SMEs	yes
Italy	8-Apr	€250bn	Guarantee on loan and other credit	Loan and other credit	SACE	yes	yes	Guarantees for SMEs and large firms	yes
Italy	17-Mar	>100bn	Guarantee on loan and other credit	Loan and other credit	MCC via the Fondo di garanzia per le PMI	yes	yes	Credit guarantees for SMEs and mid-caps	yes
Italy	19-May	€4bn	Purchase of debt securities	Debt security	Invitalia via Fondo Patrimonio PMI	yes	no	Purchase of SME debt securities	yes
Italy	17-Mar	€2bn	Wholesale refinancing of loan portfolio	Loan	CDP	yes	no	Wholesale funding for bank lending to SMEs and mid-caps	no
Italy	19-May	€2bn	Guarantee on trade credit	Trade credit	SACE	yes	no	Guarantees on trade credit	yes
Spain	24-Mar	€179bn	Guarantee on loans	Loan	ICO	yes	yes	Guarantees for companies	yes
Spain	5-May	€5.7bn	Guarantee on promissory notes	Promissory note	ICO	yes	no	Guarantee of promissory notes	yes
Spain	17-Mar	€2bn	Guarantee on loans	Loan	Spanish Export Credit Insurance Company (CESCE)	yes	no	Guarantee on loans to exporting companies	yes
UK	23-Mar	£330bn for all four schemes	Purchase of debt securities	Debt security	Bank of England	yes	yes	Covid Corporate Financing Facility (CCFF)	yes
UK	23-Mar	£330bn for all four schemes	Guarantee on loan and other credit	Loan and other credit	British Business Bank (BBB)	yes	yes	Coronavirus Business Interruption Loan Scheme (CBILS)	yes
UK	20-Apr	£330bn for all four schemes	Guarantee on loan and other credit	Loan and other credit	BBB	yes	yes	Coronavirus Large Business Interruption Loan Scheme (CLBILS)	yes
UK	4-May	£330bn for all four schemes	Guarantee on loans	Loan	BBB	yes	yes	Bounce Back Loan Scheme (BBLs)	yes

UK	4-Jun	£10bn	Guarantee on trade credit	Trade credit	PricewaterhouseCoopers on behalf of BEIS	no	no	Trade credit reinsurance scheme	yes
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Note: KfW programme provides both loan guarantees and funding, is included here as one loan guarantee programme.

## Annex 2. Design choices under the main credit support programmes to SMEs

	Score (1-3)					Weights			
	FRANCE	GERMANY	ITALY	SPAIN	UK	BUSINESSES REACHED	PUBLIC FUNDS AT RISK	INCREASED RISK OF ZOMBIFICATION	FINANCIAL SECTOR IMPACT
Long running programme (up to June 2021)	3	3	3	3	3	1	-1	0	0
High guarantee coverage (up to 100%)	2	3	3	1	3	1	-1	-1	1
High amount per firm (up to 25% 2019 turnover)	3	2	1	3	1	1	-1	-1	0
Long maturity (up to 10 years)	2	3	3	2	3	1	1	-1	-1
Grace period for principal/interest repayment (up to 2 years)	2	3	3	2	2	1	-1	0	0
Capped interest rates	3	1	2	2	2	1	0	-1	-1
Subsidised costs (e.g. interests)	0	0	2	0	3	1	-1	-1	0
Restrict the refinancing of existing debt	2	3	1	1	1	1	1	1	-1
No requirement for forward looking viability	1	0	1	1	0	1	-1	-1	0
Looser credit criteria (as defined in TF/De Minimis)	3	3	3	3	3	1	-1	-1	-1
Simplified screening procedure	3	3	3	3	3	1	-1	-1	0
Prioritise hardest-hit sectors	1	0	1	1	0	1	0	-1	0
Explicit backing of the central	3	3	3	3	3	1	-1	0	0

government									
Prioritise SMEs and micro-enterprises	3	2	3	3	3	1	-1	0	0

*Note: Condition applicable to SMEs. The table reflects the programme conditions as of November 1, 2020.*

**Score**

	France	Germany	Italy	Spain	UK
<b>Businesses reached</b>	25	24	26	22	24
<b>Public funds at risk</b>	-13	-11	-15	-13	-14
<b>Risk of zombification</b>	-16	-12	-18	-15	-17
<b>Financial sector impact</b>	-8	-7	-6	-7	-6

### Annex 3. Credit support programmes included in usage figures

COUNTRY	RESPONSIBLE BODY	FACILITIES	DATE ANNOUNCED	HEADLINE ENVELOPE (€ BNS)	COMMITMENTS AS OF END-2020 (€ BNS)	NUMBER OF PROGRAMMES	NOTES
France	Ministry of Economy and Finance, via BPIfrance	70%-90% guarantees	March 25	300	130.0	1	
	KfW	80%-100% guarantees (including financing)	March 23; coverage increased to 100% on April 15	150 (increase in KfW's Treasury guarantee)	45.9	1	2, 3
Germany	BMWi, via the Economic Stability Fund (WSF)	up to 90% guarantees	March 23, approved by European Commission July 8	400	0.0	1	
	BMWi, via regional guarantee banks (Bürgschaftsbanken)	up to 90% guarantees	March 23	Unclear	1.5	1	
	BMWi, large regional guarantees (Großbürgschaften)	up to 90% guarantees	March 23	63.2	2.7	1	
Italy	Central fund for SME guarantees (Fondo Centrale di Garanzia)	80%-100% loan guarantees; 33% guarantees on payment obligations under SME loan moratorium	March 17	100	123.4	2	4, 5, 6

	SACE export credit agency (part of public financial institution CDP)	70%-90% guarantees	April 8	200	19.0	1	
Spain	ICO	60%-80% guarantees on loans; 70% on promissory notes	March 24; extended to promissory notes on May 5; envelope increased on 3 July	184	116.6	2	7, 8, 9
UK	British Business Bank (BBB)	80%-100% guarantees	March 23; extended to large firms April 20 and to 100% coverage May 4	360 for all programmes	68.2	3	10
	Bank of England	Commercial paper purchases	March 23		32.7	1	11

Source: Bruegel based on Kreditanstalt für Wiederaufbau (KfW), Bundesministerium für Wirtschaft und Energie (BMWi), Bank of Italy, French Ministry of Economics and Finance, Spanish Instituto de Crédito Oficial (ICO), UK Treasury, Bank of England, Google Finance (for currency exchange rates). Note:

(1) In all cases, the envelope amount refers to the maximum nominal amount of credit committed.

(2) In the KfW envelope, we do not include the €100 billion allocated to support KfW in case it fails to raise funds on capital markets, which has not been activated.

(3) German regions (Länder) also offer own-funded guarantee programmes. Based on observations in some Länder, we estimate that, taken together, German regional credit support via regional development banks (Landesförderinstitute) amounts to a maximum of €5 billion.

(4) The announced €100bn envelope for the Fondo Centrale di Garanzia PMI includes provisions for the SME loan moratorium guarantee programme. However, commitment figures do not include this programme.

(5) Commitments by the Fondo Centrale di Garanzia PMI are capped by its endowment. As of 17 March, the Fondo was set to guarantee up to €100 billion in loans. However, its endowment has since been increased though no announcements have been made about changes in the envelope.

(6) Value of loans that have passed the Fondo Centrale di Garanzia PMI automated screening (Portale del Fondo di Garanzia). These loans are subject to final approval by the Fondo's council, which typically occurs within three days. 100% of loans have been approved by the council at this stage.

(7) For Spain, the announced €100bn + €40bn envelopes relates to the value of share of facilities under guarantee. For comparability, this figure is converted using the historical average of 76% guarantee coverage. Amounts include the €4bn allocated to the promissory note guarantee programme on Spain's Mercado Alternativo de Renta Fija (MARF) and the €0.5bn allocated to the counter-guarantee programme operated by CERSA.

(8) €140bn announced in two stages: €100bn on March 24 and €40bn on 3 July 2020. The second package is aimed at funding new investment projects.

(9) Includes the MARF and CERSA programmes (aggregated reporting by the ICO).

(10) Includes the Coronavirus Business Interruption Loan Scheme (CBILS), Coronavirus Large Business Interruption Loan Scheme (CLBILS), and Bounce Back Loan Scheme (BBLs). GBP converted to EUR using exchange rate of 1.09.

(11) Total sum of commercial paper purchases

#### Annex 4. Features of the main government-backed credit support programmes

COUNTRY	FRANCE	GERMANY		ITALY		SPAIN	UK		
<b>Target group</b>	Companies of all size	Companies of all size	Large corp.	SMEs and mid-caps (up to 499 employees)	Large corp. (and SMEs to small extent)	Companies of all sizes; SMEs privileged	SMEs ('CBIL' and 'BBLs')	Large corp. ('CLBILs')	Large corp.
<b>Instrument</b>	Loan guarantees	Loan financing and guarantees	Credit guarantees	Loan guarantees	Credit guarantees	Credit guarantees	Credit guarantees	Credit guarantees	Commercial paper purchases
<b>Implementing body</b>	Bpifrance	KfW	BMWi via the Economic Stability Fund (WSF)	Central fund for SME guarantees (Fondo Centrale di Garanzia)	SACE	ICO	British Business Banks ('BBB')	British Business Banks ('BBB')	Bank of England
<b>Total budget</b>	€300bn	€150bn	€400bn	€100bn	€250bn	€184bn	£330bn for all schemes		
<b>Usage (as of end-of-year 2020)</b>	€130bn	€46bn	€0bn	€123bn	€19bn	€117bn	£63bn	£5bn	£33bn worth of commercial papers purchased under the CCF
<b>Duration</b>	March 25 - June 30 2021 (initially Dec 2020)	March 23 - June 30 2021 (initially Dec 2020)	March 23 - June 30 2021 (initially Dec 2020)	Jan. 31 - June 30 2021 (initially Dec 2020)	April 8 - June 30 2021 (initially Dec 2020)	March 18 - June 30 2021 (initially Dec 2020)	Jan 31 2021 (initially 6 months to Sept/Dec depending on scheme)	March 31 2021 (initially 6 months ending Oct)	March 23 2020 - March 23 2021
<b>Guarantee coverage</b>	90% for	80%-100%	up to 90%	90%-100%	90% for	80% for loans to	80%-100%	80%	n/a



	SMEs; 80%-70% otherwise			for new loans; 80% for loan refinancing; 33% guarantees on payment obligations under the SME loan moratorium	SMEs; 80% for large with turnover under €5 bn; 70% otherwise	SMEs; 70% for new loans to large companies (60% if refinancing); 70% for promissory notes			
<b>Max per borrower (in addition to TF rules)</b>	25% of annual turnover (with exceptions for start-ups and tourism sector)	€800,000 for 100% loan guarantees (€300,000 if >10 employees, €500,000 if 10-50); €100 million for 80%-90% guarantees; unlimited to syndicated loans	What is needed to cover short-term liquidity needs	€30,000 for 100% guarantees; €5 million otherwise	as in TF	as in TF	€50,000 for 100% guarantees; otherwise €5 million	£200 million	Determined on a case-by-cases basis
<b>Maturity</b>	6 years	10 years for 100%, 6 years otherwise	5 years	10 years for 100% guarantees; 6 years otherwise	6 years	5 years (changed to 8 years in Nov 2020 and 8 under the second €40 bn package)	10 years for 100% guarantees; 6 years otherwise	3 years; or 6 or restructurings	one week to twelve months if issued to the Bank at issue via a dealer

<b>Pre-amortisation (i.e. period with no principal repayment)?</b>	1 year and no interests in the first year (increased to 2 years in Nov 2020)	2 years	No guidance provided	2 years for 100% guarantee; none otherwise	36 months	1 year (changed to 2 years in Nov 2020)	1 year and interests reimbursed in the first year for 100% guarantees	none	n/a
<b>Refinancing/restructuring allowed?</b>	Refinancing allowed but discouraged. Banks cannot force refinancing. Restructuring allowed.	Refinancing and restructuring not allowed	Debt rescheduling not allowed	Yes but new loan must be 25% greater than the one subject to the restructuring	Debt refinancing not allowed. Up to 20% of the financing may be used for the payment of loan instalments which are past due	Refinancing allowed but not restructuring	Refinancing allowed (except for 100% guarantees), but limited to 20% of lenders public guarantee portfolio. 100% guarantee can only refinance loan under the public guarantee programme. Restructurings not allowed for 100% guarantees.	Refinancing allowed but limited to 20% of lenders public guarantee portfolio.	The BoE purchases in both primary and secondary markets
<b>Guarantee pricing</b>	as in TF, paid by borrower	Included in loan pricing	as in TF, paid by borrower	Free (fee subsidised)	as in TF, paid by lender	as in TF, paid by lender	Free for 100% guarantees; as in TF otherwise	as in TF otherwise	n/a

<b>Loan pricing</b>	Constrained, at bank's liquidity cost (close of 0%)	3% for 100% guaranteed loans; 1%-2.1% % for non-syndicated loans; market rate for syndicated loans. Interests shared between KfW and the lender, according to a pre-agreed split.	No guidance provided	Capped at 2% for 100% guarantees; market rate otherwise (accounting for the guarantee)	Market rate (accounting for the guarantee)	Constrained, pre-COVID prices (accounting for the guarantee)	2.5% for 100% guarantees; market rate otherwise (accounting for the guarantee); interests and other fees reimbursed in first the year	Up to lender	Minimum spread above a reference rate
<b>Constraint on dividends, management remuneration, share buyback, relocations, labor</b>	No dividends, no buybacks for large and mid-caps, no relocation in non-cooperative jurisdictions for tax	No dividends; capped manager pay for 100% guarantees	No dividends, no buybacks, no bonuses for senior management	None	No dividends, no buybacks, no relocations and must comply with union agreements	No dividends, no usage of structures in tax havens to reduce tax obligations	None	Over £50mn: no dividends, no buybacks, no bonus/pay rises to senior management	Restraint on capital distributions and on senior pay
<b>Beneficiary eligibility (if different from UID or De Minimis criteria)</b>	Initially excluded undertakings subject to collective insolvency proceedings	For 100% guarantee: active since at least January 1, 2019; the company	Only for firms that cannot get support from the other schemes	Excludes firms that present exposures classified as "non-performing"	Excludes firms with exposures classified as "non-performing" or "probable"	For loans under €1.5mn, no insolvency proceedings by March 17 2020 and no defaults by Dec 31 2019.	100% guarantees: no bankruptcy, nor debt restructuring proceedings	None	Makes a material contribution to UK economic activity and credit

	since January 1 2020 (restriction removed in May 2020). Lenders may deny credit to firms with bad credit rating from Banque de France (higher than 5+).	must have made a profit in years 2017-2019 or in 2019. Until November 6 2020, companies with less than 10 employees were not eligible. Since then, the programme has been expanded to include these smaller firms.		or “probable default” as of January 31 2020	default" as of February 29 2020 and firms in a non-cooperative jurisdiction for tax		nor in liquidation at the time of submitting the application (allows for the restructuring and liquidation of solvent firms)		quality that is considered investment grade as of March 1 2020
<b>Forward looking viability</b>	No explicit mention; implied in bank’s retain risk.	Yes firms must be “structurally sound and competitive” in the long term.	Yes, guarantees can only be given for loans whose repayment can be expected	No explicit mention; implied in bank’s retain risk.	No explicit mention; implied in bank’s retain risk.	No explicit mention; implied in bank’s retain risk.	Lenders explicitly required to assess viability of the business proposition (except for 100% guarantees)	Lenders explicitly required to assess viability of the business proposition	No explicit mention

<b>Cost for public finance</b>	Treasury is the guarantor.	Public funds are last resort. KfW raises funds on capital markets and KfW keeps interest receipts	Supported by funds from the federal budget	Increased endowment funded by the Italian State and by the European Union.	The Italian State counter-guarantees SACE's obligations	Treasury is the guarantor. Simultaneously increased the ICO's debt capacity by €10 billion.	The Department for Business, Energy and Industrial Strategy (BEIS) is the ultimate guarantor (costs covered by the Treasury)	The Department for Business, Energy and Industrial Strategy (BEIS) is the ultimate guarantor (costs covered by the Treasury)	Any losses indemnified by the Treasury
<b>Capital relief</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	n/a
<b>Risk assessment</b>	Lenders only for SMEs and micro	Lenders only for loans <€3m, simplified procedure for <€10	under €100 million, KfW conducts the assessment; €100 – €500 million, BMWi and BMF; over €500 million WSF committee	100% guarantees are automatically granted (subject to minimal self-reported criteria); for 80%-90% guarantees, lenders are solely responsible for risk assessments	Simplified procedure for SMEs (automatic SACE processes within 48h); SACE own risk assessment otherwise (subject to approval by the Ministry of Finance)	Lenders only up to 50 million	Lenders only	Lenders only	Issuers' credit quality monitored and reviewed in advance of the closure of the CCFF (as of October 2020)
<b>Building on (constrained by) existing banking relationships?</b>	To some extent	No	No	No	No	No	No	No	No, companies that do not currently issue CP but could be eligible

<b>Eligible banks: traditional but also challenger banks, FinTech, crowdfunding</b>	All credit institutions (incl. alternative lenders) regulated in the EU	All KfW partner banks	No guidance provided	All credit and other financial institutions authorised to operate in Italy	All entities, national and international, authorised to lend in Italy	Credit institutions, electronic money institutions and payment institution supervised by the Bank of Spain. Alternative lenders excluded	All lending institutions (conditional on obtaining BBB accreditation)	All lending institutions (conditional on obtaining BBB accreditation)	Determined on a case by case basis
<b>Selected sectors</b>	Special provisions for seasonal sectors	No	Strategic firms also eligible	Special provisions for tourism and other hard-hit sectors	No	Special provisions for tourism. Other very small sectorial programmes.	No	No	No
<b>Adverse selection?</b>	Of those firms with a BoF rating, 52% had “quite weak” or below (incl. 11% with “very weak” or below). Retail takes the highest share (25%; over 2x its contribution to VA)	No relevant data	No relevant data	No evidence of adverse selection. Compared to 2019, fewer beneficiaries have highest rating but fewer have lowest rating. Wholesale trade and retail take the highest share (15% and 10% respectively)	No relevant data	Riskier firms disproportionately benefit from the programme according to a BoS study	No relevant data	No relevant data	Only investment grade

<b>Protecting current business/steering towards new sectors?</b>	Special provisions for start-ups and tourism industry	No	Start-ups are eligible under certain conditions	Special provisions for start-ups	No	New guarantee line focuses on “high value added” sectors, digitalisation and sustainability.	No	No	No
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## Annex 5. Detail of credit-support programmes in France, Germany, Italy, Spain and the United Kingdom

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## France

**Table 1: Main French credit support programmes<sup>1</sup>**

Date <sup>(a)</sup>	Envelope (€ billion) <sup>(b)</sup>	Measure	Responsible body	Commitments as of end-of year 2020 (€ billion)
25 March 2020	300	Loan guarantees for all companies	BPIfrance	130
15 April 2020	12	State guarantee for the reinsurance of domestic and international trade credit insurance risks	BPIfrance and Caisse Centrale de Réassurance (CCR)	Data not available
30 June 2020	30	Subordinated loans	Ministry of Finance and Economics	Data not available

Source: Bruegel based on BPIfrance and the French Ministry of Finance and Economics

Notes: (a) date of the announcement instituting the measure; (b) € figures refer to full nominal amounts of the credit covered by the programme

### **PGE Guarantee on loans<sup>2</sup>**

On 25 March 2020, the French government charged Bpifrance<sup>3</sup> with administering credit guarantees on credit issued to businesses under the Prêt Garanti par l'Etat (PGE) programme. The PGE was operational one week later.

#### *Envelope*

€300 billion envelope<sup>4</sup>, including €2 billion for start-ups<sup>5</sup>. €30 billion are allocated to factoring finance as of 28 July 2020.

#### *Funds committed to date<sup>6</sup>*

As of 1 January 2021, €130 billion worth of loans were covered under the guarantee programme. 2.8% of applications were rejected by banks on eligible requests<sup>7</sup>. The average coverage was 86%.

Commitment figures are available at a disaggregated level by firm size, by credit rating, by sectors and by region.

<sup>1</sup> This analysis does not include the €1 billion programme run by the Comité départemental d'examen des problèmes de financement des entreprises (CODEFI) for debt restructurings and subordinated loans to micro-entreprises "Prêt Participatif" (via the Fonds de Développement Economique et Social) and the €500 million CODEFI subsidised loan programme. These programmes are excluded because of their small budget.

<sup>2</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>3</sup> Bpifrance (or "Banque publique d'investissement") is a public investment bank. It is a joint venture of two public entities: the Caisse des dépôts et consignations and EPIC BPI-Groupe.

<sup>4</sup> Includes all amounts in principal, interests and incidental costs of the guaranteed exposures.

<sup>5</sup> The PGE programme was expanded on 6 May 2020 to include start-ups.

<sup>6</sup> The source for these figures is the French Ministry for Economics and Finance report "Prêt Garanti par l'Etat: Situation au 1er janvier 2021"

<sup>7</sup> Note that rejected micro-entreprises may be eligible for state funded 3.5% loans under the "Prêt Participatif" programme (programme not covered in this analysis, as stated above).

Commitment volumes by firm size:

- 40% to micro-enterprises
- 34% SMEs
- 12% large companies
- 11% mid-caps

Commitment volumes by firm credit rating (Bank of France rating):

- 38% with firms with the highest rating (3++ to 4)
- 26% with “weak” and “quite weak” rating (5+ and 5)
- 2% with “very weak” rating or below (6 to P)
- The remaining 34% had “other rating”

By sector, retail takes the highest share of total commitments (24%; equivalent to 233% of its contribution to French value added or ‘VA’), followed by manufacturing (16%; 151% of VA) and specialised technical and scientific activities (10% or 127% of VA). Hospitality accounts for 7% (240% of VA). Relative to their contribution to French value added, Finance and Insurance most benefited from the programme (10% or 256% of VA).

By region, Ile de France takes the highest share (37%), followed by Auvergne Rhone-Alpes (11%).

#### *Cost for public finance*

The Treasury is the ultimate guarantor. Estimated default rate of loss: 33% for hospitality and 10%-20% in all other sectors (according to Bpifrance).

#### *Duration of the programme*

Guarantees may be requested until 30 June 2021.

#### *Coverage and maturity*

- 90% guarantees for micro-enterprises and SMEs (i.e. employ less than 5,000 employees in France and have a turnover under €1.5 billion);
- 80% for mid-caps (i.e. turnover between €1.5 billion and €5 billion in France); and
- 70% for large companies (i.e. turnover over €5 billion in France).

PGE loans are bullet loans (i.e. lump-sum payment at the end of a set period), which include a contractual clause providing the borrower with the option to decide, at the end of the period, to amortize the loan over an additional period of one to five years. The non-repayment period was originally one year but was extended to two years in November 2020.

The state guarantee becomes effective 2 months after the loan’s origination.

#### *Maximum amount*

In most cases, Bpifrance relies on the 25% annual turnover criterion set out in the Temporary Framework to determine the maximum amount of the loan. Exception is made for (i) young<sup>8</sup> and/or start-ups<sup>9</sup>, for which Bpifrance guarantees loans with a value of up to two years’ worth of wage bills; and (ii) firms in seasonal sectors, for which the 25% annual turnover criterion applies to the best three months of the year 2019, as opposed to the whole year<sup>10</sup>.

<sup>8</sup> Firms created since 1 January 2019.

<sup>9</sup> Start-ups are defined as firms that, in the last five years, have either (i) received public start-up financing; (ii) raised private start-up funding; or (iii) were part of an incubator programme.

<sup>10</sup> The programme “PGE saison” was launched on August 5 2020 and targets firms in the following so-called “seasonal sectors”: tourism, hospitality, restaurant, event production, sports, leisure and culture.

### *Beneficiary eligibility*

All firms registered in France<sup>11</sup> are eligible for the PGE programme so long as they pass the EU UID test. Consistent with *de minimis* rules, micro-enterprises and SMEs must not be subject to collective insolvency proceedings as of 31 December 2020.

The PGE initially excluded undertakings subject to collective insolvency proceedings since 1 January 2020<sup>12</sup>.

Bpifrance clarifies that lenders may deny firms with credit rating from Banque de France higher than 5+.

### *Eligible operations*

The programme does not impose any restrictions on the use of the funds mobilized through the PGE. However, the state expects the funds to be used in order to preserve business and employment in France and large companies may be subject to bilaterally negotiated restrictions on the fund's use.

Funds may be used to service existing debt. However, debt refinancing /acceleration of existing debt is discouraged (though allowed, subject to agreement from the beneficiary). Banks cannot force a refinancing. Debt restructurings are allowed.

### *Conditions on borrowers*

Mid-caps and large companies that benefit from the programme are prohibited from shareholder dividend payments and share buybacks for the whole of 2020. Furthermore, companies may not locate their headquarters (or other non-trading unit) in a non-cooperative jurisdiction for tax purposes until the loan has been repaid in full.

### *Lender eligibility*

All credit institutions regulated in the EU, including crowdfunding<sup>13</sup>.

### *Loan pricing*

Lenders may not profit from the guaranteed loans in the first year; loans are issued as a "service to the public". Banks may only charge for the liquidity cost of the loan (close to 0% in 2020 with some small differences across bank) as well the costs of the guarantee premium (after the first year). Exceptions are made for very risky borrowers, very large loans and foreign banks. In such cases, lenders may charge interests above their liquidity cost, but within a reasonable range.

Past the first year, banks commit to charging SMEs the following maximum rates (including the guarantee premium as in the TF):

- 1-1.5 % for loans reimbursed in 2022-2023 (including a guarantee premium of 0.5%)
- 2-2.5 % for loans reimbursed in 2024-2026 (including a guarantee premium of 1%)

### *Guarantee pricing*

Bpifrance charges borrowers a guarantee fee, as set out in the TF.

### *Assessment*

For micro-enterprises and SMEs, lenders are solely responsible for ensuring that borrowers meet the conditions for eligibility to the PGE, i.e. Bpifrance does not conduct any additional assessments. All eligible micro-enterprises and SMEs have a legal right to the PGE guarantee. For firms with a turnover under €10 million, the programme requires that the lender's assessment be light, and conducted within 5 days. Every loan issued to micro-enterprises and SMEs that complies with the above is automatically enrolled in the guarantee programme.

<sup>11</sup> Registered with the Répertoire National des Entreprises et des Etablissements

<sup>12</sup> Changed as of the Ministry of Economics and Finance 6 May 2020 decision.

<sup>13</sup> EU credit institution passported into France, as well as French branches of third country banks licensed by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) or a financing company (société de financement) licensed by the ACPR.

Mid-caps and large companies must obtain an authorisation from the Ministry for the Economy. The Ministry's assessment is conducted within one week of reception of the full documentation.

#### *Capital relief*

Lenders benefit from capital relief on the portion of the loan under guarantee.<sup>14 15</sup>

#### *Other conditions on lenders*

Lenders are prohibited from requiring any collateral or other securities for loans to SMEs and mid-caps.<sup>16</sup> PGE loans should be as senior as possible.

### **State guarantee for the reinsurance of domestic and international trade credit insurance risks<sup>17</sup>**

On 15 April 2020, the French authorities introduced a state-guaranteed reinsurance scheme in order to ensure the proper functioning of the credit reinsurance market. The measure was provided in the form of a state guarantee granted to (i) the public reinsurer Caisse Centrale de Réassurance (CCR)<sup>18</sup> for the reinsurance of domestic credit-insurance risk and (ii) Bpifrance Assurance Export for expanded coverage of its export credit-insurance programmes.

#### *Envelope*

The State guarantees trade credit claims of up to €10 billion for domestic credit insurance and €2 billion for export credit insurance<sup>19</sup>.

#### *Funds committed to date*

No data available.

#### *Cost for public finance*

The French Ministry of Finance administers the measure on behalf and for account of the French government. For the export scheme, the French authorities estimate the losses at €4 million (average of the worst three years in the last 15 years).

#### *Duration of the programme*

The measure concerns insurance contracts entered into after 6 April 2020 and until 31 December 2020.

#### *Beneficiary eligibility*

Micro companies, SMEs and mid-caps registered in France. The measure was expanded to include large companies on 17 June 2020 (under "CAP relais")<sup>20</sup>. The measure excludes firms that fail the UID test as of 31 December 2019.

#### *Coverage and maturity*

The State guarantee will be used by to reinsure four credit insurance products that will be distributed by credit insurers:

- Garanties Complémentaires (CAP) and Garanties de Substitution (CAP+) for domestic credit insurance; and
- CAP Franceexport and CAP+ Franceexport for export credit insurance.

<sup>14</sup> i.e. the guarantee qualifies as unfunded credit risk mitigation for the purposes of CRR.

<sup>15</sup> PGE loans are fully risk-weighted for the first two months after the loan has been withdrawn ('decaissement').

<sup>16</sup> However, for larger companies (for which the State guarantee covers 70% or 80% of the loan amount), the remaining 30% or 20% can be secured.

<sup>17</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>18</sup> CCR is wholly owned by the French State.

<sup>19</sup> €5 billion for each of the two eligible products.

<sup>20</sup> As of August 5 2020, CAP Relais is still subject to approval by the European Commission's DG Competition.

CAP and CAP Franceexport are additional guarantees, which supplement the insurance of credit risks and can be issued by credit insurers in addition to the primary credit insurance policy. Under CAP, CRR guarantees 90% of the share of the risk not covered by the primary insurance policy<sup>21</sup>.

CAP+ and CAP+ Franceexport are substitution guarantees which can be granted by a credit insurer to a supplier against the risk of non-payment by his buyer, in cases where the credit insurer itself does not want to underwrite the risk of failure of that buyer. The buyer must have a probability of default in the range of 2% to 6%; the policyholder must retain 20% of the risk and the credit insurer 5% of the risk. The total amount of compensation paid to policyholder under CAP+ and CAP+ Franceexport is capped at €100,000-€500 000 (varies according to risk and specific policy).

The maximum maturity is six years. Maximum amounts are subject to the rules set out in the Temporary Framework.

#### *Trade credit insurer eligibility*

Axa Assurcrédit, Atradius, Coface, Euler Hermes and Groupama Assurance-crédit & Caution participate in the scheme. Other insurers may join the scheme at a later date.

#### *Pricing*

The compensation amounts are limited by the risk retained by the risk retained by the insurer, i.e. at least 50% under CAP and 5% under CAP+.

#### *Guarantee pricing*

For domestic credit insurance, a premium is determined on the basis of risk. For export credit insurance, Bpifrance Assurance Export charges a reinsurance premium that varies according to the risk category of the export country (from 500 bps to 1,383 bps).

Premium are shared between the State and the insurer, based on a pre-determined split.

#### *Assessment*

Conducted by the insurer.

### **Subordinated loans<sup>22</sup>**

On 30 June 2020 the European Commission authorised the French government to issue publically-funded subordinated loans to companies.

#### *Envelope*

€30 billion

#### *Funds committed to date*

Only one case as of 1 September 2020. No data on volume.

#### *Cost for public finance*

The scheme is funded by the central government.

#### *Duration of the programme*

From 30 June 2020 until 31 December 2020.

<sup>21</sup> However the amount covered under CAP can in no case be higher than the amount covered under the primary credit insurance policy.

<sup>22</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

*Coverage and maturity*

Up to 7 years.

*Beneficiary eligibility*

All firms registered in France so long as they pass the EU UID test as of 31 December 2019. There is no requirement that firms be in difficulty as a result of COVID-19.

*Eligible operations*

Investment and working capital needs.

*Loan pricing*

Interests are equal to the base rate on 1 January 2020 (1-year Euribor with a floor at 0%) plus the following risk margins, for loans with a maturity of six years or less:

<b>Beneficiary</b>	<b>1<sup>st</sup> year</b>	<b>2<sup>nd</sup> to 3<sup>rd</sup> year</b>	<b>4<sup>th</sup> to 6<sup>th</sup> year</b>
SME	175pb	200bp	250bp
Large corporation	250bp	300bp	400bp

For loans with a maturity of seven years:

<b>Beneficiary</b>	<b>1<sup>st</sup> year</b>	<b>2<sup>nd</sup> to 3<sup>rd</sup> year</b>	<b>4<sup>th</sup> to 6<sup>th</sup> year</b>	<b>7<sup>th</sup> year</b>
SME	225pb	250bp	300bp	400bp
Large corporation	300bp	350bp	450bp	550bp

*Assessment*

Conducted by the Ministry of Finance and Economics

## Germany

**Table 2: Main German credit support programmes<sup>23</sup>**

Date <sup>(a)</sup>	Envelope [€ billion] <sup>(b)</sup>	Measure	Responsible body	Commitments as of end-of year 2020 [€ billion] <sup>(c)</sup>
23 March	150	Loan re-financing and guarantees	KfW	44
23 March	400	Loan guarantees mainly for large corporations	BMF via WSF	0
23 March <sup>(c)</sup>	No estimate	Regional loan guarantees scheme for SMEs and mid-caps (loan up to €3.1 million)	Regional guarantee banks (Bürgschaftsbanken)	1.5
23 March <sup>(c)</sup>	30 <sup>(d)</sup>	Regional loan guarantees for SMEs and mid-caps (loan over €3.1 million)	Regional development banks (Landesförderinstitute)	5.3 <sup>(f)</sup>
23 March <sup>(c)</sup>	No estimate	Regional loan guarantees for SMEs and mid-caps (loans over €20 - €50 million) <sup>(g)</sup>	BMWi via PwC	2.7
16 April	30	Guarantees for export credit insurance	BMWi and BMF	Data not available

Source: Bruegel based on KfW, BMWi, various Landesförderinstitute, and various regional governments

Notes: (a) date of the decree instituting the measure; (b) € figures refer to full nominal amounts of the credit covered by the programme; (c) regional programmes are not covered in detail in this analysis; (d) loan over €20 million in structurally weak regions and over €50 million otherwise. (f) Bruegel estimate

### KfW loan financing and guarantees<sup>24</sup>

On 23 March 2020, the federal government announced that the Kreditanstalt für Wiederaufbau (or 'KfW')<sup>25</sup> would issue an "unlimited" amount of loans to businesses in need. In addition, the terms of existing KfW loans programmes were amended to include a guarantee in addition to the financing. On 15 April 2020, the programme was extended to include a 100% guarantee.

#### Envelope

While the programme has a stated unlimited budget, the treasury guarantee of the KfW was increased by €150 billion.

<sup>23</sup> This analysis does not include the KfW Student Loan programme, which had received application worth a total of €0.7 billion as of 11 August 2020. These programmes are much smaller than the ones described here (covering a total of under €1 billion).

<sup>24</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>25</sup> The KfW is a national promotional bank 100% owned by the German state.

### *Funds committed to date<sup>26</sup>*

As of 31 December 2020, €46 billion worth of loans are covered under the guarantee programme. Of these, 13% of volume is 100% guarantees; 49% is 80%-90% guaranteed; and 40% is syndicated loans.

### *Cost for public finance*

The interest payments the KfW receives under the programme are set aside in a so-call 'Risk Fund', to cover losses in case of customer defaults. Note that, in 2008, the Risk Fund was sufficient to cover all default losses incurred under a similar programme. However, given the current low interest rates, it is not clear that the Risk Fund will be enough to cover losses.

KfW is 90% funded on national and international capital markets, usually raising approximately €70 billion each year. The federal government pledged €100 billion (out of the €600 billion WSF) to protect KfW on capital markets should KfW have difficulties raising funds. Of these €100 billion, KfW had demanded €38 billion as of January 2021.

Furthermore, KfW is hedged by a guarantee from the federal governments. This Treasury guarantee fund was increased by €150 billion.

### *Duration of the programme*

Guarantees may be requested from 23 March 2020 until 30 June 2021.

### *Coverage and maturity*

The KfW finances and secures:

- 100% of loans up to €800,000 (or €500,000 for companies with up to 50 employees and €300,000 for those with up to 10 employees<sup>27</sup>);
- 90% of loans to SMEs, up to €100 million;
- 80% of loans to large companies, up to €100 million;<sup>28</sup>
- 80% of syndicated loans from loans starting from €25 million.

Guarantees are valid for the term of the loan granted, with a maximum maturity of 10 years for loans up to €800,000 and 6 years otherwise. The loans are subject to a 2-year pre-amortisation period. For loans over up to €25 million, the loan is capped at to 50% of group's total debt or 30% of the group's total assets. Maximum amounts otherwise follow the rules set out in the Temporary Framework.

### *Beneficiary eligibility*

Micro-enterprises, SMEs and large companies domiciled in Germany whose operations have been affected by the COVID-19 crisis but are "structurally sound and competitive" in the long run.

Firms that fail the EU UID test as of 31 December 2019 are not eligible.

For 100% guarantees, beneficiaries must have been active in the market since at least 1 January 2019 and the company must have made a profit in years 2017-2019 or in 2019. Furthermore, and until 6 November 2020, companies with less than 10 employees were not eligible. Since then, the programme has been expanded to include these smaller firms.

### *Eligible operations*

The funds may be used for investments (e.g. acquisitions of machines and equipment or assets from other companies) and running costs (e.g. rent and salaries) for projects based in Germany. Refinancing or restructuring of loans or revolving credit facility is excluded.

<sup>26</sup> Figures communicated by the KfW.

<sup>27</sup> As of 6 November 2020. Companies with less than 10 employees were previously not eligible for 100% guarantees.

<sup>28</sup> Reduced from €1 billion on 12 May 2020. Since that date all loans over €100 million are syndicated.



### *Conditions on beneficiaries*

Beneficiaries are prohibited from making dividends payments until the loan has been repaid in full.

For 100% loan guarantees, compensation for managing directors and executive officers is capped at €150,000 per year for the term of the loan.

### *Lender eligibility*

All KfW partner banks.

### *Loan pricing*

Interest rate receipts are shared between KfW and the lender, according to a pre-agreed split. The pricing is:

- 3% for 100% guaranteed loans;
- 1%-2.1% for non-syndicated loans (based on risk characteristics); and
- the market rate for syndicated loans.

### *Guarantee pricing*

No guarantee fee.

### *Assessment*

Lenders are solely responsible for risk assessment for loans up to €3 million (automatic acceptance by KfW within 1-3 days). KfW runs a simplified assessment for loans over €3 million (within 3 days) and up to €10 million. Loans over €10 million are subject to KfW's full assessment.

### *Capital relief*

Guarantees are provided on a first demand, *pari passu* basis.<sup>29</sup> Lenders benefit from capital relief on the portion of the loan under guarantee<sup>30</sup>.

### *Guarantee assignment process*

Corona instruments are different from the usual KfW credit instruments. In normal times, KfW refinances bank loans (at preferential rates) but does not guarantee them i.e. if a customer defaults, lenders remain responsible for repaying KfW. With the COVID-19 instruments, KfW refinances and guarantees the loans, i.e. if a customer defaults, lenders are not responsible for repaying KfW.

### *Other conditions on lenders*

Lenders may not demand collaterals or other securities for 100% guaranteed loans.

## **WSF loan guarantees for large corporations<sup>31</sup>**

In March 2020, the German government announced a €400 billion guarantee programme for large corporates and strategic firms that cannot get support under from other schemes, as part of the Economic Stabilisation Fund (WSF)<sup>32</sup>. The programme was approved by the European Commission on 8 July 2020.

### *Envelope*

€400 billion

<sup>29</sup> This means that, in case of default, the lenders do not have to pursue the borrower in order to benefit from the guarantee and that collaterals are shared in accordance with the proportion guaranteed by the KfW.

<sup>30</sup> I.e. the guarantee qualifies as unfunded credit risk mitigation for the purposes of CRR.

<sup>31</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>32</sup> The overall size of the WSF is €600 billion, allocated to three activities: (1) €400 billion guarantee for large firms; (2) €100 billion for direct recapitalisations; and (3) €100 billion to support KfW in case it fails to raise funds on capital markets.

### *Funds committed to date*<sup>33</sup>

None.

### *Cost for public finance*

The programme is supported by funds from the federal budget.

### *Duration of the programme*

The WSF may provide guarantees for debt instruments issued between 28 March and 30 June 2021 (with possible extension to December 2021).

### *Coverage and maturity*

The WSF provides coverage up to 90% of the default of the main claim plus interest, from a volume of at least 5 million euros. The duration of the guarantee is a maximum of 5 years, with no bank loan repayments until the end of 2021.

### *Maximum amounts*

The underlying loan amount per company is limited to what is needed to cover short-term liquidity needs. Maximum amounts follow the rules set out in the Temporary Framework.

### *Beneficiary eligibility*

Support from the WSF can only be considered if support from other aid programmes is either inapplicable or insufficient<sup>34</sup>. Eligible firms must meet at least two of the following criteria<sup>35</sup>:

- a balance sheet total larger than €43 million;
- over €50 million in sales; and/or
- over 249 employees.

Firms of strategic importance may be exempt from the above, conditional on special approval from the WSF committee. Start-ups are eligible under certain conditions.

The firms that fail the EU UID test as of 31 December 2019 are not eligible, and guarantees can only be given for loans whose repayment can be expected or where there is sufficient probability of successful follow-up financing.

### *Eligible operations*

Bank loans for investments and working capital. Debt rescheduling is excluded.

### *Conditions on beneficiaries*

For loans over €100 million, beneficiaries are prohibited from making dividends payments and share buybacks until the loan has been repaid in full. In addition, and until at least 75% of the loan has been repaid, board members and managing directors may not be granted bonuses or other types of special remuneration.

Companies that make use of the stabilisation measures of the WSF must guarantee a solid and prudent business policy. In particular, they commit to making a contribution to stabilizing production chains and securing jobs.

Further conditions may be stipulated in order to avoid distortions of competition.

### *Collateral requirements*

Where reasonable and economically feasible, the lender should require collateral<sup>36</sup>.

<sup>33</sup> Figures communicated by the BMWi.

<sup>34</sup> This does not apply for guarantees in connection with recapitalization are requested by the WSF.

<sup>35</sup> In the last two completed fiscal years before 1 January 2020.

<sup>36</sup> The collateral must secure the entirety of the loan, i.e. not only portion of the loan not under guarantee.

### *Guarantee pricing*

Guarantee fee premiums must comply with the minimum levels foreseen by the Temporary Framework and increase based on risk.

### *Assessment*

For loans under €100 million, KfW must grant its approval. For loans between €100 million and €500 million, BMWi and BMF must approve. For loans over €500 million, a WSF committee is in charge of approvals<sup>37</sup>.

When deciding on the applications, the following criteria are checked in addition to the basic requirements:

- Importance of the company to the German economy;
- Urgency;
- Effects on the labour market and competition; and
- Principle of using the resources of the WSF as sparingly and economically as possible.

The time it takes to reach a decision will depend on the complexity of the case. It is therefore not possible to make a general statement on the duration of the decision-making process.

### *Capital relief*

Yes

### **Credit insurance and export credits<sup>38</sup>**

On 1 April 2020, the federal government and Germany's trade credit insurance industry reached an agreement to maintain trade insurance coverage despite a deteriorating economic environment. Under the agreement, the government guarantees up to €30 billion of trade credit insurers' risk. In return, credit insurers commit to maintaining or extending their coverage and to pay 65% of their premiums to the government in 2020. The Federal Ministry of Finance is responsible for granting the measure.

### *Envelope*

The German Federal Government will guarantee compensation payments by credit insurers to the value of €30 billion.

### *Funds committed to date*

No data available.

### *Cost for public finance*

€30 billion, minus 65% of annual gross premiums on their entire portfolio for the full year 2020 which will be paid by the industry to the German government.

### *Duration of the programme*

The measure covers claims related to the delivery of goods or services that take place between 1 January 2020 and 31 December 2020 (excludes any claims that have been notified before 1 March 2020).

<sup>37</sup> The WSF committee is an inter-ministerial committee. It is made up of one representative each from the Federal Chancellery, the Federal Ministry of Finance, the Federal Ministry for Economic Affairs and Energy, the Federal Ministry for Labour and Social Affairs, the Federal Ministry for Justice and Consumer Protection and the Federal Ministry for Transport and Digital Infrastructure. The chairman of the WSF committee is Dr. Jörg Kukies, State Secretary in the Federal Ministry of Finance.

<sup>38</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

### *Coverage*

Each participating trade credit insurer is allocated a share of the overall €30 billion (based on 2019 market shares). As a collective, the trade credit insurance industry is responsible for covering the first €500 million in losses (again allocated amongst the participants according to 2019 market shares). Beyond this threshold, the German government covers 100% of the losses.

### *Obligators eligibility*

Undertakings inside and outside of Germany that were not in difficulties as of 31 December 2019.

### *Insurers' eligibility*

The measure is open for trade credit originated by policyholders with activities in Germany and covers obligors inside and outside of Germany.

### *Insurance pricing*

Insurers are free to set premiums.

### *Guarantee pricing*

The government charges insurers 65% of their annual gross premiums on their entire portfolio for the full year 2020.

### *Assessment*

Insurers are fully responsible for assessing obligators requests.

### *Guarantee assignment process*

A first-loss guarantee on the portfolio of insurance claim exposures of trade credit insurers active in Germany. Germany provides a guarantee (the "Guarantee" or "the measure") on the overall portfolios of those trade credit insurers active in Germany that have signed the commitment.

## Italy

**Table 3: Main Italian credit support programmes**<sup>39</sup>

Date <sup>(a)</sup>	Envelope (€ billion) <sup>(b)</sup>	Measure	Responsible body	Commitments as of end-of year 2020 (€ billion)
17 March 2020	>100	Credit guarantees for SMEs and mid-caps	Central fund for SME guarantees (Fondo Centrale di Garanzia PMI)	123
17 March 2020	220	Public debt moratorium for SMEs	Central fund for SME guarantees (Fondo Centrale di Garanzia PMI)	155
17 March 2020	10	Public guarantees in favour of CDP on loans <sup>(c)</sup>	Cassa depositi e prestiti (CDP)	N/A (see note (c))
17 March 2020	3	Wholesale funding for bank lending to SMEs and mid-caps	CDP	Data not available
8 April 2020	200	Guarantees for SMEs and large firms	SACE export credit agency (part of CDP group)	19
8 April 2020	200	Guarantees for trade credit <sup>(c)</sup>	SACE	N/A (see note (c))
19 May 2020	4	Purchase of SME debt securities	Invitalia via Fondo Patrimonio PMI	Data not available
19 May 2020	2	Guarantees on trade credit	SACE	Data not available

Source: Bruegel based on reports by the COVID-19 Special Task Force (consortium of the Ministry of Economy and Finance, the Ministry of Economic Development, Bank of Italy, Italian Banking Association, Mediocredito Centrale and SACE). Notes: (a) date of the decree instituting the measure; (b) € figures refer to full nominal amounts of the credit covered by the programme; (c) programme not enacted as of January 2021 and thus excluded from the analysis.

### Fondo di garanzia per le PMI guarantees for SMEs<sup>40</sup>

The Cura Italia Decree of 17 March 2020 repurposed the Guarantee Fund for SMEs ('the Fund')<sup>41</sup>, a public guarantee programme administered by the Mediocredito Centrale (MCC)<sup>42</sup>, for the COVID-19 crisis by increasing

<sup>39</sup> This analysis does not cover sectorial and regional guarantee programmes. These programmes are much smaller than the one described here (covering a total of under €4 billion in loans). This analysis also does not cover a €10 billion programme in tax advantage for bank designed to unlock liquidity by incentivising the quick disposal of NPL loans.

<sup>40</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>41</sup> The Guarantee Fund for SMEs (Fondo di garanzia per le PMI) is operational since 2000. Its purpose is to encourage lending to SMEs through the provision of public guarantees in place of collaterals.

its endowment, relaxing eligibility rules, and broadening its coverage. The Liquidity Decree of 8 April further extended the programme.

#### *Envelope*

The Fund was initially set to guarantee up to €100 billion in loans. But its endowment was since increased (see Table 4) and there is no legal limit to the volume of loans the Fund can guarantee – commitments are thus capped by the Fund’s endowment<sup>43</sup>.

With the relaunch decree, a quota of €200m is reserved for innovative start-ups.

**Table 4: Increases to the endowment of the Guarantee Fund for SMEs**

<b>Date</b>	<b>Decree</b>	<b>€ Budget increase</b>
17 March	Cura Italia	0 (1.73 billion repealed by the Liquidity decree)
8 April	Liquidity Decree	1.73 billion
19 May	Relaunch Decree	3.95 billion
14 August	August decree	7.8 billion (for 2023-2025)
<b>Total</b>		<b>13.48 billion</b>

*Source: Bruegel, ABI*

#### *Funds committed to date*

€123 billion were committed as of 23 December 2020, of which €20 billion for 100% guarantees<sup>44</sup>. Of these, 5% of volume relates to restructurings<sup>45</sup>. The average guarantee coverage is 89.6%<sup>46</sup>.

Commitment figures are available at a disaggregated level by firm size, by credit rating, by sectors and by region (as of 30 June 2020)<sup>47</sup>.

Commitment volumes by firm size and age:

- 40% micro-enterprises
- 27% small companies
- 23% medium companies
- 11% mid-caps
- 6.5% start-ups (less than 3 years old)

The average maturity is 71 months for the 100% guarantee and 62 months otherwise. Overall, 5.3% of loans had a maturity under 12-months.

<sup>42</sup> The Mediocredito Centrale (MCC) is entirely controlled by Invitalia S.p.A., which in turn is owned by the Ministry of the Economy and Finance. MCC specialises in lending to SMEs on behalf of the Italian government and the European Union.

<sup>43</sup> There is no fixed multiplier to determine the volume of allowed guarantees given the endowment. The multiplier varies based on the risk of the underlying loans. Since the crisis, the multiplier has decreased from approximately 15-16 to 10 according to the Guarantee Fund for SMEs.

<sup>44</sup> Value of loans that have passed the Fondo Centrale di Garanzia PMI automated screening (Portale del Fondo di Garanzia). These loans are subject to final approval by an MCC council (see assessment section).

<sup>45</sup> Based on the Bank of Italy report ‘Finanziamenti garantiti dal Fondo Centrale di Garanzia (FCG)’

<sup>46</sup> As of as of 29 July 2020. Unpublished figures provided by the Fondo Centrale di Garanzia PMI.

<sup>47</sup> Commitments of the Fund since 1 January 2020.

Firm rating (MCC rating model):

- 0.6% of firms under the 90% guarantee belong to Band 1 (vs 5.7% in 2019);
- 26.1% belong to Band 2 (20.9% in 2019);
- 45.7% belong to Band 3 (44.9% in 2019);
- 17.2% belong to Band 4 (28.4% in 2019);
- 0.3% belong to Band 5 (not eligible in 2019)

By sector, wholesale trade (excluding motor vehicles) takes the highest share (15%; equivalent to 235% of its contribution to Italian value added), followed by retail (10%; 425% of VA) and restaurants (6%; 629% of VA).

Figures are also available by region, with Lombardy taking the highest share (23%), followed by Veneto (12%).

#### *Cost for public finance*

The Fund is funded by the Italian State and by the European Union<sup>48</sup>. Endowment increases presented in Table 4 reflects financings from both of these sources.

For each guaranteed loan, a share of the endowment is set as reserve against default, based on a multiplier that is determined on the basis of risk. As of July 2020, this share was around 10%.

#### *Duration of the programme*

Guarantees may be requested for loans issued no earlier than 31 January 2020. Guarantees may be granted no later than 30 June 2021.

#### *Coverage and maturity*

The guarantee secures:

- 100% guarantees on loans up to €30,000 with a maximum maturity of 10 years<sup>49</sup>;
- 90% guarantees on loans up to €5 million with a maximum maturity of 6 years; and
- 80% guarantees on restructured loans of up to €5 million<sup>50</sup>.

#### *Beneficiary eligibility*

Self-employed, SMEs, and companies with no more than 499 employees located (with registered office or operational headquarters) on the Italian territory that suffered liquidity shortages as a direct consequence of the COVID-19 epidemic.

Are not eligible the firms that fail the EU UID test as of 31 December 2019 and/or present exposures classified as “non-performing” or “probable default” within the meaning of the banking regulations as of 31 January 2020.

#### *Eligible operations*

Working capital and investment needs. While debt restructurings are allowed under the schemes, the new loan must be 25% greater than the one subject to the restructuring<sup>51</sup>.

#### *Lender eligibility*

Credit and other financial institutions authorised to operate in Italy

<sup>48</sup> The Fund has received European funds (structural funds 2007-2013 and 2014-2020) and FEI counter-guarantees (European Investment Fund).

<sup>49</sup> Initially €25,000 in the Cura Italia Decree.

<sup>50</sup> Two further programmes are run in partnership with guarantee funds such as Confidi: (i) a 90% guarantees for loans up to €800,000, where the guarantee fund takes the remaining 10% stake; and (ii) 90% counter-guarantees on guarantee issued by guarantee funds (which can cover up to 100% of the loan). However these programmes only represent 2,2% of the volume as of 28 July 2020. This low take-up can be explained, in part, by the operational complexity of these programmes.

<sup>51</sup> Initially 10% in the Liquidity Decree, subsequently increased to 25% in the conversion law (operational as of 25 June 2020).

### *Loan pricing*

In the case of 100% guarantees, interest rates are capped at 2% and borrowers can benefit from a 2-year pre-amortization period. Otherwise lenders set interest rates based on their normal pricing framework; however, in accordance to the TF, they must pass the economic benefit of the guarantee to the borrower through lower prices than would have been charged without the guarantee.

### *Guarantee pricing*

Guarantees are provided free of charge [i.e. the fee is subsidised by the state].

### *Assessment*

Assessment procedures were significantly simplified to speed loan issuances. 100% guarantees are automatically granted (subject to minimal self-reported criteria). Loans to the self-employed, with a duration of up to 18 months and an amount of up to € 3,000 are granted without any evaluation of the beneficiary.

For 80%-90% guarantees, lenders are solely responsible for risk assessments. These are carried out exclusively on the basis of firms' two last financial statements and without credit checks. Once an application is submitted by the lender to Fondo di Garanzia, it must undergo two additional verification processes<sup>52</sup>. First, an automated screening (Portale del Fondo di Garanzia) that verifies code of activity, amount requested and other criteria required by regulation. Second, the application must be approved by an MCC council (meeting every three days). 100% of loans have been approved by the council at this stage (as of July 2020).

### *Capital relief*

These are first demand guarantees, subject to capital relief.

### *Other conditions on lenders*

Additional constraints will be imposed at the level of the loans' portfolio of each individual lender, based on the average probability of default of the beneficiaries<sup>53</sup>.

## **Debt moratorium by banks to SMEs and state guarantees to support the moratorium<sup>54</sup>**

The Cura Italia decree of 17 March 2020 also established a debt moratorium, according to which SMEs suffering liquidity shortages as a consequence of COVID-19 are relieved from payment obligations on their loans and credit lines until 30 September 2020. Financial institutions granting the debt moratorium are eligible for a government guarantee equal to 33% of the relevant payment obligations.

### *Envelope*

The Fund may grant the guarantee up to the exhaustion of the resources of the special section defined in the Decree-Law.

### *Funds committed to date*

€155 billion in loans were under the public moratoria as of 23 December 2020. There is no public data about the share of this amount is covered under the moratorium guarantee.

### *Cost for public finance*

Under the Liquidity Decree (art. 56), €1.5 billion have been allocated to the moratorium guarantee programme (in addition to the €5.7 billion allocated to the Guarantee for SMEs programme). For each guarantee, a share of

<sup>52</sup> According to a Bank of Italy report, the time between the submission of applications and the subsequent investigation phase and resolution of admission are approximately 5 calendar days, as of 30 June 2020.

<sup>53</sup> I.e. if the lender's portfolio is composed of over 20% of undertakings whose credit rating is "BB" or lower (as defined by the credit rating agency Standard and Poor's).

<sup>54</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.



the endowment is set as a reserve against default based on a multiplier that is determined on the basis of risk. This share must be superior to 6%.

*Duration of the programme*

From 17 March 2020 until 31 January 2021 (and until 31 March 2021 for loans held by companies in the tourism industry).

*Coverage and maturity*

33% of the payment obligations (described below) incurred over the duration of the programme.

*Beneficiary eligibility*

Self-employed and SMEs located on the Italian territory that suffered liquidity shortages as a direct consequence of the COVID-19 epidemic.

Are not eligible the firms that: present exposures classified as “non-performing” or “probable default” within the meaning of the banking regulations as of 31 January 2020 and/or fall the EU UID test as of 31 December 2019 and/or are in a state of dissolution or liquidation, or subject to procedures insolvency or insolvency agreements or sworn plans or debt restructuring agreements on the date of submission of the application.

Firms that, since 31 December 2019, have entered pre-bankruptcy arrangements that entail business continuity, or that have entered debt restructuring agreements, or have submitted certified debt restructuring plans are eligible provided that (i) their exposure as of 9 April 2020, are not classified as classified as “non-performing” or “probable default”; (ii) they will not have any outstanding debt after applying the supporting measures; and (iii) the bank can reasonably expect that the exposures will be entirely repaid when due.

*Eligible operations*

Are covered under the guarantee the principal and interest, contractual and late payment, and any legal fees incurred on: revocable credit lines; loans granted following advance payments; loans not in instalments; and mortgages and other loans with reimbursement in instalments.

*Lender eligibility*

Same as for the Guarantee for SMEs programme.

*Guarantee pricing*

Guarantees are provided free of charge.

*Assessment*

Same as for the Guarantee for SMEs programme.

*Capital relief*

The moratorium guarantees are not Basel compliant and not subject to capital relief.

**SACE guarantees for SMEs and large corporations<sup>55</sup>**

On 8 April, the Liquidity Decree established a new guarantee programme for Italian SMEs and large corporations hit by the COVID-19 crisis. The programme is administered by SACE, a publicly-owned export credit agency<sup>56</sup>.

<sup>55</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>56</sup> SACE is owned by Cassa Depositi e Prestiti (“CDP”), the public-private investment bank. CDP is 70% owned by the Italian Ministry of Economy and Finance and 30% owned by 66 Italian banking foundations (which have equity participations in all Italian private banks).

### *Envelope*

Up to €200 billion worth of guarantees – the equivalent of €250 billion in loans<sup>57</sup>.

### *Funds committed to date*

€19.0 billion were committed as of 23 December 2020, of which €10.8 billion under the ordinary procedure (see the assessment section below) and the remaining €8.2 billion under the simplified procedure. The majority of loans have a between four and six years.

Commitments were slow at first. By late June, only €800m had been committed. 100% of these were under the simplified procedure. Another €7 billion were pending Ministerial approval. The slow take-up reflects the complex assessment required for larger loans (see the assessment section below). To illustrate, on 28 May 2020 SACE approved state guarantees for Fiat Chrysler (80% coverage of a €6.3 billion bank loan). The loan was approved by the board of the bank Intesa Sanpaolo a few days later. It took another three weeks for the operation to receive Ministerial approval (24 June 2020).

According to SACE, firms have, on average, have taken loans well below the maximum amounts allowed under the programme.

### *Cost for public finance*

Every euro guaranteed by SACE under the measure is counter-guaranteed by the Italian Ministry of Finance<sup>58</sup>.

### *Duration of the programme*

From 8 April until 31 June 2021.

### *Coverage and maturity*

The coverage provided under the SACE guarantees varies along with firms' size:

- 90% guarantees for companies with less than 5,000 employees in Italy and turnover under €1.5 billion;
- 80% guarantees for larger companies, i.e. more than 5,000 employees in Italy and turnover between €1.5 billion and €5 billion. An additional 10% may be granted, subject to conditions agreed to on a bilateral basis and subject to Ministerial approval;
- 70% guarantees for very large companies, i.e. with a turnover greater than €5 billion.

The maximum maturity is 6 years, with a pre-amortisation period of up to 36 months.

### *Maximum amount*

Double the annual wage bill or 25% of the total turnover in 2019.

### *Beneficiary eligibility*

SMEs and large companies registered in Italy territory that suffered liquidity shortages as a direct consequence of the COVID-19 epidemic. Large firms must make an important contribution to the Italian economy<sup>59</sup>. SMEs must have exhausted their ability to access the Guarantee Fund for SMEs (€30 billion, of the €200 billion envelope, are reserved for SMEs).

Are not eligible firms that: (i) present exposures classified as “non-performing” or “probable default” within the meaning of the banking regulations as of 29 February 2020 and/or (ii) fail the EU UID test as of 31 December

<sup>57</sup> The announced €200 billion envelope relates to the value of share of facilities under guarantee. For comparability, this figure is converted using the average of 80% guarantee coverage.

<sup>58</sup> First-demand, unconditional, without recourse, irrevocable State guarantees, which cover both the principal and interest and ancillary charges (net of any commission).

<sup>59</sup> This condition is defined in the Liquidity Decree (Art. 1,7) along the following five criteria: (i) technological development, (ii) procurement network, (iii) strategic importance, (iv) employment contribution, and (v) strategic value-chain. Companies must be highly relevant in at least one of the criteria, or moderately relevant in several. Note that, as of 22 June 2020, this condition has not justified blocking any transactions according to SACE.

2019. Furthermore, undertakings controlling, or controlled by (directly or indirectly) companies located in a non-cooperative jurisdiction for tax purposes are not eligible.

#### *Eligible operations*

SACE Guarantees may be used for debt instruments in any form – including bonds (minimum rating BB- or equivalent) and loans (though the vast majority of transaction have related to loans<sup>60</sup>) The guaranteed funds must be used to finance working capital or investment needs for activities located in Italy.

Debt refinancing is not allowed. However, up to 20% of the financing covered by the guarantee may be used for the payment of loan instalments which are past due or due by 31 December 2020, provided their payment has become impossible as a result of the COVID-19 crisis.

#### *Conditions on beneficiaries*

Beneficiaries are prohibited from dividend payments and from buying back shares until 31 December 2020. Furthermore, productions must remain in Italy for as long as the facility lasts. Beneficiaries must also comply with union agreements.

#### *Lender eligibility*

All entities, national and international, authorised to lend in Italy.

#### *Loan pricing*

Lenders set and keep the interest on the loans. For new loans, financial intermediaries commit to applying interest rates that are lower than the interest rate that they would have applied in the absence of the guarantee. For refinanced loans, the financial intermediaries commit to applying interest rates that fully reflect the improvement of the borrower's credit worthiness resulting from the guarantee.

#### *Guarantee pricing*

SACE charges lenders the minimum guarantee fee as set out in the TF.

#### *Assessment*

The SACE guarantee is granted under two different of procedures:

- Companies with less than 5,000 employees in Italy or with a turnover value under €1.5 billion benefit from a simplified procedure on loans up to €375 million. Applications are processed through automatic SACE processes within 48h. Banks are solely responsible for carrying out due diligences in this case.
- Larger companies (or loans larger than €375 million) must undergo the ordinary procedure. Under this procedure, SACE carries out its own risk assessment, in addition to the Banks', and all decisions are subject to approval from the Ministry of Finance (in the form of a decree). This procedure has been simplified compared to the one required before the COVID-19 crisis.

#### *Capital relief*

SACE guarantees are first demand, Basel compliant, and subject to capital relief.

#### *Other conditions on lenders*

The overall amount disbursed by the lenders to the borrower must be increased as a result of the financing transaction.

<sup>60</sup> As of October 2020.

## **SACE guarantee on trade credit<sup>61</sup>**

19 May 2020 Relaunch Decree reinforced state support for SACE's domestic and export-related activities<sup>62</sup>. The measure introduces a co-insurance system according to which the state undertakes 90% of SACE's commitments deriving from its insurance and guarantee business for non-market risks.

### *Envelope*

Up to €2 billion of trade credit claims reinsured by SACE and guaranteed by the State.

### *Funds committed to date*

No data available.

### *Cost for public finance*

SACE's insurance and guarantee business for non-market risks are undertaken 90% from the state<sup>63</sup> and the remaining 10% from SACE.

### *Duration of the programme*

From 13 August until 31 December 2020

### *Coverage and maturity*

SACE will reinsure proportionally 90% of the insured risks generated by the participating credit insurers' exposures relating to short term trade credit (i.e. less than 24 months).

### *Eligible operations*

The measure will concern exclusively risks arising from short term trade credit (i.e. less than 24 months) granted by a trade credit insurer to a debtor under a commercial agreement.

### *Conditions on lenders*

The measure is implemented by way of reinsurance agreements between SACE and the participating credit insurers, to be approved by a Decree of the MEF. SACE's maximum obligation will not exceed the ceiling allocated to each participating credit insurer on the basis of its market share, in terms of premiums received, as of 31 December 2019.

### *Lender eligibility*

All undertakings active in the trade credit insurance sector in Italy that were not already in difficulty on 31 December 2019.

### *Guarantee pricing*

SACE will receive from the participating credit insurers a proportional share of the insurance premiums. Participating credit insurers shall deduct from the premiums transferred to SACE, an amount covering origination and management costs.

### *Assessment*

Conducted by the insurer

### *Other conditions on lenders*

Participating credit insurers commit: (a) to keep the credit limits at the level of 1 April 2020; (b) if requested by the client, to reconstitute the insurance limits of its policyholders at the values existing on 1 April 2020; and (c)

<sup>61</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>62</sup> The scheme received clearance from the European Commission Competition authorities on 13 August 2020.

<sup>63</sup> The obligations of SACE under the reinsurance agreements are subject to a counter guarantee by the State, in the form of an irrevocable, unconditional, on demand, non-recourse guarantee.

not to take any action to decrease or cancel the limits thus reconstituted until 31 December 2020.

### **CDP wholesale funding for new loans to SMEs and mid-caps**

In early March, the CDP increased the volume and lowered the price of wholesale funding available to Italian banks for granting new loans to SMEs and mid-cap companies, through its existing on-lending platform ("Piattaforma Imprese").

#### *Envelope*

€3 billion (increased by €2 billion for the crisis, including €1.5 billion from the EIB)

#### *Funds committed to date*

No data available.

#### *Cost for public finance*

The Italian state can guarantee the exposures of CDP (the Italian State's guarantee is first demand, unconditional and irrevocable), which will be incurred before 31 December 2020 in favour of those banks and other authorised entities which grant financings in any form to certain companies, whose turnover has decreased as a consequence of the COVID-19 outbreak.

#### *Duration of the programme*

From March 2020 until the end of the emergency phase.

#### *Coverage and maturity*

The funding lines made available by CDP have a duration of 3 to 15 years, with an obligation for banks to grant new long-term finance to companies (1 to 10 years).

#### *Beneficiary eligibility*

SMEs and mid-caps (up to 2,999 employees).

#### *Eligible operations*

New loans to support investments and working capital needs.

#### *Funding pricing*

The cost of funding was exceptionally reduced by CDP compared to ordinary conditions. In addition, funds applied to loans that benefit from a public guarantee (such as the Guarantee Fund for SMEs or SACE) benefits from a further reduction.

#### *Loan pricing*

Banks set the interest rates freely. However, CDP requires partner banks to indicate in the contract the cost at which CDP funding was obtained and thus the margin applied by the bank.

#### *Assignment process*

Banks apply through the "Business Platform" (a tool active since 2014). A simplified assessment procedure guarantees speedy disbursements (within few days).

#### *Capital relief*

Banks and other authorised entities will be allowed to release regulatory capital by virtue of the guarantees.

#### *Other conditions on lenders*

Penalties for early repayment.

## **Purchase of SME debt securities by the Fondo Patrimonio PMI<sup>64</sup>**

The Relaunch decree of 19 May 2020<sup>65</sup> established a fund ("Fondo Patrimonio PMI") managed by Invitalia<sup>66</sup>, for the subscription of newly issued bonds or debt securities. The programme targets SMEs that have strengthened their capital.

### *Envelope*

The Fund has an initial endowment of €4 billion for the year 2020.

### *Funds committed to date*

No data available.

### *Cost for public finance*

The Fund is financed by the Italian Ministry of the Economy and Finance.

### *Duration of the programme*

From the entry into force of the Rilancio Decree and until 31 December 2020.

### *Coverage and maturity*

The debt instrument shall be reimbursed within three or six years.

### *Maximum amount*

The amount of debt that may be subscribed by the fund cannot exceed the lower of three times the amount of the eligible capital increase or 12.5% of FY2019 revenues.

### *Beneficiary eligibility*

Funds under the programme are aimed at SME companies which have increased their capital by at least €250,000 since the entry into force of the Rilancio Decree. In addition, eligibility criteria include:

- €10-50 million in revenues and up to 250 employees<sup>67</sup>;
- 33% decrease in revenues in the period March-April 2020 (compared to same period of 2019) as a result of the COVID-19 crisis;
- pass the EU UID test as of 31 December 2019;
- full compliance with tax and social security contributions, building and town planning legislation, labor and injury prevention laws and environment protection rules;
- did not receive public grants or any kind of aid, which have been considered illegal and have not been reimbursed or duly deposited in a locked account or have been considered incompatible by the European Commission;
- in regard to their directors, shareholders or ultimate beneficial owners, in the last five years have not been subject to final court judgement relating to tax evasion crimes;

### *Eligible operations*

The issuing company shall utilize the funds towards employee costs, capital expenditures and working capital investments in regard to activities located in Italy. In no case can the funds be used for the payment of past debts.

<sup>64</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>65</sup> Converted into law on 17 July 2020.

<sup>66</sup> Invitalia S.p.A. is the National Agency for Inward Investment and Economic Development. It is owned by the Italian Ministry of the Economy and Finance.

<sup>67</sup> In case the company is part of a group, the revenues is considered at the consolidate level, without taking into consideration the intragroup revenues.

### *Conditions on beneficiaries*

Firms are barred from distributing reserves, purchasing shareholding interests and reimbursing shareholders' loans until full reimbursement of the instrument.

### *Pricing*

Annual interest of 1.75% for the first year, 2% for the second and third years and 2.5% for the remaining three years.

Beneficiaries may benefit from a reduction in the redemption value of the financial instruments equal to 5% if it achieves any of the following:

- Maintenance of the employment base in force at 31 December 2019, at production plants located in Italy, until the full repayment of the loan;
- Investments for environmental protection, aimed at reducing energy consumption and greenhouse gas emissions or the energy requalification of buildings, for an amount not less than 30% of the amount of the financial instruments subscribed.
- Investments in enabling technologies of industry 4.0 for an amount not less than 30% of the amount of the financial instruments subscribed.

### *Assessment*

Applications submitted to Invitalia are reviewed within 10 days of receipt. If the application is successful, Invitalia underwrites the securities issued and pays the subscription price within 10 days.

## Spain

**Table 5: Main Spanish credit support programmes<sup>68</sup>**

Date <sup>(a)</sup>	Envelope (€ billion) <sup>(b)</sup>	Measure	Responsible body	Commitments as of end-of year 2020 (€ billion)
17 March 2020	2	Guarantee on loans to exporting companies	Spanish Export Credit Insurance Company (CESCE)	Data not available
24 March 2020	184 <sup>(c)</sup>	Guarantees for companies	ICO	117 <sup>(d)</sup>
5 May 2020	5.7	Guarantee of promissory notes on Spain's Mercado Alternativo de Renta Fija (MARF)	ICO	Data not available (see note (d))

Source: Bruegel based on ICO, Bank of Spain.

Notes: (a) date of the decree instituting the measure; (b) € figures refer to full nominal amounts of the credit covered by the programme; (c) the announced €100bn + €40bn envelopes relates to the value of share of facilities under guarantee. For comparability, this figure is converted using the historical average of 76% guarantee coverage. Amounts include the €5.7bn allocated to the promissory note guarantee programme on Spain's Mercado Alternativo de Renta Fija (MARF) and the €0.5bn allocated to the counter-guarantee programme operated by CERSA; (d) Includes the MARF and CERSA programmes (aggregated reporting by the ICO).

### ICO loan guarantees<sup>69</sup>

On 17 March 2020<sup>70</sup>, the Spanish government charged the Instituto de Crédito Oficial (or 'ICO')<sup>71</sup> with providing loan guarantees to businesses in need, on behalf of the Ministry of the Economy and Digital Transformation.

#### Envelope

The total €140 envelope was set out in two announcements. The first announcement, on 17 March, released €100 billion worth of guarantees – the equivalent of €132 billion in loans<sup>72</sup>. This first package was aimed at supporting businesses' working capital need. On 3 July, the Spanish Government announced a second €40 billion guarantee line, this time aimed at funding new investment projects by SMEs<sup>73</sup>.

<sup>68</sup> This analysis does not cover sectorial and regional guarantee programmes. These programmes are much smaller than the ones described here (covering a total of under €1 billion). This section also does not cover the €0.5 billion scheme for counter-guarantees that CERSA grants to mutual guarantee societies.

<sup>69</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>70</sup> Royal Decree 8/2020.

<sup>71</sup> The ICO is a national promotional bank. It is a corporate state-owned entity attached to the Ministry of the Economy and Digital Transformation.

<sup>72</sup> The announced €100 billion envelope relates to the value of share of facilities under guarantee. For comparability, this figure is converted using the historical average of 76% guarantee coverage. Amounts includes the €4 billion allocated to the promissory note guarantee programme on Spain's Mercado Alternativo de Renta Fija (MARF) and the €0.5 billion allocated to the counter-guarantee programme operated by CERSA

<sup>73</sup> Royal Decree-law 25/2020, of 3 July



The funds of both packages were released in tranches, as described in Table 6.

**Table 6: Activation of the guarantee programme in tranches**

<b>Date<sup>(a)</sup></b>	<b>Tranche</b>	<b>Budget<sup>(b)</sup></b>
<i>First package</i>		
24 March	Tranche 1 – Loan guarantees for SMEs and large companies (10 billion each)	€20 billion
10 April	Tranche 2 – Loan guarantees for SMEs	€20 billion
5 May	Tranche 3 – Loan guarantees for SMEs and large companies (10 billion each)	€20 billion
5 May	Tranche 3 – Guarantee of promissory notes on MARF	€4 billion
5 May	Tranche 3 – Counter-guarantees (operated by CERSA)	€0.5 billion
19 May	Tranche 4 – Loan guarantees for SMEs	€20 billion
16 June	Tranche 5 – Loan guarantees for SMEs (10 billion, incl. 2.5 for tourism), large companies (5 billion) and professional vehicles (0.5 billion)	€15.5 billion
<i>Second package</i>		
28 July	Tranche 1 – Loan guarantees for SMEs (5 billion) and large companies (3 billion)	€8 billion
17 November	Tranche 2 – Loan guarantees (2.5 billion) and guarantee of promissory notes on MARF (50m) for companies and self-employed workers that are in a bankruptcy agreement but are up to date with their obligations as of 21 December 2019	€2.55 billion
17 November	Tranche 3 – Guarantee of promissory notes on MARF (250m) for companies	€0.250
<b>Total released to date</b>		<b>110.8 billion</b>

Source: Bruegel

Notes: (a) date refers to the date the tranche was announced (tranche release may follow by a few weeks); (b) amounts under guarantee, as opposed to full nominal amounts of the credit covered by the programme as in Table 1.

#### Funds committed to date

As of 30 December 2020, €117 billion worth of loans were covered under the guarantee programme<sup>74</sup>. Of these:

- 75% went to micro-enterprises and SMEs (98% of operations);
- 80% financed new loans<sup>75</sup>; and
- 70% financed long-term loans (between four and five years)<sup>76</sup>.

The average guarantee coverage is 76%.

<sup>74</sup> Under both the first and second packages. Includes the MARF and CERSA programmes (aggregated reporting by the ICO).

<sup>75</sup> As of 15 July 2020; figures provided by the ICO via email.

<sup>76</sup> Ibid.

By sector, tourism takes the highest share (16%), followed by construction (11%) and other professional services (9%). Figures are also available by region, with Madrid taking the highest share (20%), followed by Cataluña (19%).

Research by the Bank of Spain found that SMEs, firms operating in sectors most affected by the crisis<sup>77</sup> and firms with riskier profiles<sup>78</sup> disproportionately benefitted from the programme. Indeed, for these firms guaranteed loans accounted for a higher share of new credit than for large or less risky firms: 57% for SMEs, 47% for firms in most affected sectors and 56% for riskier firms, compared with 22% for large and 24% for less risky firms.

#### *Cost for public finance*

Since the crisis, the ICO's debt capacity was increased by €10 billion<sup>79</sup>. The ICO finances itself exclusively on national and international capital markets, therefore this change does not have implications for public finances. Note however that the debts and obligations of the ICO benefit from the explicit, irrevocable, unconditional and direct guarantee of the Spanish State.

#### *Duration of the programme*

Guarantees may be requested from 18 March 2020 until 1 June 2021<sup>80</sup>.

#### *Coverage and maturity*

The ICO secures:

- 80% of loans to SME (newly issued and refinanced);
- 70% of newly issued loan to large companies; and
- 60% for refinancing operations of large companies.

Guarantees are valid for the term of the loan granted, with a maximum of five years (which may be extended to eight years upon request as of November 2020)<sup>81</sup> under the first €100 billion package and eight years under the second €40 billion package. Maximum amounts follow the rules set out in the Temporary Framework.

Lenders are required to extend the grace period for the repayment of the principal amount of one year (which may be extended to two years upon request as of November 2020).

#### *Beneficiary eligibility*

Micro-enterprises, SMEs and large companies domiciled in Spain whose operations have been affected by the COVID-19 crisis (see detailed allocations in Table 6). For loans under €1.5 million, are not eligible the firms that: are in default according to the Bank of Spain's Risk Information Centre (CIRBE) as of 31 December 2019 and/or; are subject to insolvency proceedings as of 17 March 2020. For loans over €1.5 million, the EU UID test is applicable<sup>82</sup>.

#### *Eligible operations*

The funds cannot be used to fund dividends payments. Debt restructuring is not allowed, but loan refinancing is – so long as the lender transfers the benefit derived from the public guarantee (e.g. in the form of longer terms or more financing).

Guaranteed loans under the first €100 billion package must fund working capital needs (e.g. payment of suppliers, wages, or maturing financial obligations).

<sup>77</sup> The sectors most affected by the health crisis are: transport, hospitality, catering, entertainment and motor vehicles.

<sup>78</sup> probability of default of over 2%.

<sup>79</sup> Royal Decree 8/2020. Debt capacity as defined in the State Budget Law.

<sup>80</sup> Initially 30 September 2020. Extended to 1 December 2020 on 28 July 2020, and to 1 June 2021 on 24 November 2020.

<sup>81</sup> Royal Decree-Law 34/2020, of 17 November

<sup>82</sup> Loans under 1.5 million are subject to *de minimis* state aid rules.

Guaranteed loans under the second €40 billion package must fund investment needs. This second package is more targeted than the first. It is meant to focus on sectors with “high value added”, as well as on environmental sustainability and digitization.

#### *Other conditions on lenders*

Companies will not be able to take advantage of structures in tax havens to reduce their tax obligations.

#### *Lender eligibility*

All credit institutions, electronic money institutions and payment institution registered and supervised by the Bank of Spain are eligible for participation in the guarantee programme. Alternative lenders (e.g. P2P lending platforms) are excluded.

Each eligible lender is assigned a quota of guarantees based on market share (periodically reassigned on the basis of usage).

#### *Loan pricing*

While lenders set and keep the loan's interest<sup>83</sup>, they are restricted on how much they can charge. Interest rates must be in line with market conditions before the COVID-19 crisis – accounting for the advantage conferred by the guarantee as well as its cost to the bank. Furthermore, interest rates for clients benefiting from the guarantee must be lower than that for clients who cannot benefit from such guarantee<sup>84</sup>.

A report by Bank of Spain suggests that the terms and conditions on credit transactions under the programme have been more favourable than would be applied in the programme's absence; in terms of interest rates as well as loan sizes and maturities<sup>85</sup>. In particular, the report shows that, for the period March-April 2020, the average interest rate on guaranteed credit was 2.1% for SMEs and 2.2% for large firms. The Bank assesses these rates to be “significantly lower” than the rates on loans not linked to the ICO facility or issued before the crisis (2.6% to 2.8%). These lower rates are especially favourable given that ICO guaranteed loans disproportionately benefit risky firms<sup>86</sup>, are on average 3-years longer, and given that lenders must pay a fee for the guarantee.

#### *Guarantee pricing*

The ICO charges lenders a guarantee fee, as set out in the TF.

#### *Assessment*

Assessment procedures are significantly simplified to speed loan issuances. For loans under €50 million, lenders are solely responsible for the risk assessment. However, the ICO may conduct *ex post* evaluations of viability and guarantees can be withdrawn in case of non-compliance<sup>87</sup>, Transactions over €50 million are subject to ICO's full review.

#### *Capital relief*

Guarantees are provided on a first demand, *pari passu* basis<sup>88</sup>. Lenders thus benefit from capital relief on the portion of the loan under guarantee<sup>89</sup>.

<sup>83</sup> As per state aid rules the financial institutions must transfer to borrower the advantage it gains from the guarantee.

<sup>84</sup> As clarified with the release of Tranche 2 (10 April 2020).

<sup>85</sup> Bank of Spain's 2019 Annual Report, Box 4.3 “Developments in bank finance for productive activities in the context of the COVID-19 crisis”, available at: [https://www.bde.es/bde/en/secciones/informes/Publicaciones\\_an/Informe\\_anual/recuadros-59ee110b3900371.html](https://www.bde.es/bde/en/secciones/informes/Publicaciones_an/Informe_anual/recuadros-59ee110b3900371.html)

<sup>86</sup> Probability of default above 2%.

<sup>87</sup> Note that this does not seem to raise concerns on the part of the banks that recognize the ICO's need to move fast.

<sup>88</sup> This means that, in case of default, the lenders do not have to pursue the borrower in order to benefit from the guarantee and that collaterals are shared in accordance with the proportion guaranteed by the ICO.

<sup>89</sup> I.e. the guarantee qualifies as unfunded credit risk mitigation for the purposes of CRR.

#### *Guarantee assignment process*

ICO guarantees are retail guarantees, i.e. associated with individual loan. However, the triggered guarantee funds will be transferred to banks quarterly, in aggregated form.

#### *Other conditions on lenders*

- Financial institutions may not cut existing credit lines for the duration of the programme.
- Financial institutions are explicitly prohibited from marketing other products or services or making the granting of the guaranteed loan subject to taking out other products or services<sup>90</sup>.

#### **ICO guarantees on promissory notes<sup>91</sup>**

The Royal Decree of 5 May 2020<sup>92</sup> specifies that promissory notes placed on AIAF (Spain's benchmark market for corporate debt and private fixed income) and on MARF can benefit from an ICO guarantee.

#### *Envelope*

The €4 billion budget will allow for the mobilization of over €5.7 billion in promissory notes with a maturity up to two years.

#### *Funds committed to date*

Not available.

#### *Duration of the programme*

Guarantees may be requested from 5 May 2020 until 30 September 2020.

#### *Coverage and maturity*

ICO guarantees up to 70% of the promissory notes. Guarantees are valid for the term of the note granted, with a maximum of 48 months. Maximum amounts follow the rules set out in the Temporary Framework.

#### *Beneficiary eligibility*

These are the same as for the ICO loan guarantee programme, with the additional condition that borrowers must have promissory note programs already in progress and placed on MARF.

#### *Guarantee pricing*

The ICO charges lenders a fixed fee for the guarantee<sup>93</sup> – a fee that varies according the promissory notes' maturities and is independent of the underlying risk.

#### *Eligible operations*

Same as for the ICO loan guarantee programme, with the additional condition that the operation relates to needs that arose after the start of the crisis.

<sup>90</sup> As a result of complaints, early in the programme, that some banks were making the granting of the guaranteed loan subject to taking out other products and services.

<sup>91</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>92</sup> Royal Decree-law 15/2020

<sup>93</sup> Fees vary between 30 and 60 basis points.

## **CESCE guarantee on loans to exporting companies<sup>94</sup>**

The Royal Decree of 17 March 2020<sup>95</sup> also established a loan guarantee programme for export companies, managed through the Spanish Export Credit Insurance Company (Compañía Española de Seguros de Crédito a la Exportación, or CESCE). The programme was officially launched in April.

### *Envelope*

€2 billion activated in two €1 billion tranches (second tranche activated in June).

### *Funds committed to date*

€1 billion. By sector, manufacturing, wholesale and retail trade, motor vehicle and motorcycle repair take the highest share.

### *Cost for public finance*

The state ensures the allocation of sufficient provisions to the dedicated “Reserve Fund for the Risks of Internationalization”.

### *Duration of the programme*

Guarantees may be requested from 18 March 2020 until 18 September 2020.

### *Coverage and maturity*

The CESCE secures up to 80% of the loan. Maximum amounts follow the rules set out in the Temporary Framework.

### *Borrower eligibility*

The same conditions as for the ICO loan guarantee programme apply<sup>96</sup>, as well as the following additional eligibility criteria:

- International turnover greater than third of their turnover; or
- Uninterruptedly export activity in the last four years.

### *Eligible operations*

The same conditions as for the ICO loan guarantee programme apply.

### *Lender eligibility*

Credit institutions supervised by the Bank of Spain, the National Securities Market Commission, or other competent national financial supervisor of EU Member States.

### *Loan pricing*

The same conditions as for the ICO loan guarantee programme apply.

### *Guarantee pricing*

The CESCE charges lenders a fixed fee for the guarantee – a fee that varies according to firm size, coverage and loan duration and is independent of the underlying risk, as set out in Table 7.

<sup>94</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>95</sup> Subsequently broadened on 31 March (Royal Decree-law 11/2020) and further amended on 26 May (Royal Decree-law 19/2020)

<sup>96</sup> The overall volume of listed companies is capped at 35% of the total envelope.

**Table 7: Guarantee premia applicable under the CERSE credit guarantee scheme**

	<b>Guarantee coverage</b>	<b>1 year</b>	<b>2-3 years</b>	<b>4 years</b>	<b>5 years</b>
<b>SMEs and self-employed</b>	80%	20bps	30bps	80bps	80bps
<b>Other companies</b>	80%	50bps	100bps	200bps	200bps
	70%	30bps	60bps	120bps	120bps
	60%	25bps	50bps	100bps	100bps

*Assessment*

CESCE evaluates the requests – applying flexible decision making and responding to the requests in the shortest possible time. Requests for guarantees with coverage under 70% and amounts €10 million are subject to express treatment.

*Capital relief*

The same conditions as for the ICO loan guarantee programme apply.

*Guarantee assignment process*

Guarantees are granted by CESCE in its own name and on behalf of the State<sup>97</sup>.

<sup>97</sup> Under the provisions of Law 8/2014, of 22 April, Royal Decree 1006/2014, of 5 December and the provisions of royal decree-law 8/2020.

## United Kingdom

**Table 8: Main British credit support programmes<sup>98</sup>**

Date <sup>(a)</sup>	Envelope (£ billion) <sup>(b)</sup>	Measure	Responsible body	Commitments as of end-of year 2020 (£ billion)
23 March 2020		Coronavirus Business Interruption Loan Scheme (CBILS)	British Business Bank (BBB)	20
23 March 2020	330 for all four schemes	COVID-19 Corporate Financing Facility (CCFF)	Bank of England	33
20 April 2020		Coronavirus Large Business Interruption Loan Scheme (CLBILS)	BBB	5
4 May 2020		Bounce Back Loan Scheme (BBLS)	BBB	44
4 June 2020	10	Reinsurance of trade credit insurances	Secretary of State for Business, Energy and Industrial Strategy (BEIS)	Data not available

Source: Bruegel based on UK Treasury, Bank of England

Notes: (a) date of the announcement instituting the measure; (b) £ figures refer to full nominal amounts of the credit covered by the programme

### Coronavirus Business Interruption Loan Scheme (CBILS)<sup>99</sup>

On 23 March 2020, the UK government charged the British Business Bank (or 'BBB')<sup>100</sup> with providing credit guarantees to businesses in need under the Coronavirus Business Interruption Loan Scheme (CBILS).

#### Envelope

£330 billion envelope, to be share with the other two BBB credit guarantee schemes (BBLS and CLBILS) and the Bank of England's corporate debt purchase programme (CCFF).

#### Funds committed to date

As of 13 December 2020, £20 billion worth of debt instruments were covered under the guarantee programme<sup>101</sup>.

<sup>98</sup> This analysis does not cover the Treasury's new £250 million convertible loans programme (Future Fund) and the Bank of England's new targeted wholesale funding programme for SMEs Enterprises (TFSME, £19 billion as of 29 July 2020). Both fall outside the scope of this study.

<sup>99</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>100</sup> The BBB is a national promotional bank. It is a state-owned entity attached to the Department for Business, Energy and Industrial Strategy.

<sup>101</sup> Further breakdowns not available.

### *Cost for public finance*

The Department for Business, Energy and Industrial Strategy (BEIS) is the ultimate guarantor (costs covered by the Treasury).

### *Duration of the programme*

Guarantees may be requested from 23 March 2020 until 31 March 2021<sup>102</sup>.

### *Coverage and maturity*

The BBB secures up to 80% of debt instruments for a maximum value of £5 million (also subject to the rules on maximum amounts per firm set out in the Temporary Framework). The guarantee can be used to support term loans, overdrafts and asset and invoice finance facilities.

Facility terms can range between three months and six years, with a three-year limit for overdrafts and invoice finance.

### *Beneficiary eligibility*

SMEs adversely impacted by COVID-19 with turnover of up to £45 million carrying on business in the UK are eligible for the scheme.

Eligible firms must (i) pass the EU UID test and (ii) have a viable business proposition, as determined according to the lender's normal commercial lending criteria however deemphasizing the considerable uncertainty<sup>103</sup>.

### *Eligible operations*

CBILS can be used for new lending and to a limited extent, to refinance existing debt. Refinancing is, in principle, limited to a maximum 20% of a lender's annual portfolio of CBILS-supported lending.

### *Lender eligibility*

Lending institutions must obtain BBB accreditation. All lending institutions are eligible conditional on, inter alia, a viable business model, satisfactory financial status and robust operations and systems.

### *Loan pricing*

Lenders set interest rates based on their normal pricing framework; however, they must pass the economic benefit of the guarantee to the borrower through lower prices than would have been charged without the guarantee.

Borrowers are entitled to the reimbursement of interests or other fees incurred in the first 12-months (capped at €800,000).

### *Guarantee pricing*

The BBB charges lenders a fixed fee for the guarantee, as set out in the TF.

### *Assessment*

Lenders are solely responsible for the risk assessment. The lending decision-making for transactions under the programme should be conducted with no greater or lesser rigour than for any other commercial transaction.

### *Capital relief*

Guarantees are provided on a first demand, *pari passu* basis: Lenders thus benefit from capital relief on the portion of the loan under guarantee<sup>104</sup>.

<sup>102</sup> Extended to 31 January 2021 on 2 November 2020. Initially set to expire on 30 September 2020.

<sup>103</sup> I.e. the lender reasonably believes that (i) the finance will help the SME trade-out of any short-to-medium term cashflow difficulty, and (ii) if the facility is granted, the SME should not go out of business in the short-to-medium term. For small value loans (under £30,000) the credit worthiness of the applicant may be determined based on the lender's normal unsecured credit score methodology and/or approval cut off (including any appeals process) prior to the negative COVID-19 impact.



#### *Other conditions on lenders*

Lenders may not take personal guarantees for facilities under £250,000. For facilities over £250,000, if an applicant has available security, the lender is expected to take security (however this does not impact the applicant's eligibility for the scheme).

#### **Coronavirus Large Business Interruption Loan Scheme (CLBILS)<sup>105</sup>**

On 20 April 2020, the UK government extended the BBB's credit guarantee scheme to include large companies, under the Coronavirus Large Business Interruption Loan Scheme (CLBILS) programme.

#### *Envelope*

£330 billion envelope, to be shared with the other two BBB credit guarantee schemes (BBLs and CBILS) and the Bank of England's corporate debt purchase programme (CCFF).

#### *Funds committed to date*

As of 13 December 2020, £5 billion worth of debt instruments were covered under the guarantee programme<sup>106</sup>.

#### *Cost for public finance*

The Department for Business, Energy and Industrial Strategy (BEIS) is the ultimate guarantor (costs covered by the Treasury).

#### *Duration of the programme*

Guarantees may be requested from 20 May 2020 until 31 January 2021<sup>107</sup>.

#### *Coverage and maturity*

The BBB secures up to 80% of debt instruments for a maximum value of £200 million (increased from £50 million on 26 May<sup>108</sup>; also subject to the rules set out in the Temporary Framework). The guarantee can be used to support term loans, overdrafts and asset and invoice finance facilities.

The maximum repayment term is 3 years for new loans and 6 years in case of debt restructuring.

#### *Beneficiary eligibility*

Firms adversely impacted by COVID-19 with turnover over £45 million carrying on business in the UK are eligible for the scheme. Businesses (or their parents) participating in the CBILS, BBLs, or CCFF scheme are not eligible for CLBILS.

Eligible firms must (i) pass the EU UID test and (ii) have a viable business proposition, as determined according to the lender's normal commercial lending criteria however deemphasising the considerable uncertainty<sup>109</sup>.

<sup>104</sup> i.e. the guarantee qualifies as unfunded credit risk mitigation for the purposes of CRR.

<sup>105</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>106</sup> Further breakdowns not available.

<sup>107</sup> Extended to 31 January 2021 on 2 November 2020. Initially set to expire on 30 October 2020.

<sup>108</sup> Before the changes of 26 May 2020, the limit was £25m for businesses with group turnover up to £250m and £50m for businesses with higher turnover.

<sup>109</sup> i.e. the lender reasonably believes that (i) the finance will help the SME trade-out of any short-to-medium term cashflow difficulty, and (ii) if the facility is granted, the SME should not go out of business in the short-to-medium term. For small value loans (under £30,000) the credit worthiness of the applicant may be determined based on the lender's normal unsecured credit score methodology and/or approval cut off (including any appeals process) prior to the negative COVID-19 impact.

### *Conditions on beneficiaries*

For facilities of up to £50m, dividend payments can continue but may not be increased for as long as any facility under CLBILS remains outstanding.

For facilities over than £50m, the programme imposes restrictions on dividends and other shareholder and management payments. In particular, until the facility has been repaid in full, borrowers and members of their group are barred from:

- awarding cash bonuses or pay rises to senior management<sup>110</sup>;
- paying any dividend, charge, fee or other distribution in respect of its share capital<sup>111</sup>;
- repaying or distributing any dividend or share premium reserve;
- paying any management, advisory or other fee to any of its shareholders; and
- redeeming, repurchasing, retiring or repaying any of its share capital.

### *Eligible operations*

CLBILS can be used for new lending and, to a limited extent, to refinance existing debt. Refinancing is, in principle, limited to a maximum 20% of a lender's annual portfolio of CLBILS-supported lending.

Lending under CLBILS will not be subordinated to any other senior obligations of the borrower.

### *Lender eligibility*

Lending institutions must obtain BBB accreditation. All lending institutions are eligible conditional on, *inter alia*, a viable business model, satisfactory financial status and robust operations and systems.

BBB provides each lender with an annual lending limit for CLBILS transactions.

### *Loan pricing*

Lenders set interest rates based on their normal pricing framework; however, they must pass the economic benefit of the guarantee to the borrower through lower prices than would have been charged without the guarantee.

### *Guarantee pricing*

The BBB charges lenders a fixed fee for the guarantee, as set out in the TF.

### *Assessment*

Lenders are solely responsible for the risk assessment. The lending decision-making for transactions under the programme should be conducted with no greater or lesser rigour than for any other commercial transaction.

Lenders wishing to offer CLBILS facilities for an amount, in aggregate, greater than £50m to any borrower or borrower group, will need to notify the British Business Bank in advance of agreeing any facility.

### *Capital relief*

Guarantees are provided on a first demand, *pari passu* basis. Lenders thus benefit from capital relief on the portion of the loan under guarantee<sup>112</sup>.

### *Other conditions on lenders*

Same as for the CBILS.

<sup>110</sup> except where such pay rise was (i) agreed in writing before the facility was taken out, or (ii) is in keeping with similar payments made in the preceding 12 months, and (iii) does not have a material negative impact on the borrower's ability to repay the facility.

<sup>111</sup> or, if it is a partnership, any equivalent payment to its partners.

<sup>112</sup> i.e. the guarantee qualifies as unfunded credit risk mitigation for the purposes of CRR.

## **Bounce Back Loan Scheme (BBLs)**<sup>113</sup>

On 4 May 2020, the UK government launched a new 100% loan guarantee scheme, the Bounce Back Loan Scheme (BBLs), under the administration of the BBB.

### *Envelope*

£330 billion envelope, to be shared with the other two BBB credit guarantee schemes (CBILS and CLBILS) and the Bank of England's corporate debt purchase programme (CCFF).

### *Funds committed to date*

As of 13 December 2020, £44 billion worth of loans were covered under the guarantee programme<sup>114</sup>.

### *Cost for public finance*

The Department for Business, Energy and Industrial Strategy (BEIS) is the ultimate guarantor (costs covered by the Treasury).

### *Duration of the programme*

Guarantees may be requested from 4 May 2020 until 31 January 2021<sup>115</sup>.

### *Coverage and maturity*

The BBB secures up to 100% of loans for a maximum value of £50,000 (also subject to the rules set out in the Temporary Framework). BBLs loans are term loans of six years<sup>116</sup>.

It was announced on 2 November 2020 that BBLs borrowers who took out less than their maximum under the scheme rules in their first loan application would be allowed to top-up their loan up to the maximum.

### *Maximum amount*

The lower of £50,000 or 25% of borrower turnover.

### *Beneficiary eligibility*

UK based businesses adversely impacted by COVID-19 and established by 1 March 2020 are eligible for the scheme.

Eligible firms must (i) pass the EU UID test<sup>117</sup> or, if failing, must not breach *de minimis* State aid restrictions; (ii) not be in bankruptcy nor in debt restructuring proceedings nor in liquidation<sup>118</sup> at the time of submitting their application; and (iii) derive more than 50% of their income from their trading activity.

Businesses (or their parents) participating in the CBILS, CLBILS, or CCFF schemes are not eligible; unless the BBLs loan will refinance the whole of the CBILS, CLBILS or CCFF facility.

### *Eligible operations*

The loan must be used to provide an economic benefit to the business, for example providing working capital, and not be used for personal purposes. BBLs can be used for new lending or to refinance existing debt.

### *Lender eligibility*

Lending institutions must obtain BBB accreditation. All lending institutions are eligible conditional on, inter alia, a viable business model, satisfactory financial status and robust operations and systems.

<sup>113</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

<sup>114</sup> Further breakdowns not available.

<sup>115</sup> Extended to 31 January 2021 on 2 November 2020. Initially set to expire on 4 November 2020.

<sup>116</sup> Early repayment is permitted at any stage, without early repayment fees.

<sup>117</sup> Furthermore, firms that fail the EU UID test may not use BBLs funding to support export-related activities.

<sup>118</sup> The UK allows for the restructuring and liquidation of solvent companies.

BBB provides each lender with an annual lending limit for BBLs transactions.

#### *Loan pricing*

The interest rate is fixed at 2.5%. No early repayment fees or other lender-levied fees of any type are permitted after drawdown.

The borrower does not have to make any repayments for the first 12 months. The Government covers the first 12 months of interest payments. No fee for early repayments.

#### *Guarantee pricing*

Guarantees are provided free of charge.

#### *Assessment*

Businesses self-certify that they meet the UID test. Lenders are solely responsible for the risk assessment. The lending decision-making for transactions under the programme should be conducted with no greater or lesser rigour than for any other commercial transaction.

#### *Capital relief*

Guarantees are provided on a first demand, *pari passu* basis. Lenders thus benefit from capital relief on the portion of the loan under guarantee<sup>119</sup>.

#### *Other conditions on lenders*

Personal guarantees cannot be taken by lenders. No recovery action can be taken against either a borrower's principal private residence or their primary personal vehicle.

### **Coronavirus Corporate Financing Facility (CCFF)<sup>120</sup>**

On 23 March 2020, the UK government charged the Bank of England ("the Bank") with purchasing corporate short-term debt under the Coronavirus Corporate Financing Facility (CCFF).

#### *Envelope*

£330 billion envelope, to be shared with the three BBB credit guarantee schemes (CBILS, CLBILS and BBLs).

#### *Funds committed to date*

As of 30 December 2020, £33bn worth of commercial papers had been purchased under the CCFF.

#### *Cost for public finance*

Purchases under the Facility will be financed by reserves from the Bank of England. However, the Treasury indemnifies the Bank's operations under the CCFF, such that the Bank shall not bear any losses.

#### *Duration of the programme*

The scheme will operate for 12 months starting 23 March 2020 (that the final window for new purchases on 22 March 2021). The CCFF closed to new applicants on 31 December 2020.

#### *Eligible securities*

The Bank purchases sterling-denominated commercial papers (CP) of eligible issuers on both primary and secondary markets. CPs must have the following characteristics: (i) a maturity of one week to twelve months if issued to the Bank at issue via a dealer; (ii) issued directly into Euroclear and/or Clearstream; and (iii) Governed by English law and subject to the jurisdiction of the English courts.

<sup>119</sup> i.e. the guarantee qualifies as unfunded credit risk mitigation for the purposes of CRR.

<sup>120</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

Drawings can be rolled.

#### *Maximum amount*

Purchases of CP in the primary markets are limited by issuer; with limits determined with reference to the issuer's credit rating and revenue.

#### *Beneficiary eligibility*

Companies (including their finance subsidiaries) that (i) make a material contribution to economic activity in the UK and (ii) with a credit quality that is considered investment grade as at 1 March 2020. Companies that do not currently issue CP but are capable of doing so, and of meeting the CCFE eligibility requirements, will in principle be eligible to access the CCFE.

As of the market notice of 9 October, HMT and BoE sub-investment grade firms are tested in their ability to repay CCFE financing at maturity. The appropriate level of access is granted based on this assessment. Entities rated BBB- or below, are also subject to a limit cap of £300m.

#### *Conditions on beneficiaries*

Should they benefit from more favorable terms than those generally applied, issuers participating in the CCFE may be required to commit to restraint on their capital distributions and on senior pay<sup>121</sup>.

#### *Dealer eligibility*

Eligibility is determined on a case by case basis. Counterparties must be appropriately authorised for the purposes of the Financial Services and Markets Act 2000 (FSMA).

#### *Pricing*

The Bank purchases securities at a minimum spread above a reference rate<sup>122</sup>. Spreads vary along with firms' credit rating and are such that pricing is close to the market spreads prevailing before the economic shock from COVID-19. As of 31 December 2020, the spreads varied from 20 bps for firms with the highest credit rating to 60 bps for firms with an A3 rating<sup>123</sup>. CP purchased in the secondary market are subject to an additional fee (5 bps).

### **Trade Credit Insurance programme<sup>124</sup>**

On 4 June 2020, the UK government launched a state-backed reinsurance programme for trade credit insurers. Under the Trade Credit Reinsurance Scheme, the state guarantees trade credit while insurers commit to maintaining their level of protection as before the coronavirus outbreak.

#### *Envelope*

£10 billion.

#### *Funds committed to date*

No information available.

#### *Cost for public finance*

Up to £10 billion.

<sup>121</sup> In particular, issuers will be required to provide a letter of commitment in relation to this if: (i) an increase in an issuer's CCFE limit, over and above that suggested by the issuer's investment rating, is requested and approved; and/or (ii) a CCFE transaction is entered which involves CP maturing on or after 19 May 2021.

<sup>122</sup> Based on the current sterling overnight index swap (OIS) curve.

<sup>123</sup> Last revised on 19 May 2020. Latest figures published here: <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/information-for-participants>

<sup>124</sup> Note that this programme falls under the EU State Aid Temporary Framework. It is therefore subject to the terms and conditions described in Section 1, which are not restated here.

*Duration of the programme*

For trades that occur between 1 April 2020 (retroactive) and 30 June 2021. The scheme will cover claims in relation to these trades before 30 June 2023.

*Coverage*

The state guarantees up to 90% on the portfolio of insurance claim exposures of the participating trade credit insurers.

*Maximum amount*

The maximum amount per temporary reinsurance agreement will be in proportion to each trade credit reinsurers' limit exposure at 31 December 2019.

*Eligibility*

Open to all trade credit insurers operating within the UK market that pass the UID test. The measure covers policyholders of the participating trade credit insurance providers with economic activities in the UK that classify as UK tax residents.

*Insurance pricing*

No change.

*Guarantee pricing*

Participating trade credit insurers will pay 100% of total gross premia received from policyholders, net of gross operating costs.

*Assessment*

Conducted by the insurer.

*Other conditions on insurers*

Participating insurers will forgo profits and will also not pay dividends or bonuses for senior staff for their guaranteed trade credit insurance business.



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