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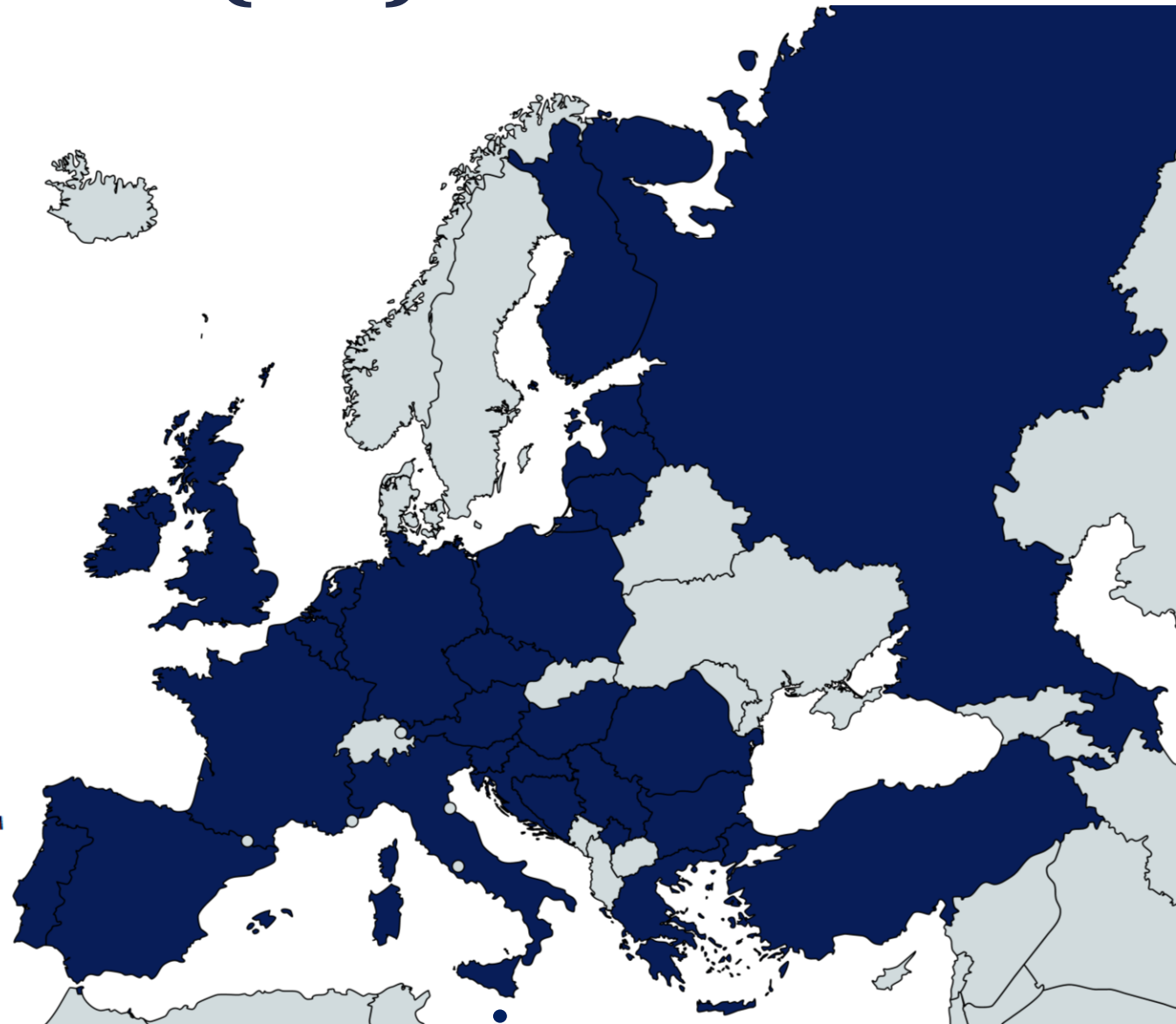
OECD webinar: Mobilising public guarantees for the SME policy response to COVID-19

AECM members' actions to mitigate the economic consequences of the covid crisis

José Fernando FIGUEIREDO, AECM Special Honorary Chairman – 02/06/20

AECM and its members (-1-)

 AUSTRIA <ul style="list-style-type: none">• aws• NÖBEG	 GERMANY <ul style="list-style-type: none">• VDB	 POLAND <ul style="list-style-type: none">• BGK
 AZERBAIJAN <ul style="list-style-type: none">• MCGF	 GREECE <ul style="list-style-type: none">• ETEAN• TMEDE	 PORTUGAL <ul style="list-style-type: none">• SPGM• IAPMEI
 BELGIUM <ul style="list-style-type: none">• PMV/z• Fonds Bruxellois• SOWALFIN	 HUNGARY <ul style="list-style-type: none">• Garantika• AVHGA• MVA	 ROMANIA <ul style="list-style-type: none">• FGCR• FNGCIMM• FRC-Counter
 BOSNIA AND HERZEGOVINA <ul style="list-style-type: none">• GF Srpska	 IRELAND <ul style="list-style-type: none">• SBCI	 RUSSIA <ul style="list-style-type: none">• FSECA
 BULGARIA <ul style="list-style-type: none">• NGF• Sofia Fund	 ITALY <ul style="list-style-type: none">• Assoconfidi• ISMEA	 SERBIA <ul style="list-style-type: none">• GF Vojvodina
 CROATIA <ul style="list-style-type: none">• HAMAG-BICRO	 KOSOVO <ul style="list-style-type: none">• KCGF	 SLOVENIA <ul style="list-style-type: none">• SEF• SRDF
 CZECHIA <ul style="list-style-type: none">• CMZRB	 LATVIA <ul style="list-style-type: none">• ALTUM	 SPAIN <ul style="list-style-type: none">• CESGAR
 ESTONIA <ul style="list-style-type: none">• KredEx	 LITHUANIA <ul style="list-style-type: none">• Garfondas• INVEGA	 TURKEY <ul style="list-style-type: none">• TESKOMB• KGF
 FINLAND <ul style="list-style-type: none">• Finnvera	 LUXEMBOURG <ul style="list-style-type: none">• MC• MPME	 UNITED KINGDOM <ul style="list-style-type: none">• BBB
 FRANCE <ul style="list-style-type: none">• SOCAMA• SIAGI• Bpifrance• EDC	 NETHERLANDS <ul style="list-style-type: none">• NIA/InvestNL	 MALTA <ul style="list-style-type: none">• MDB



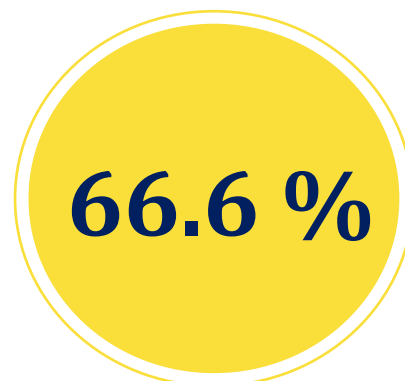
AECM and its members (-2-)



of guarantee
volume in portfolio



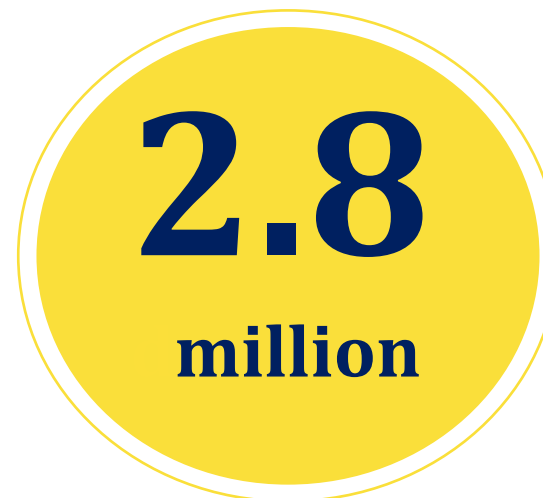
of newly granted
guarantees (1st half)



Average coverage
rate (2018)



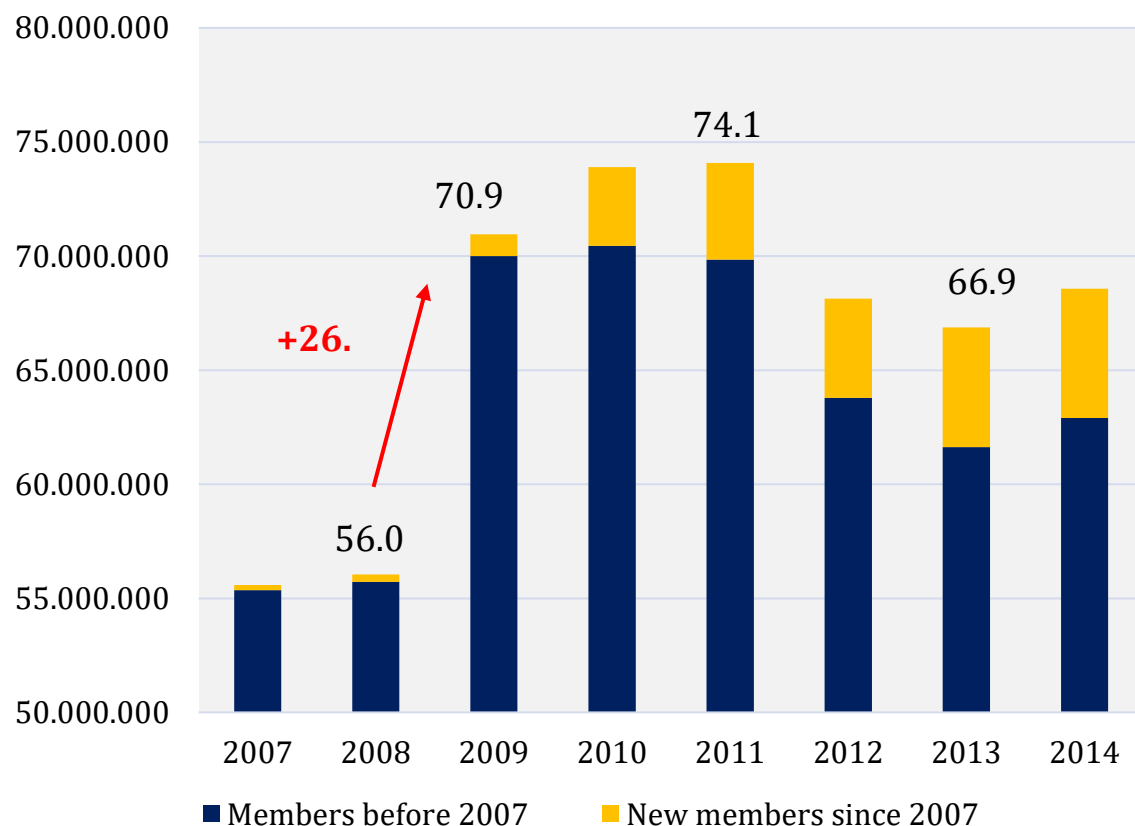
Average
guarantee size



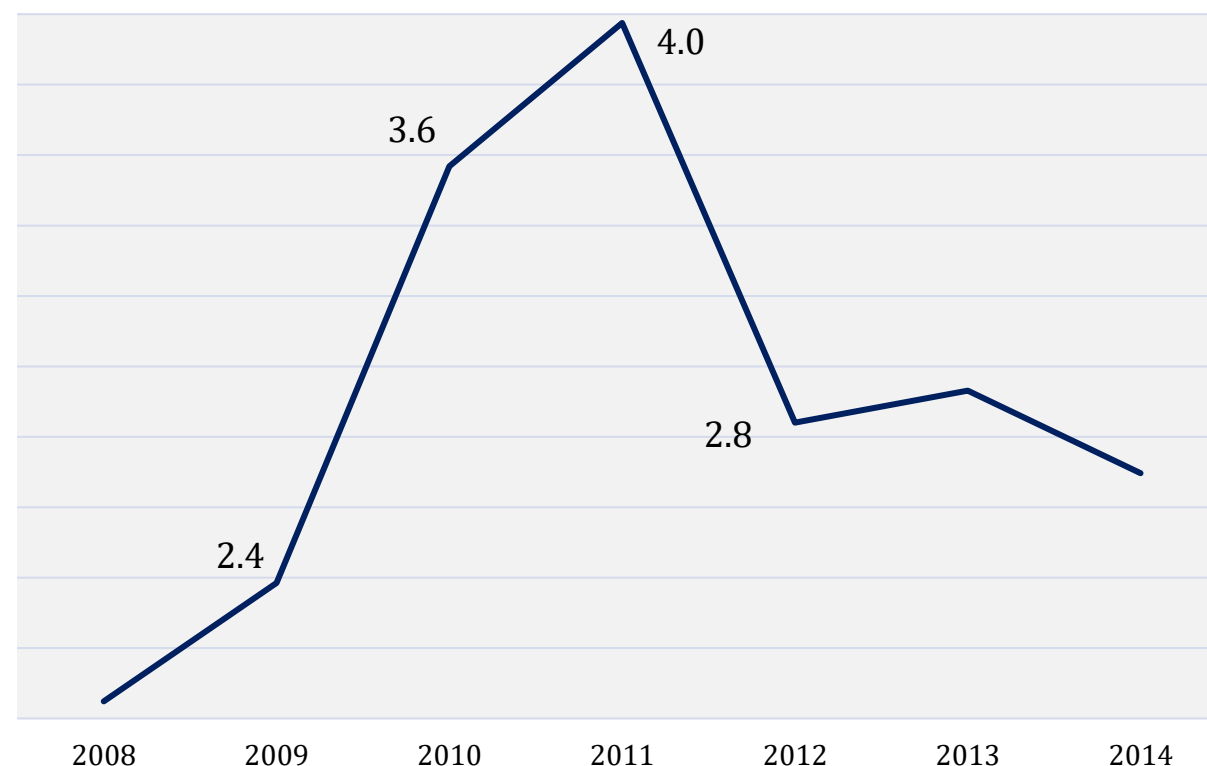
SMEs benefit from
a guarantee

2008 Financial Crisis

Counter-cyclical role of guarantee institutions during the 2008 financial crisis



Development of outstanding guarantee volumes (in KEUR)



Development of the number of SMEs supported by guarantees from AECM members (in million)

Link between the current and other crises



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- **Although we cannot compare directly the 2008 crisis with the current one, some results in terms of the guarantees demand are similar or show the same trends**
- It is expected an even greater demand in guarantee volumes and SME supported
- However: while the 2008 financial and economic crisis emanated from the financial sector with second-round effects on SMEs, the current crisis results from a public health emergency which is uncharted territory hitting SMEs in the first place
- Effects are expected to be stronger during current crisis: IMF forecasts some -7% growth in the EU in 2020 = much more serious recession
- BUT: the policy responses came fast > guarantee institutions, governments and the EU Commission/EIB group reacted in no time setting up dedicated measures to fight the economic and social consequences of the COVID-19 crisis
- hopefully we will observe recovery coming faster than before

Actions of guarantee institutions (-1-)

- **Set-up of dedicated programmes to fight the COVID-19 crisis**
 - e.g. Coronavirus Bounce Back Loans and the Business Interruption Loan Scheme (CBILS) by BBB/UK, Garantiqa Crisis Guarantee Program, Credit Line with Guarantee for the Support of the Economic Activities (LAE Covid19) in Portugal et al.
- **Increase of guarantee capacity**
 - e.g. increase of guarantee limit by EUR 0.5m for Garfondas/LT, highest addition amounts for Bpifrance/FR (EUR 300 billion) and Confidi and others/IT (EUR 200 billion), in both cases resources for guarantee and direct loans and 100 billion in Spain
- **Increase of maximum guarantee volumes per beneficiary**
 - Up to EUR 150m by RVO/NL, EUR 56m by BBB/UK and EUR 43.7m by BGK/PL

Actions of guarantee institutions (-2-)

- **Increase in the coverage rate**
 - e.g. up to 100% by aws/AT, Assoconfidi/IT and CESGAR/ES (for specific products), up to 90% by Bpifrance/FR
- **Increase of counter-guarantee coverage**
 - e.g. up to 100% state counter-guarantees possible in AT, FR, IT et al.; 80% by CERSA/ES et al.
- **Fast-track procedures/reduced documentation requirements** (e.g. aws/AT)
- **Extension of duration/maturity of guarantee** (e.g. SEF/SI)
- **Extension of repayment period of guaranteed loans** (e.g. ISMEA/IT)
- **Reduction or waiver of processing and guarantee fees**
 - e.g. Assoconfidi/IT: guarantees free of charge; PMV/z/BE: cost of Corona Crisis Guarantee is halved to 0.25%

Actions of guarantee institutions (-3-)

- **Interest rate subsidy** (e.g. FNGCIMM/RO)
- **Waiver or reduction of requirement of collaterals**
 - e.g. SBCI/IE : loans unsecured up to EUR 500,000
- **Increase of eligibility covering more SMEs than before**
 - aws/AT : increase of scope to freelance activities and agriculture;
Guarantees can also be used to defer existing credit lines
- **Introduction of hotlines to give swift advice to companies under strain; setup of FAQ or a dedicated info-webpage** (offered by large majority of our members)

<https://aecm.eu/publications/positions-papers/> → List of actions updated regularly

“High-coverage (counter-)guarantees” (-1-)



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State counter-guarantees > three categories:

1. Some members do **not receive any state counter-guarantee** and need to rely on EU resources
2. Most members receive a **state counter-guarantee but less than 100%**, part of the risk remains with the guarantee institution, many of them saw an increase in the counter-guarantee with respect to normal times
3. Some members receive an explicit or implicit, capped or uncapped **state counter-guarantee of 100%**

“High-coverage (counter-)guarantees” (-2-)



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100% guarantees for the banks

1. Some members channel through 100% guarantees they receive
2. Some members top-up state counter-guarantees of less than 100%
3. Most members do not grant 100% guarantees

How is the **risk of moral hazard** addressed at the level of our members ?

- In case of guarantees lower than 100%, part of risk remains with bank
- Application of a cap (in case of portfolio guarantees) (e.g. KCGF/Kosovo)
- Strict sanctions against enterprises for giving false information (e.g. aws/AT)
- Thorough assessment of individual risks, request of reports and payment situation in databases (e.g. CESGAR/ES)

Default rates

How are risks of default rates that are higher than expected be dealt with?

- Expected loss is covered by the counter-guarantee and the unexpected loss remains with the bank (e.g. CMZRB/CZ)
- Thorough assessment of credit risk beforehand (e.g. FNGCIMM/RO)
- Conservative leverage of capital (e.g. KCGF/Kosovo)
- Solid capital base; solvency ratio higher than the legal minimum required (e.g. CESGAR/ES)
- Need for potential capital increase announced to the shareholder(s) (e.g. Garantiqa/HU)
- Exposure limits to counter-parties (e.g. FNGCIMM/RO)
- Optimisation of the debt recovery process (e.g. FNGCIMM/RO)
- See also replies to the question regarding moral hazard

Guarantees and state aid (-1-)

“Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak” (TF)

19 March 2020: EU Commission adopted this Communication providing for five types of aid to enable Member States to use the full flexibility foreseen under State aid rules to support the economy

→ one type of aid = guarantees on loans to be granted on 31 December 2020 the latest

- First amendment to the TF

03 April 2020: EU Commission adopted this Communication extending the TF adding five new types of aid, increasing the intensities and adding flexibility

→ Member States may grant 100% guarantees; aid shall be granted in form of schemes, no company in difficulty; SME; max. € 800,000 per undertaking

- Second amendment to the TF

Expansion to recapitalisation and subordinated debt measures

Guarantees and state aid (-2-)

Coronavirus related State aid decisions approved by the EU Commission:

- Very short decision timelines – sometimes within 24 hours
- So far: over 129 national measures adopted under the Temporary Framework, 8 directly under 107(2)(b) TFEU, and 6 directly under 107(3)(b) TFEU
- Very substantial budgetary impact: over EUR 2 trillion
- Purely demand-driven approach → decisive differences in uptake of coronavirus state aid among 27 EU Member States
- EU Member States that have not yet had aid schemes approved: Cyprus

State aid forecast

- Temporary framework likely to remain in force longer than 31 December 2020 (decision expected in 09/2020, prolongation probably by one year, i.e. till 31 December 2021)



Many thanks for your attention!



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