



Contract COMP/2023/OP/0001 STUDY ON THE GUARANTEE NOTICE

Meeting with AECM

5 FEBRUARY 2024

Consortium presentation



- Independent economic research institute supporting key private players and public institutions worldwide. Prometeia's in-depth knowledge of the banking and financial sector, as a leading provider of advisory services and research insights.
- Prometeia has excellent knowledge in most of the areas relevant to the tender: **economic analysis, credit and counterparty risk, guarantees, collateral valuation, data collection, and statistical and econometric analysis.**



- Lear's proven expertise in **competition economics** and in the **ex-post evaluation of competition policy, including State aid.**
- Lear is routinely involved in proceedings before antitrust authorities and in competition litigation matters before national courts. In recent years, Lear has carried out several studies for DG COMP, including ex-post evaluations of enforcement decisions and support studies for the revision of the State Aid Regulation.

Identified Subcontractors
from academia

- **Guglielmo Barone** and **Filippo De Marco**, two academics with extensive experience in **guarantees, credit markets** and **econometric analysis** with relevant publications in peer-reviewed journals in these fields



The evaluation of the Guarantee Notice

Framework

In Europe public guarantees must be designed in accordance with the **2008 Commission Notice**, which sets out the Commission's approach to State aid in the form of guarantees and clarifies the criteria for identifying State aid in the form of guarantees. **The Guarantee Notice was adopted in 2008 and has not been reviewed since then.** In its recent practice, the Commission has found that the application of the Notice can lead to a number of **economic inaccuracies**, that are partly due to the wording of some sections of the Guarantee Notice itself. The Sections under review are in particular Sections 2.3 (on how to avoid aid to the lender), 3.3 (safe- harbour premia for aid-free guarantees to SMEs) and 3.4 (methodologies to set up aid-free guarantee schemes)

Needs to be addressed

The evaluation process of the Notice was launched by the EU Commission in August 2022 with the aim to verify whether **the Communication is still 'fit for purpose'**, to provide a sound quantitative and qualitative assessment, to identify any existing shortcomings of the Communication and to examine whether there is scope for improvement.

Aim of the project

This entails assessing **whether** the Guarantee Notice has **performed well and facilitated access to finance** in an effective and efficient way for both small and medium-sized enterprises (SMEs) and larger companies; whether **it has led to undue distortions of competition**; and whether Member States have encountered **difficulties in interpreting and applying** the Guarantee Notice when providing individual guarantees or setting up guarantee schemes.

In detail the Study will provide an in-depth sound assessment of:

- **the impact of the Guarantee Notice on the European credit and credit derivatives market in general;**
- **the possible unintended effects of the application of the Notice, such as the undue advantages for financial intermediaries or final beneficiaries and crowding-out of private investors.**

Scope of the analysis

The evaluation covers the period **from 1/1/2010** - the date of application of the 2008 Guarantee Notice - **to 24/10/2023** (date of signature of the contract) for **28 countries (all EU member states + UK)** and will assess the effectiveness in terms of access to finance and competition, the cost-efficiency and the coherence of the Notice.

Given the scope of the Notice, **two types of guarantee measures are excluded** from the assessment: (1) export credit guarantees (Section 1.3 of the Notice); (2) the guarantees under the recent Temporary Frameworks, as they were granted thanks to a derogation from the Notice

The project: an overview

This document presents the Consortium's proposal in response to DG COMP's request for a **study on the 2008 Guarantee Notice**, which will serve as evidence for the **evaluation of the Guarantee Notice** since its entry into force, in line with the Commission's Better Regulation principles.

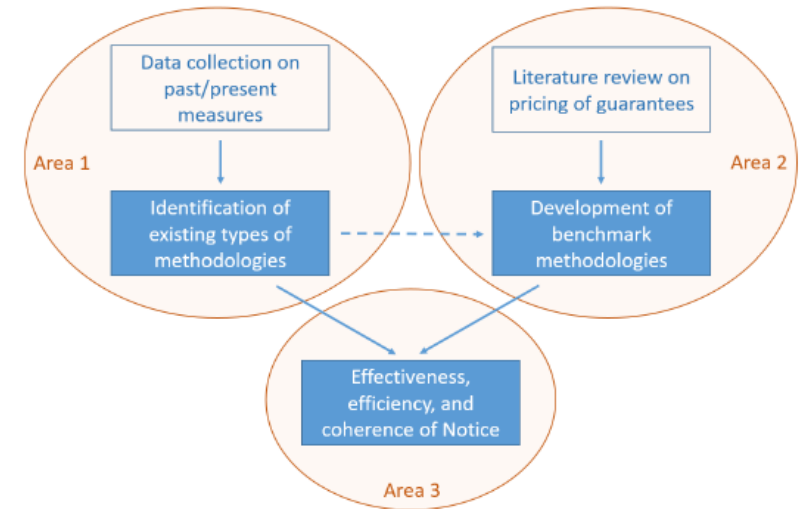
The study will focus **three main areas**

Area 1: characteristics of guarantee measures and identification of existing types of pricing methodologies

Area 2: development of benchmark methodologies based on the literature review on the pricing of credit guarantees

Area 3: quantitative and qualitative assessment of the effectiveness, efficiency and coherence of the Guarantee Notice by analysing the information on existing pricing methodologies put in place by the Member States and the developed benchmark methodologies

Figure 1. Interaction of the three areas of assessment:



Area 1: the four tasks to be performed require a relevant effort in terms of retrieving data on all the public guarantees in the EU27 countries

GOAL: to establish **reliable and complete databases** (Samples A and B1) that will allow to identify the **characteristics** and main **pricing methods** of the guarantee measures designed based on the Notice

TASKS

i

Data collection
- Sample A

ii

Description of
guarantee measures and
identification of representative
pricing methodologies

iii

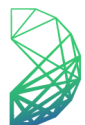
Data collection
- Sample B1

iv

Interviews with banks

SUMMARY

- set up of a **detailed and comprehensive database** covering the **universe of both past and present no-aid and aided measures**, relying mainly on the REQ database
- **statistical analysis** of the guarantee measures collected in Sample A; identification of the **types of pricing methodologies** that are used by the authorities.
- information on the **relevant pricing formulae corresponding to each representative methodology**.
- to understand what are the drivers behind the different intensity of guarantee usage among banks



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Area 1 - task (i), sample A main characteristics



GOAL: set-up a detailed and comprehensive database covering the universe of both **past and present no-aid and aid measures**

TOPIC	DESCRIPTION
TIME COVERAGE	From 1/1/2010 to 24/10/2023 (signing date of the contract)
COUNTRY COVERAGE	27 countries: all EU Member States
REFERENCE UNIT	case-number
META DATA #6	<p>NOTIFIED and NON-NOTIFIED GUARANTEE MEASURES</p> <p>Measure-level data</p> <ul style="list-style-type: none"> Types of guarantee Pricing methodology Costs Competitive environment <p>Granting /Administering Authority level data</p> <ul style="list-style-type: none"> Legal and regulatory framework Corporate governance and risk management framework <p>Moved this metadata at «measure-level» after the meeting with DG COMP on 24 November</p> <p>NEW</p> <p>93 data points</p>

Area 1 - task (iii), sample B1 main characteristics



GOAL: describe how authorities set guarantee fees and the parameters used in pricing formulas

The main contribution is to define as precisely as possible the algebraic formula for each guarantee that converts the indicator values into the applicable guarantee fee, including all applicable relevant conditions and thresholds

TOPIC	DESCRIPTION
TIME COVERAGE	From 1/1/2010 to 31/12/2021 (as sample B2)
COUNTRY COVERAGE	27 countries: all EU Member States
REFERENCE UNIT	case number / year / algebraic formula and its classification by representative methodology
MACRO-LEVEL INDICATORS	<p><u>Related to a single Member State or Financial Markets</u></p> <ul style="list-style-type: none"> Indicators used in the formula and observed parameters
MICRO-LEVEL INDICATORS	<p><u>Distribution of Parameters retrieved from other DBs or estimated</u></p> <ul style="list-style-type: none"> Loan-level Firm-level
DISTRIBUTION OF GUARANTEE PRICE DATA	PD, recovery rates, guarantee coverage rate, fees, distribution of interest rates in case and in absence of guarantees

The sample will make it possible to reconstruct average guarantee prices for each measure from the parameters.

The Consortium has a contact list – from DG COMP – of the relevant authorities in each country. But the list is not complete.

COUNTRIES ANSWERING

country	answer to first contact
Belgium	X
Bulgaria	X
Cyprus	X
Denmark	X
Estonia	X
France	X
Germany	X
Greece	X
Ireland	X
Italy	X
Latvia	X
Malta	X
Netherlands	X
Portugal	X
Slovakia	X
Spain	X

COUNTRIES WITH NO FEEDBACK

country	answer to first contact
Austria	
Croatia	
Czech Republic	
Finland	
Hungary	
Lithuania	
Luxembourg	
Poland	
Romania	
Slovenia	
Sweden	

The contact list for the countries that didn't yet answer to our contact request

country	Granting Authority/ Entity	contact person	email
Austria	1	Roland Schachl	Roland.Schachl@bmaw.gv.at
Austria	2	Permanent Representation of Austria to the European Union -	Functional mailbox noticomp-bmwa@bmeia.gv.at
Croatia	1	Ministry of Finance	Martina Štorek Martina.Storek@mfin.hr
Croatia	2	Croatian Bank for Reconstruction and Development - HBOR	Ante Alić aalic@hbor.hr
Croatia	3	Croatian Bank for Reconstruction and Development - HBOR	Marko Maček mmacek@hbor.hr
Croatia	4	Ministry of Finance	Kresimir Dragic kresimir.dragic@mfin.hr
Croatia	5	Croatian Agency for Small and Medium Enterprises - HAMAG BICRO	Karlo Kostanjevec Karlo.Kostanjevec@hamagbicro.hr
Croatia	6	Ministry of Finance	Martina Stepanić Božić Martina.StepanicBozic@mfin.hr
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Czech Republic	3	OFFICE FOR THE PROTECTION OF COMPETITION (UHOS)	michal.vlasak@uohs.cz
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Finland	2	Finnvera, Finnish state-owned financing company. It is the official expo	Ellii Partanen elli.partanen@finnvera.fi
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Hungary	2	Ministry for Regional Development	Adam Medgyesi adam.medgyesi@tfm.gov.hu
Hungary	3	Consular Service	Peter Staviczky peter.staviczky@mfa.gov.hu
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country	Granting Authority/ Entity	contact person	email
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Slovenia	3		Jana Rudolf Mesarič jana.rudolf@gov.si
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Area 1- Task (iv): Interviews with European commercial banks

New task with respect to the technical offer of the Consortium. This was agreed during the kick-off meeting as it emerged that DG COMP is keen to understand what are the drivers behind the different intensity of guarantee usage among banks i.e. why some banks use public guarantees more than others, what are their economic/ financial drivers in this matter, and what are the main bank level characteristics associated with higher intensity of public guarantees.

To deep dive into these issues the Consortium will interview **around 10 EU banks of different size**, both significant and less significant institutions, asking them questions on the **following topics**:

- ① **Relevance of public guarantees in the portfolio and underlying motivations**
- ② Effects of public guarantees on **credit supply and lending policies**
- ③ **Internal organization structure** for access to public guarantees
- ④ **Overall evaluation** of public guarantee by board members, top management and borrowers;
- ⑤ Impact of public guarantees on **competitive environment**
- ⑥ **Suggestions for refining the design of existing public guarantee** tools

The goal is to produce a qualitative evaluation, potentially supplemented by quantitative benchmarks where feasible, addressing each of the highlighted points



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