Request to extend the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak until 31 December 2022

Since the onset of the COVID-19 pandemic, the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak (TF) has proven to be an essential tool in addressing the economic consequences of the ongoing crisis. It is generally accepted that the Commission's policy response has been a success. The twin objectives of the Commission's policy vis a vis state aid granted to undertakings were, firstly, to effectively help affected undertakings during the COVID-19 outbreak. The second objective was to limit undue distortions to the Internal Market, maintain its integrity and ensure a level playing field. The Commission has successfully accomplished both objectives.

In this context, and in a time when on the one hand, the European economy is forecast to rebound faster than previously expected[1] while on the other, there are high risks of the emergence and spread of COVID-19 virus variants, it is of utmost importance to carefully examine when to start a phasing out of the TF.

The European Association of Guarantee Institutions (AECM) and its members consider that a limited prolongation of the measures set out in the TF until 31 December 2022 is necessary for the following reasons:

- Despite the positive near-term outlook for the economic recovery, the pandemic is not yet over, the global vaccination campaign is uneven and new contagion waves may still come. The spread of the Delta variant across the continent risks weighing down the European recovery, in particular in tourism-dependent countries. The introduction of new and/or the tightening of existing restrictive measures, including new lockdown measures, taken to contain the virus cannot be ruled out and this implies that the expected recovery will be interrupted, and the European economy will barely return to pre-pandemic level after December 2021. Therefore, public policy support is still essential to nurse economies back to health and consequently, a limited extension of the TF after December 2021 is deemed necessary to allow regional and national governments to promptly react to resulting uncertainties and provide quick support via already approved measures.

- The purpose of the TF is to enable Member States to ensure that enough liquidity remains available to companies of all types and to preserve the continuity of economic activity not only during but also after the COVID-19 outbreak.

[1] See Summer 2021 economic forecast https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3481

Due to the impact and duration of the pandemic which worsened the credit rating of many companies by limiting their access to finance, there is still a continuous need for liquidity and equity capital for many companies. This is especially the case for start-ups as well as the companies active in the entertainment, hospitality and restaurant sector. Moreover, the strict capital requirements intoduced by the Basel IV Regulation emphasize the need for collateral security (for example in form of guarantees).
A recently published OECD study on 2021 Outlook on small and medium-sized enterprises and entrepreneurship[2] shows that there are concerns about SME indebtedness and their capacity to promote the recovery if support measures are unwound rapidly, with potentially long-lasting effects on the economy that would follow a potential wave of bankruptcies.
Considering that the pandemic's economic legacy hasn't fully come to light yet and that the size of SMEs' potential credit losses, as well as the much feared wave of insolvencies has not yet materialised, a limited prolongation of the measures set out in the TF is necessary to remedy the liquidity shortage faced by SMEs and ensure that the disruptions caused by the COVID-19 outbreak do not undermine their viability. Moreover, a further extension of the TF should take into account a need for further increase of aid limits as well as an extension of the maturities for individual financial instruments to ensure a sustained and vigorous support of the economy, especially of SMEs.

- Further, the extension of the TF after 31 December 2021 is deemed necessary taking into account the fact that the *de minimis* Regulation that provides for small amounts of State aid (€ 200,000) to a single undertaking over three consecutive fiscal years has been quickly exhausted following the receipt of support from European, national and regional level. Subsequently, the TF remains for many undertakings an essential if not the only possibility to obtain the necessary financial support.

- Finally, the extension of the TF after 31 December 2021 is also critical in light of the successful implementation of the Pan-European Guarantee Fund (EGF). The support under the EGF amounts to 70% and the financial intermediaries carry the remaining 30%. These 30% often constitute State aid which could be notified based on the TF. As a result, a switch to the *de minimis* Regulation at the turn of the year 2021/2022 would become necessary. Yet, as mentioned above, due to the impact and duration of the pandemic, the limited *de minimis* threshold has been heavily used by SMEs and was generally quickly exhausted in the past months and, consequently, is not high enough to be applied for more measures under the EGF. For this reason, in 2022 the possibilities to apply the *de minimis* Regulation will be drastically limited.

[2] https://www.oecd.org/publications/oecd-sme-and-entrepreneurship-outlook-2021-97a5bbfe-en.htm

In addition, the EGF, which was endorsed by the European Council on 23 April 2020, has taken longer to become operational than originally expected. Therefore, a prolongation of the TF by one year is deemed necessary to allow the intended support to reach the final beneficiaries. Otherwise, there is a strong risk that SMEs will not reap the full benefits of the EGF instrument as conceived to help them face the ongoing crisis.

- Last but not least, it should be taken into account that the TF represents a useful tool to enhance the European policy and the Union's objectives to meet the green and digital twin transitions since it is embedded in national support measures to address the substantial need for investments.

AECM would very much appreciate if the European Commission could take our request into its kind consideration and prolong the Temporary Framework by one year and adapt it by increasing the aid limits and by extending the maturities for individual financial instruments.

Further, we would like to take this opportunity and express our appreciation for the European Commission's effective response to the COVID-19 outbreak which made a significant and decisive difference to the survival of so many SMEs facing liquidity shortages.

Brussels, 27 July 2021

About us

The 48 members of the **European Association of Guarantee Institutions (AECM)** are operating in 31 countries in Europe. They are either private / mutual guarantee institutions or public promotional institutions or banks. Their mission is to support SMEs in getting access to finance. They provide guarantees to SMEs that have an economically sound project but do not dispose of sufficient bankable collateral. AECM's members operate with counter-guarantees from regional, national, and European level. At the end of 2020, AECM's members had about EUR 330 billion of guarantee volume in portfolio, thereby granting guarantees to around 5.2 million SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counter-guarantees, having been handling EU guarantees from the very beginning in 1998.

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