

State aid to banks and credit for SMEs: Is there a need for conditionality?

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Abstract

This study assesses whether a condition which requires ailing banks or groups of ailing banks that receive State aid to maintain or to provide additional access to finance small and medium-sized enterprises (SMEs) is legally justified and economically beneficial. The relevant cases have been examined and the link to SME lending has been analysed in a qualitative and a quantitative way. An overview table of the cases analysis is provided in the annex. The study was prepared by Policy Department A at the request of the Economic and Monetary Affairs Committee (ECON).

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LIST OF ABBREVIATIONS

AECM	European mutual guarantee association (Association Européenne du Cautionnement Mutuel, www.aecm.eu)
BBK	Bilbao Bizcaia Kutxa
BMN	Banco Mare Nostrum
BPCE	Banque populaire Caisses d'épargne
BPI	Banque Publique d'Investissement
CBD	Consolidated banking data
CEE	Central and Eastern Europe
CEPS	The Centre for European Policy Studies
CGD	<u>Caixa Geral de Depósitos</u>
CIP	(EU) Competitiveness and Innovation Framework Programme
CRD	Capital Requirements Directive 2013/36/EU
EC	European Commission
EA	Euro area
EAA	Erste Allgemeine Abwicklungsanstalt (Bad bank/wind-down facility to Westdeutsche Landesbank, Germany)
EBA	European Banking Authority
ECB	European Central Bank
EIB	European Investment Bank
EIF	European Investment Fund
ELA	Emergency liquidity assistance
ELG	Eligible liabilities guarantee
EU	European Union

EURIBOR	Euro Interbank Offered Rate
FIPP	(CEPS) Financial Institutions and Prudential Policy Unit
FMStFV	German implementing provisions to the law establishing the German rescue fund for banks in the financial crisis (Verordnung zur Durchführung des Finanzmarktstabilisierungsfondsgesetzes)
FTE	Full-time equivalent
GDP	Gross domestic product
GMM	Generalised method of moments (method to estimate parameters in statistical models)
INBS	Irish Nationwide Building Society
HGAA	Hypo Group Alpe Adria
KfW	KfW Group, formerly Kreditanstalt für Wiederaufbau (Germany),
LBBW	Landesbank Baden-Württemberg
LHZB	Latvijas Hipotēku un zemes banka (The Mortgage and Land Bank of Latvia)
MS	Member State (of the European Union)
Para.	paragraph
OECD	Organisation for Economic Co-operation and Development
ÖVAG	Österreichische Volksbanken-Aktiengesellschaft
RMBS	Residential mortgage-backed securities
SAFE	Survey on the Access to Finance of Small and Medium-sized Enterprises
SIB	Slovenska izvozna in razvojna banka (operates as export-credit bank and as authorised Slovene export-credit agency)
SME	Small and medium-sized enterprises
SPV	Special purpose vehicle
SSM	Single Supervisory Mechanism

Subpara. subparagraph

TFEU Treaty on the Functioning of the European Union

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EXECUTIVE SUMMARY

The access to finance of micro, small and medium sized enterprises (SMEs) has become more difficult during the recent financial- and economic crises. These enterprises with up to 250 employees suffered of more challenging economic and financial conditions, while the banks that are their main provider of external funding had to beef up their finances. The government delivered an important contribution to the revitalisation of the banking sector with commitments equivalent to 40 % of EU GDP. The amount and conditions are bound to European State aid rules.

SMEs deliver a vitally important contribution to the European economies and constitute a driver for growth and innovation. However, many of the more than 20 million SMEs that employ in total over 80 million persons and generate over 2.4 EUR trillion added value are unable to fully exploit their potential. Besides finding customers, most SMEs perceive access to finance as the most pressing problem. The SMEs depend for their external funding almost exclusively on banks, because of the relative high transaction costs owing to the lack of scale and disclosure practices, which makes SMEs relatively unattractive counterparts for other financiers.

This study assessed whether lending to SMEs could and should be one of the conditions to receiving State aid. The assessment consists of a legal- and economic part. In the legal part the possibilities to apply the conditionality to State aid are explored. The economic part consists of a qualitative and quantitative assessment at both Member State- and bank level. The results could provide policy makers with measures to respond with policies that limit the hindrance for SMEs in case banks are bailed out as well as to maximise the social return on taxpayers' money.

Main findings

- Why has the credit to SMEs been falling?

The weakening of the financial health of banks has also proved to have a more severe impact on SMEs than on large enterprises. The 2007-2009 global financial crisis and the consecutive 2010-2012 euro area sovereign debt crisis exposed the banking sector to heavy losses and resulted in higher capital requirements. The more prudent behaviour and restructuring plans that followed led to a reduction of the loan volumes in general and more specifically to SMEs. In particular, the bank loan volumes decreased and the interest rates increased most in countries that applied for financial assistance from other EU Member States during the euro area debt crisis. In turn, the adverse economic conditions have also led to a reduction in demand for bank loans; but the reduction in available lending volumes seems to outweigh the shrinkage in demand.

- Through which channels could in general granting State aid to banks influence the access of SMEs to finance?

Not all banks managed to absorb the losses and fulfil the higher capital requirements. The EU Member States intervened, providing capital, asset reliefs, guarantees and liquidity measures to ailing banks to safeguard financial stability and avoid the consequences of the breakup of the lending chain, which can be detrimental to the real economy. In exchange for State support the aided banks had to fulfil certain conditions. Albeit the (below-market price) remuneration for the obtained support, the banks that received State aid were also obliged to restructure to limit distortions to competition and to become long-term viable. The case-specific restructuring plans could, for instance, include conditions to sell or cease parts of the activities, to merge with other healthier banks but also to apply lending targets

and bans on acquisitions, price-leadership, coupon-, dividend- and bonus payments and to abide by other types of restrictions such as advertising.

- Did State aid to financial institutions actually impact the SMEs' access to finance?

In countries experiencing economic woes and where the financial sector needed more State aid SMEs access to finance took the largest hit, both in terms of volumes and interest rates. In addition, the bank intermediation in countries where banks had relatively higher risk costs and less capital were significantly less performing, while the opposite is true for countries with better economic conditions. On the other hand, loan guarantees did not seem to lead to a better bank loan intermediation towards SMEs during the crisis years. In fact, loan guarantees under national schemes are too limited and concentrated in just a few countries (e.g. France and Italy) to allow a comprehensive assessment.

- What role did credit to SMEs play in the decisions to grant State aid?

For this study State aid decisions on 46 banks in 15 Member States during the crisis years (2007-2012) were analysed. On the one hand, lending to SMEs played a role in the decision to grant State aid. Avoiding that the bank lending channel would be broken was one of the motivations to grant State aid. On the other hand, many restructuring plans had an impact on lending to SMEs. Either direct with hard or soft lending targets and price leadership bans or indirect with general bans on price leadership and restrictions on new or dismantling of existing activities.

- Would a conditionality clause for granting State aid to banks subject to providing access to credit be legally possible?

Lending to SMEs could be legally justified as a condition to State aid under the existing legislation. Article 107 (3) (b) of the Treaty on the Functioning of the European Union (TFEU) allows for the assessment of the compatibility of State aid with the Internal Market and provides the European Commission with sufficient possibilities to approve SME lending targets to prevent a credit crunch and disturbance to the real economy.

- Would a conditionality clause for granting State aid to banks subject to providing access to credit be economically justified?

Conditionality can have a significant impact on the lending activities of banks, but seems not to contribute to more lending to SMEs by banks. Generally, ailing banks that received State aid on the condition that they restructured, liquidated or to be nationalised, displayed lower SMEs loan growth compared to other banks that did not benefit from State aid. More specifically, the analysis focuses on conditions, both on the relative price levels and lending volumes, which are the two channels to directly influence lending to SMEs. Hence, aid recipient banks that had to abide to minimum SME-lending targets recorded significantly lower growth in total customer loans than banks that did not have to fulfil any lending target or for which maximum targets are applied. The results for banks that had to comply with general lending targets are ambiguous and not significant. Moreover, the banks that were not allowed to be price leader in standard products in general quoted lower loan growth rates. While for banks with price-leadership bans in SMEs products the results were ambiguous, but also not significant. However, sounder banks that display more liquid funds, higher regulatory capital and lower market funding are expected to sustain lending to the real economy. In addition, higher economic growth and liquidity provisioning by central banks contribute to higher loan growth, which confirms that the action of the ECB were beneficial to sustain lending to SMEs.

Policy Recommendations

- The lack of significance of the economic results on the links between State aid, conditionality and SMEs lending would invite for further research on the implications of State aid on the business models of banks and future behaviours when it comes to SMEs lending on a longer time-span.
- Aided banks must continue to be closely monitored by the relevant authorities to ensure they return to a healthy and viable state, while emphasising that they fulfil the conditions imposed on them.
- More broadly, a better-coordinated macro-prudential supervision as well as provisions on the banking structures, in particular the systematic monitoring of business models of banks, are other important policy instruments to enhance the soundness of the banking sector as whole. The rules of CRD IV, Banking Union- as well as Bank Structural Reform proposals in line with the above can contribute to the creation of a safer banking sector.
- The best safeguard to ensure that a banking sector contributes to the real economy (e.g. SME bank lending), is a sounder banking sector. If the banks build-up higher capital buffers at times of economic prosperity, the ability to absorb losses and the obligation to take rigorous measures and cut risky lending activities during an economic down-turn will be less painful.
- To make it more attractive for banks to lend to SMEs during an economic downturn, the loan guarantee facilities at national and EU level could further be used and if successful expanded. Like effective minimum lending targets for aided banks, guarantees can also demand additional funds from governments.
- Specific measures could be taken to enhance lending to SMEs. Examples of such measures are credit mediation which is dedicated to advice on the validity of SME loan request in countries like in Belgium, France and the United Kingdom, and enhanced disclosure by banks to customers on changes in fees and interest like in Ireland, which contributes to market transparency.

The analysis of SME lending during the past crises is challenging due to data limitations and lack of transparency on SMEs exposures by banks. Most of the reporting on the exposures on SME lending of the largest European banks as well as the access to finance of SMEs surveys of the ECB and European Commission only started after the burst of the financial crisis, which constrained the statistical and econometric analyses. Moreover, there is no consistent public reporting on whether the conditions and objectives are achieved, which is especially relevant when it concerns targets on which there is no regular disclosure.

INTRODUCTION

Small and medium-sized enterprises (SMEs) are the backbone of the European economy. They provide the lion share of the added value and employment and they are the drivers of growth and innovation. The global financial crisis has put the on-going activities of many enterprises under pressure and tempered the growth for others. The reduced availability of bank loans and credit lines was one of the channels through which the financial crisis hit especially SMEs, which are largely reliant on bank financing. In fact, many SMEs consider getting access to finance as their most pressing problem (see Annex Table 15). Other important factors that made the crisis take its toll on the enterprises were the sustained uncertainty of macro-economic conditions including slow recovery and sluggish consumer demand. The impact on SMEs was more severe than on large firms, which found their alternative for bank funding in market-based funds.

SME bank loans decreased during the crises. The limited available data on SME loans shows that since the burst of the crisis in 2008 the amounts of new bank loans issued below 1 EUR million, which is an often used proxy for SME loans, have gradually declined (see Annex Figure 14 and Figure 15). The reduction is noticeable in almost all countries, though, the drop is more severe in countries that were in the centre of the 2010-2012 euro area sovereign debt crisis. The annual issuance of new SME bank loans in countries like GR, ES, IE, and SI fell between 62 % and 90 % from 2008 to 2013, while in countries like DE, FI, FR, IT, and NL it declined at more moderate levels varying between 9 % and 38 %. Compared to other new bank loans the share of SME loans has been gradually increasing. This phenomenon seems especially the case in countries like FR, DE, IT, NL where the issuance of corporate debt instruments has increased substantially since the burst of the crisis.

The interest rate on SME bank loans has decreased during the crises, but less than on other loans. After an increase of average interest rates in the run-up of the crisis, the rates followed the trend of decreasing monetary policy rates after the European financial system was exposed to the global financial crisis (see Annex Figure 16 and Figure 17). Albeit, the decrease in interest rates on SME bank loans between October 2008 and May 2009 was less than the drop in policy rates of the central bank, to compensate for higher risk costs, slack in accommodation of funding costs, larger effective capital consumption as well as less competition. The interest rate on SME bank loans specific factors had more impact on SME loans than other loans on which the interest decline more. Whilst the interest rate development in most Euro countries kept following the monetary policy rates, the interest rates of the country's most severely hit by the 2010-2012 euro area sovereign debt crisis diverted. Hence, the interest rates on new SME bank loans in countries like ES, IE, and IT rose to higher levels in 2011 and remained high, while the interest rates in other countries declined after a short period of rising interest rates in 2011.

Several measures have tried to alleviate the funding constraints to SME lending by banks. The new capital requirements regulation (CRR) 2012/648/EU¹ introduced a preferential risk weight for SMEs (Article 501) aimed at reducing the regulatory costs for SMEs. However, this might not be sufficient for banks to enhance access to credit to this category of enterprises. Indeed, as a result of the financial crisis, banks have largely suffered losses because of excessive risk taking in previous years, which has led governments to provide them with financial support in form of State aid. Between 2008 and 2012, the financial

¹ Article 501, OJ L 176 of 27.6.2013.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:FULL:EN:PDF>

sector has benefited from large amounts of State aid, amounting respectively to 39 % of the European Union's (EU) 2012 gross domestic product (GDP).²

In an attempt to raise awareness of the SMEs' lack of access to finance through banks' lending as a result of the financial crisis and hence to take necessary policy actions to respond to this concern, the European Parliament in its resolution of 5 February 2013 on '*Improving Access to Finance for SMEs*' (2012/2134(INI) stressed that: '*[...] because of the aggravating effect of the financial and economic crisis, many SMEs have difficulty in accessing finance, and that SMEs need to comply with new and sometimes more stringent regulatory criteria than before; stresses that banking institutions which have benefited during the crisis from state aid, as well as other implicit forms of subsidy provision such as public guarantees and liquidity support from central banks and the European Central Bank, should be subject to targets for their financing amounts and conditions for SMEs*'.³ Equally, the European Parliament's Report on the Annual Report on EU Competition Policy (2013/2075(INI)⁴) discusses as well the specific needs of SMEs to receive credit during times of crisis and suggests to consider that **in certain cases State aid to banks should be made conditional on credit being granted to SMEs**.

In view of these developments, this study aims to answer the research question whether and how conditionality linked to State aid decisions involving banks was used or could be used effectively to support lending to SMEs. To find the answer the study assesses the importance of bank loans for SME financing as well as the restructuring the European banking sector has undergone during 2007 and 2012. The latter is important since the granting of the State aid occurs mostly in an environment of adverse economic conditions, distressed asset prices and/or lack of confidence in the banking system, in which more banks have to restructure and/or request State aid to continue operations. To access State aid, banks must however comply with case-specific conditions. The transmission channels of State aid in combination with the conditionality relative to bank lending to SMEs are assessed legally and economically.

² See also section 3.1.2 for a detailed overview of the committed and used State aid.

³ <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7-TA-2013-36>

⁴ <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7-TA-2013-0576>

1. ECONOMIC REVIEW

KEY FINDINGS

- SMEs employ around two-thirds of the persons in the private sector.
- High inherent dependence on bank loans make SMEs more vulnerable to banking crises than large firms.
- SME bank lending has been impacted by a wide range of different channels, of which conditionality to State aid is one.
- The impact of State aid is likely to depend on the conditions included the restructuring plans.

Definition of SMEs. The definitions of SMEs vary significantly across the globe. Different countries use different criteria like employment, turnover and/or assets to identify SMEs. Moreover, the thresholds for the criteria also vary between countries. The most commonly used indicator for SMEs, the number of employees, for example varies between 50 in Egypt to maximum 500 employees in the US.⁵

For the purpose of this study, the EU definition of micro, small and medium-sized enterprises (2003/361/EC)⁶ is applied. This is also the definition that is used in State aid cases. In this definition the number of employees and financial records are the main determining factors. Hence, autonomous individual firms and consolidated groups that employ both less than 250 full-time equivalent employees and have either a turnover of up to EUR 50 million or a balance sheet total of up to EUR 43 million qualify as SME. These enterprises benefit from less burdensome administrative requirements and are eligible for specially designed government support programmes.

In the Capital Requirements Regulation No 2013/575⁷ for banks only the turnover criteria of up to EUR 50 million a year for an autonomous individual firm or consolidated group are applied. The Regulation further makes a distinction between retail exposures, up to EUR 1 million, all others being corporate exposures. Moreover, the legal definition does not necessarily match the distinct customer groups as perceived by the banks. The German SME division of Commerzbank services, for instance, identifies companies with a turnover between EUR 2.5 million and EUR 500 million as SMEs.

⁵ Ayyagari et al (2007), pp. 431-433, and Gibson et al (2008), p. 6.

⁶ Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, OJ L 124 of 20.5.2003, p. 36.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:en:PDF>

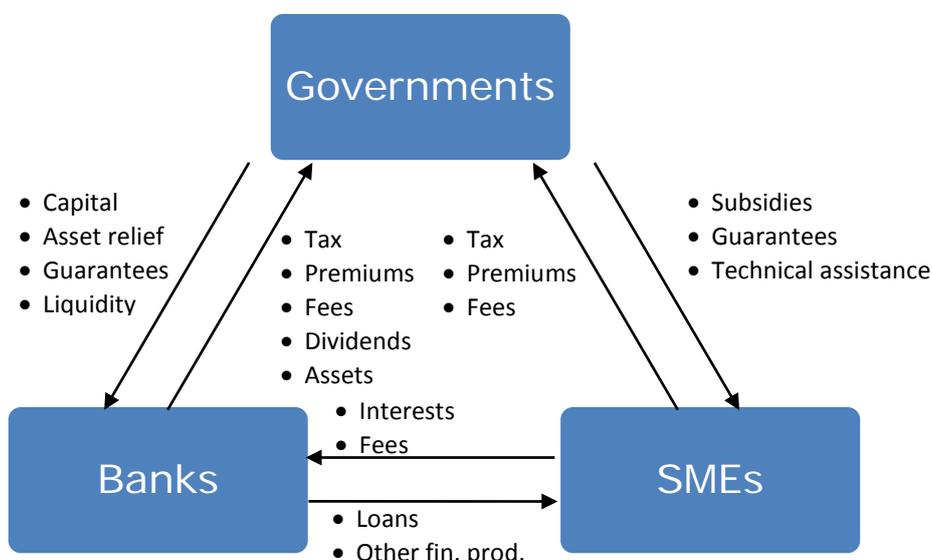
⁷ Article 501, OJ L 176 of 27.6.2013.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:FULL:EN:PDF>

1.1 SMEs' interactions with banks and governments

The economic literature discusses functions of and interactions between governments, banks and SMEs - and more specifically on the impact of adverse macroeconomic stresses on SMEs' lending and the consequences of State aid to banks.

Figure 1: Relations between Governments, Banks and SMEs



Source: Ayadi et al, CEPS (2014).

SMEs are important for all economies in the European Union, however their importance varies across the different Member States. SMEs are an economic power in itself as well as a source for the development of new large enterprises. Using a definition that is equivalent to the one applied in the EU (2003/361/EC)⁸ Ayyagari et al (2007, 2011) show based on data for both developing and developed countries around the globe that SMEs provide - on average - the majority of the employment in the manufacturing industries.

In 2011, 99.8 % of companies in the EU have been SMEs, which accounted for more than 20 million companies and 55.6 % of turnover (see Annex Table 11 and Table 12). SMEs employed 67 % of all employees and contributed to almost 58 % of total value added (see Annex Table 13 and Table 14). **SMEs therefore deliver an important contribution to economic growth and prosperity.** In the three years before the burst of the 2007-2009 global financial crisis SMEs contributed on average, more to the growth of the European economy in both value added and employment terms than larger enterprises.⁹ These larger firms, however, started in most cases as smaller SMEs.¹⁰

The development of the SMEs is thus critical to the performance of the economy. Some studies find, however, that SMEs face more difficulties in accessing (attractive) financial resources than large enterprises, which constraint them in unleashing their growth potential.¹¹ In turn, Vos et al. (2007) find for the US and the UK, that most SMEs in the first years of their existence do not quest for external financial resources to fund their growth and that they usually do not have problems obtaining it when needed. Despite

⁸ OJ L 124 of 20.5.2003, p. 36.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:en:PDF>.

⁹ Schmiemann (2009), pp. 6-7.

¹⁰ Beck and Demircuc-Kunt (2006), pp. 2931-2942.

¹¹ Schiffer and Weder (2001), p. 35, Cressy (2002) and Beck et al (2005, 2006, 2008).

these contrasting findings, insufficient supply of financial resources has long been considered the main bottleneck for adequate SME lending.¹²

In the European Union, SMEs primarily depend on banks for obtaining external financial funds. The relatively high transaction costs owing to lack of scale and disclosure practices make SMEs relative unattractive counterparts for most other financiers like investment funds and capital markets. For those the higher transaction- and risk costs do usually not weigh up against the potential extra revenues to be generated. Banks – in turn – have found several ways to deal with these obstacles, allowing them to assess the willingness and capacity of SMEs to fulfil their financial commitments. As outlined by De la Torre et al (2010), part of the banks - mostly small and niche banks - apply relationship banking to service SMEs, which encompasses the use of soft information and track records to assess the creditworthiness. For example some stakeholder banks like cooperative banks, thanks to their decentralised structure, have established a large presence in SME lending and thereby have contributed positively to local development.¹³ In turn, other banks – mostly large and international banks – use more transaction techniques, which include credit scoring and application of standardised risk-rating tools that require a larger scale to be applied. Moreover, these banks tend also to offer more asset-linked products that reduce the credit risk for the lender. Both categories of banks further offer SMEs a package of services that combines both the more risk sensitive lending products with more fee-based products like payment and advisory services as well as depository services.

Financial and economic crises tend to worsen the SMEs development path. SMEs are on average more vulnerable to adverse macroeconomic shocks than large enterprises, which can - for instance - shrink more easily their activities, have more diversified activities and client pools as well as more financing options. Besides these factors that have consequences for the operational performance and the decrease in demand for goods and services during economic downturns, SMEs are also more severely confronted with additional worsening of their working capital, especially when customers pay their bills later and making it harder for enterprises to stay in business.¹⁴

Notwithstanding their interest in providing financial services to SMEs throughout the economic cycle, banks tend to cut their lending to SMEs in economic downturn. During the recent financial crisis SMEs demanded in general less external financial funds to expand their activities, while they needed more working capital. On the other hand, banks tightened their lending conditions because of the poor economic conditions and prospects, dysfunctional inter-bank markets and need to strengthen their capital position to fulfil market and regulatory demands.¹⁵ Empirical evidence for the United Kingdom shows substantial increases in the term loan and overdraft rejection rates, respectively increases of 3.6 and 2.7 times between 2004 and 2008. In the same period, the related fees were increased, leading to a substantial rise in profit margins on both types of credit.¹⁶ The decreasing lending capacity had a greater impact on SMEs than on larger enterprises,¹⁷ which are – on average - less dependent on bank funds and less risky for banks. As a consequence, the failure of the market urged created the necessity for governments to act.

Governments play in multiple ways an important role in the financial markets and banking in particular to respond to market failures. They design the regulatory framework and tax

¹² De la Torre et al (2010).

¹³ Ayadi et al (2010).

¹⁴ OECD (2009), p. 18.

¹⁵ OECD (2009), p. 40.

¹⁶ Fraser (2010).

¹⁷ OECD (2012).

schemes, own some banks and provide subsidies, guarantees, liquidity as well as capital support. However, the regulatory and supervisory framework (e.g. capital regulation and absence of resolution schemes as well as macro prudential supervision) has proved incapable of addressing market failures in the banking sector during the recent financial crises and made governments' interventions necessary to contain wider disturbance to the EU economies.

When banks fail, this does not only have a direct negative impact on shareholders and bondholders, but also on the customers/depositors. Since the costs and benefits of this spill-over to the wider economic system, in particular private banks, it is not automatically included in the banks' decision-making and profit function. Moreover there are also indirect impacts. The failure of a single bank can lead to a contagion effect. Hence, deposit holders can, for instance, lose confidence in the banking system and withdraw their funds from the entire banking sector, which can lead to further market disruptions.

Some even argue that the regulatory framework contributed to the aggravation of the financial crises. Some studies, for instance, conclude that major regulatory agencies in the US and the remainder of the globe failed to act in the public interest during the 2007-2009 global financial crisis.¹⁸ Their policies on the application of credit ratings, usage of credit default swaps and others increased the fragility of the financial system, while they had the capacity and knowledge to reform at an earlier stage. The public and elected representatives are in general unable to fully assess the work of regulators (because of lack of information) and therefore unable to force them to take the policies that are in the long-term public interest.

But there are more market failures that strengthen the need for government interventions. Besides the externalities linked to banks failures, Stiglitz (1993) highlights in total six other distinct types of market failures in financial markets. Some of those are linked to undersupply of public monitoring, uninformed customers, misallocation of funds and costs as well as benefits, while two other types are more relevant to support by government for banks and SME lending, as discussed in this study.¹⁹

First, credit and capital markets are relatively risk averse. Several studies found that the risk averseness can be explained by the high costs and difficulties connected to obtaining information on more risky segments in markets, which increases the transaction costs.²⁰ In fact, during the recent financial crisis ailing banks had problems raising capital at financial markets because of the market uncertainty on the severity of their exposures to toxic assets. Equally, banks preferred lending to large enterprises because they tend to be less opaque than SMEs.

Second, there is imperfect competition in the banking sector. Mostly due to the distinct number of market players competing in the different market segments and the difficulty to switch from one to another bank. The bank with which a customer has a long relationship usually has more information about this customer and might label it as being less risky than other banks that do not have this information.²¹

In their policies some governments have tried to address the negative consequences of the two main market failures with negative impacts on SMEs. First, to limit the distortion on SME credit markets due to limited risk-taking, some governments extended guarantee

¹⁸ Barth et al (2012) and Levine (2012).

¹⁹ Stiglitz (1993), p. 114-144.

²⁰ Akerlof (1970), Greenwald (1986) and Stiglitz (1982).

²¹ Boot (2000), p. 7-25.

schemes to SMEs (e.g. Germany, Luxembourg, etc). Second, to prevent that failing banks would cease part or all of their lending to SMEs, some governments have put their recapitalised banks under administrative monitoring or more explicit lending targets, as discussed below. Third, responding to both market failures some governments lend directly to SMEs through state owned entities or policy banks.²²

At European- and Member State level the SME support programmes were expanded. The European Commission provided financial instruments to SMEs under the Competitiveness and Innovation Framework Programme (CIP). Equity and guarantees for SMEs were granted by European Investment Bank Group (EIB).²³ In 2012, the European Union Member States further increased the capital of EIB with EUR 10 billion, which allows the bank to increase its lending activity by EUR 60 billion in the period from 2013 to 2015. A substantial part of approximately EUR 10 to 15 billion of this additional financing is through the '*EU SME Access to finance initiative*' allocated to SMEs.²⁴ There are also national development banks like German KfW, French BPI, the Latvian Development bank, the Slovenian SIB Banka and Greek Hellenic Loan and Consignment Fund that expanded their activities or set up new ones.

1.2 Bank balance sheet repair, State aid and impact on SMEs lending

Notwithstanding the individual banks that fail due to operational problems, highly concentrated portfolios or other more specific unmanaged risks, most banks that require State aid fail at times of adverse economic conditions, distressed asset prices and/or a lack of confidence in the banking system. These general stresses have an impact on a large part or even the entire banking sector and tend to increase the likelihood that other healthier banks fail to meet the regulatory and supervisory requirements or market demands without State aid around the same time, which was also the case during the financial and economic crises. The level of concentration of ailing banks further aggravates the likelihood that the financial stability and their contribution to financing the real economy including lending to SMEs are at risk. As a consequence - at times that many large ailing banks receive State aid - other healthier banks are forced to restructure as well because of the high level of interconnectedness.

As a measure to restructure an ailing bank, State aid usually does not stand on its own but is de facto, the last available source of financial support to avert bankruptcy and potential wider severe economic disruptions. Banks must in principle employ first all available alternatives to improve their financial conditions, before governments of EU Member States step in. This usually leads to a mix of internal and external measures that precede and/or accompany State aid. This makes it much more difficult to assess the impact of State aid- and restructuring measures on the banks' capacity to lend to SMEs or to continue lending to SMEs. The measures that can be undertaken to repair bank balance sheets and therefore enhance the resilience of the banking sector are multiple and can be divided in four broad categories: i) internal, ii) market, iii) government and iv) central bank measures. The possible impact of these measures on costs as well as on the available volume of SME loans is explained below.

1.2.1 Internal

These measures using internally generated funds to **strengthen the capital** position of banks range from reducing dividend payments to shareholders, to the use of a larger part

²² OECD (2009).

²³ In fact, the financing instruments were provided by the European Investment Bank and European Investment Fund (EIF), which is a subsidiary of the EIB that is specialised in providing risk financing to SMEs.

²⁴ European Commission and EIB (2013).

or of all retained earnings to improve the capital position. As a consequence, banks hold more capital for every euro they lend to SMEs, which would increase the required rate of return on assets such as SME loans. In fact, the required rate of return on capital is higher than of debt that benefits of a preferential tax treatment as well as of an implicit government guarantee. The Banking Communication of July 2013²⁵ requires, for instance, that at least the funds from equity holders and junior bondholders should be exhausted before State aid can be granted. In practice this means that other holders of bank debt such as senior bondholders are unlikely to be involved, taking into account that most Member States only apply the minimum requirements for burden sharing.

Banks can further try to improve their operational performance by increasing the **interest margin** and other related fees as well as reducing their organisational costs as much as possible to improve the capital cushions. This might be easier in times of adverse economic conditions (e.g. reduction in the number of market participants and available funds) due to an increase of concentration and a reduction of competitive forces. The potential increase in margins, **fees and other costs** is translated into higher costs of loans to SMEs.

On the other hand, banks can do some window-dressing, i.e. improve regulatory capital without fundamentally changing the capital position of the bank. Many - mainly larger banks - use internal models to calibrate their risk-weighted assets. Some of these banks **modify** their **internal models** to further reduce the capital charges on SMEs²⁶ and other exposures²⁷. In addition, banks get ahead future tax credits by accelerating write-downs on items that are deducted from regulatory capital. These measures that increase the capital level without extra costs make SME lending relatively cheaper and would allow banks to provide more loans without raising additional capital.

Taken individually and/or in conjunction, these measures are expected to impact SMEs lending, most likely towards an increase of costs without necessarily increasing volume, unless the rate of return on additional SME lending prove profitable.

1.2.2 External - Markets

Banks can also use financial markets to improve their capital position. The most straightforward measures are to **issue new capital** instruments or to convert hybrid instruments into plain equity, which most likely might have similar impacts as abstaining or reducing dividend payments and retained earnings. Banks can also reduce capital requirements by selling assets and/or shifting their financial holdings to assets with lower risk-weights. Since exposures to SMEs, on average, have a higher risk weight than many other types of assets like for instance zero-risk weighted government bonds, banks are more inclined to decrease these exposures.

In turn, banks can also restructure their activities, and sell or list parts to reduce their capital requirement. When the sales price is above the net asset value of the parts (i.e. total assets minus intangibles), it can even further improve the capital position. Unless the SME activities are sold and reduced afterwards, a sale is likely to have more or less similar consequences as a capital issuance that also generates extra capital but leaves the

²⁵ OJ C 216 of 30.7.2013,
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:216:0001:0015:EN:PDF>.

²⁶ Hence, the capital charges of exposures to SMEs are lowered under CRDIV by the application of a 'supporting factor' of 76.19 %.

OJ L 176 of 27.6.2013,
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:0001:0337:EN:PDF>.

²⁷ Ayadi et al (2011).

activities untouched. In turn, when the sales price is below the net asset value the restructuring is likely to have the opposite consequences.

Finally, the **liability structure** of banks is likely to change. In times of adverse economic conditions banks are considered to be more prone to risks, which are reflected in a higher and steeper risk premium curves. This incentivises banks not only to reduce the maturity of their funding, but also to buy back debt papers in issue that are quoted below par value. Yet these measures are likely to reduce the interest costs and/or increase the capital of the bank and thus to reduce the lending costs as well as volume.

1.2.3 External - Governments

When the private market sources are insufficient to solve the financial problems, ailing banks become dependent on public institutions to obtain the remaining funds. The measures of the central banks are in general focused on liquidity support, while governments²⁸ provide both liquidity and capital support. Depending on the amount of funds and necessary measures to ensure the long-term viability of a bank or to orderly resolve the ailing bank certain conditions must be met. These conditions are defined in case-specific '*restructuring plans*', which ought to comply with the basic principles enforced by the European Commission. The overarching objective of the European Commission is to safeguard financial stability, while limiting the distortion of competition in the financial markets as well as safeguarding the lending to the real economy.²⁹ This conditionality can have both positive and negative consequences on SME lending. The overall impact on SME lending is difficult to assess unless backstop measures are put in place and monitored to neutralise the negative effects of some State aid measures in the long run.

Turning to the individual support measures, one of the possibilities for governments to contribute to the restructuring of banks is direct capital support. This provides the ailing bank capital support against, in general, lower required returns than the capital markets demand. Banks that are **recapitalised** are, nevertheless, not allowed to pricing according to this cost-price advantage. The rates of the State aid receiving banks offer may not be more attractive than the offers of their competitors that did not receive State aid. And even when the bank is committed to certain lending targets it has to provide the credit against competitive market terms.^{30 31} Notwithstanding the European Commission's objective to use the recapitalisation to prevent that the financial sector's capital shortages are passed-on to other economic sectors³², the aided bank might still be hesitant of using the obtained funds for lending activities because of the uncertainty and expectations towards further deterioration. Given the European Commission's intention to minimise the amount of State

²⁸ The State aid provided by governments consists besides taxpayers' money also of private funds that are controlled and allocated by governments. This is for instance the case when a bank is recapitalised with funds obtained from an ex-ante funded deposit guarantee schemes (Paragraph 63, OJ C 216 of 30.7.2013).

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:216:0001:0015:EN:PDF>

²⁹ *'In its response to the financial crisis, and under the Crisis Communications, financial stability has been the overarching objective for the Commission, whilst ensuring that State aid and distortions of competition between banks and across Member States are kept to the minimum. Financial stability implies the need to prevent major negative spill-over effects for the rest of the banking system which could flow from the failure of a credit institution as well as the need to ensure that the banking system as a whole continues to provide adequate lending to the real economy.'*

Paragraph 7, OJ C 216 of 30.7.2013.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:216:0001:0015:EN:PDF>

³⁰ Paragraph 43 and 44, OJ C 195 of 19.8.2009.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:195:0009:0020:EN:PDF>

³¹ If this is not appropriate the European Commission allows Member States to come-up with alternatives.

³² Paragraph 5, OJ C 10 of 15.1.2009.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:010:0002:0010:EN:PDF>

aid granted to banks, to get the aid repaid, and that the aided banks undergo restructuring that might include the divestment in certain portfolios, such as loans to SMEs. As a result, the costs of SME loans are likely to rise due to the conditionality, but possibly less than when new equity instruments would be issued at financial markets. Overall lending targets are likely to increase when SME lending volume targets are set, but can be partially or even completely offset by the other conditions included in the obligatory restructuring.

An alternative manner to improve the capital position of ailing banks, but primarily to limit the uncertainty regarding the value of the impaired assets, is the **asset relief measure**.³³ This is used by Member States to carve out the impaired assets of ailing banks. The impaired assets are in first stage transferred at market values. But when these assets are sold at market values, there would be no need for a government intervention. The second stage takes into account that financial and economic crises can do serious harm to fair price formation. Hence, in times of financial distress there is no fair valuation or distressed price formation of certain impaired assets. At this stage the assets are transferred at long-term economic values minus haircut for complex assets.³⁴ The consequences of the asset relief measures for SME lending are ambiguous. On the one hand the measure can free up some capital to increase lending activity when the book loss (i.e. book value minus transfer value) of the transaction is less than the loss provisions plus capital consumption of the transferred portfolio. On the other it could reduce the lending capacity when the book loss is larger than the provisions and capital consumption as well as due to restructuring measures. However, since the measure reduces the uncertainty regarding the value of the bank, the funding costs of the banks as well as of the costs of SME loans might decrease.

The impact of the **State guarantees** on bank debt as well as **other liquidity support** measures such as direct loans are more straightforward. Hence, the liquidity support is for banks that are long-term viable, unconditional to restructuring. The State guarantees allow aided banks to (re)finance themselves against more attractive rates. The lower funding costs for the banks could be passed on to SMEs in the form of lower interest rates, which is more likely since the debt guarantees in most countries are open to other (competing) banks. Whilst, when liquidity had been a restricting factor to expand SME lending, the guarantees would allow obtaining the necessary funds for the expansion.

The granting of **guarantees for SMEs lending** is most immediate form of support to foster bank lending to SMEs. In contrast to the recapitalisation, asset relief and the liability measures described before, the guarantees are on SME loans mostly granted to the SMEs instead of the bank. There are thus no conditions attached for the bank that provides the loan. In turn, the bank still benefits of burden sharing and lower capital charges. SMEs guarantees can cover up to 80 % of the outstanding loan³⁵ and most governments' secured paper has a zero risk weight³⁶.

³³ Allied Irish Bank (SA.33296), Anglo Irish Bank (case number: SA.32057), BAWAG (SA.31189), Bank of Ireland (SA.33216), BayernLB (SA.28487), Caja Castilla-La Mancha (NN61/2009), Cajasur (N392/2010), Dexia (i.e. SA.34925), EBS (N160/2010) Fortis (N574/2008), HSH Nordbank (SA.29338), Hypo Real Estate (SA.28264), INBS (SA.31714), ING (C10/2009), KBC (SA.29833), Kommunalcredit (SA.32745), LBBW (C17/2009), RBS (N422/2009) and WestLB (N555/2009), http://ec.europa.eu/competition/elojade/iseef/index.cfm?clear=1&policy_area_id=3, Boudghene and Maes (2012)

³⁴ Paragraph 39 and 40, OJ C 72 of 26.3.2009.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:072:0001:0022:EN:PDF>

³⁵ Article 21 sub 16, OJ L 187 of 26.6.2014.

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0651&from=EN>

³⁶ Article 114, OJ L 176 of 27.6.2013.

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0575&from=EN>

Finally, when the bank is considered not to be long-term viable it can obtain support, but then has to be **orderly resolved and liquidated**. Resolution without State aid should at that moment be likely to harm financial stability. When the bank receives State aid for an orderly resolution it still has to meet certain conditions. Hence, the winding-up period should be no longer than strictly necessary, the bank should not engage in new activities and the pricing policy should promote customers to find alternatives. The costs of lending for SMEs are likely to rise temporarily until the bank is finally resolved and SMEs are required to look for other financing opportunities. In turn, the conditions also allow the bank to restructure and change the terms of existing loans.³⁷

1.2.4 External – Central Banks

Monetary policy of the Eurosystem as well as most Central Banks of non-euro area EU countries targets stable prices. These are defined in inflation targets that the Central Banks pursue using monetary policy instruments, e.g. setting monetary policy rates and purchasing assets. After the burst of the financial crisis most European economies suffered of shrinking demands fuelling deflation risks. Central Banks have countered this by decreasing their policy rates. In order to enforce that these lower rates would also be passed on to interbank- and financial markets as well as customers the central banks extended the available standing liquidity facilities, broadened the collateral requirements and limited the reserve requirements. In parallel they also started purchasing assets directly on secondary markets to lower the interest rates. When passed on the lower interest rates also lower the costs of SME loans. Moreover, there are also measures directly enhancing the lending capacity of banks. The ECB launched in 2014 longer-term refinancing operations (TLTROs)³⁸ aiming to increase, among others, lending to the real economy (i.e. non-financial corporations, including SMEs, and households, excluding mortgages). The liquidity facilities, widening of collateral requirements and lower reserve requirements can also contribute to lowering the costs, as well as for obtaining additional funds to increase lending. The support by central banks is not considered State aid, except some forms of emergency liquidity assistance.³⁹

³⁷ Paragraph 73 to 76, OJ C 216 of 30.7.2013.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:216:0001:0015:EN:PDF>

³⁸ ECB (2014), Modalities of the targeted longer-term refinancing operations

http://www.ecb.europa.eu/press/pr/date/2014/html/pr140703_2_Annex.pdf

³⁹ Unless this provisioning of (uncollateralised) loans to banks by National Central Banks is not guaranteed by the government, fully collateralised, granted to a solvent bank and a penalty rate is charged it is considered State aid. And it has also to comply with the European State aid rules.

Chapter 5, OJ C 216 of 30.7.2013.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:216:0001:0015:EN:PDF>

2. QUALITATIVE EVIDENCE ON STATE AID TO BANKS AND SME LENDING

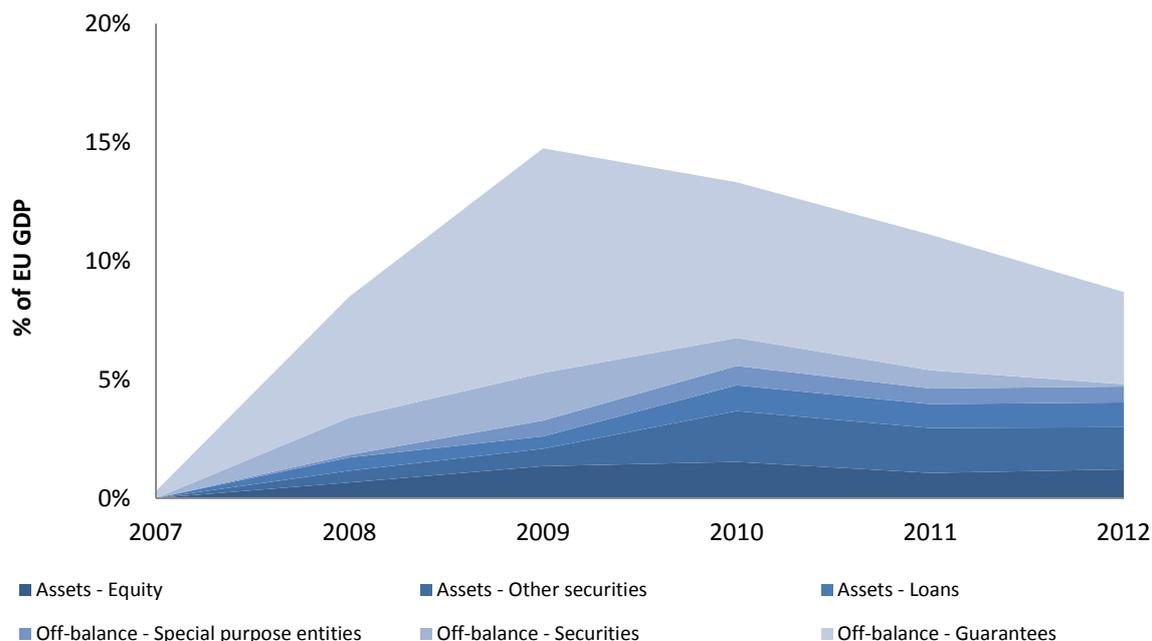
KEY FINDINGS

- The existing legislation and communications provide a sufficient legal basis to make State aid to banks conditional to SME lending.
- Article 107 (3) (b) TFEU provides the necessary discretion to approve SME lending targets to prevent a so-called “credit crunch” and hence disturbance to the real economy.
- Limited public information is available on the progress on State aid to ailing banks, restructuring plans and the impact on SME lending.
- A limited number of aided banks had to respect lending targets for SME loans and price leadership bans on standard SME products.

2.1 EU bank State aid policy and conditionality

To understand the potential impacts of State aid rules on individual banks and SME lending with a focus on conditionality, a qualitative analysis based on State aid case studies is performed. The impact of this conditionality is later on tested in the quantitative analyses at Member State and bank level.

The EU kept its banking sector afloat during the financial and sovereign crises thanks to State aid, mostly composed of guarantees, but also through debt and equity capital support on the one hand and central banks liquidity support on the other (see Figure 2). The following chapter provides an analysis of the application of the EU’s State aid rules during the financial and sovereign crises, the different forms of aid that were given to the financial sector, and a legal review of conditionality with a specific focus on lending to SMEs are reviewed.

Figure 2: Government interventions in the financial sector during the crises

Note: Public interventions to support financial institutions and financial markets during the financial crisis. The unlimited guarantee on SPVs controlled by the Danish government was not quantified. The data shows the values at the end of year using the fiscal definitions of Eurostat.

Source: Eurostat (October, 2013), Ayadi et al (2014).

http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/supplementary_tables_financial_turmoil

2.1.1 The EU's State aid rules

The following general assessment starts from the premise that the financial measures undertaken by the Member States vis-à-vis banks are in any case to be considered State aid under the definition of Article 107 (1) Treaty on the Functioning of the European Union (TFEU).⁴⁰ and thus follows the legal assessment made by the Commission. It is assumed that the elements of the concept of State aid, i.e. (i) granting of an economic advantage, (ii) transfer of State resources, (iii) favouring of a certain undertaking (selectivity), (iv) distortion of competition as well as an (v) adverse effect on trade between Member States are present.⁴¹

Therefore, we assume that the State measures under scrutiny fall within the realm of application of Article 107 (3) (b) TFEU⁴², empowering the Commission to determine

⁴⁰ Article 107 (1) TFEU, OJ C 115 of 09.05.2008, pp. 91-92,

⁴¹ '1. Save as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.'

⁴¹ Vademecum (2008), pp 6-7.

⁴² Article 107 (3) TFEU, OJ C 115 of 09.05.2008, pp. 91-92,

⁴³ '3. The following may be considered to be compatible with the internal market:

(a) aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment, and of the regions referred to in Article 349, in view of their structural, economic and social situation;

whether an aid can be seen as compatible with the Common Market or not. To that end, the first sentence of Article 108 TFEU envisages a system of obligatory *ex ante* notification to the Commission, further laid out and specified in the recently amended procedural regulation Nr 659/1999.⁴³

In applying Article 107 (3) (b) TFEU, the Commission enjoys substantial discretion. It is crucial for the following reasoning to understand that within the system of *ex ante* notification under Article 108 (3) TFEU as briefly sketched above, the Commission enjoys a broad discretion in applying the conditions of exemption in Article 107 (3) (b) TFEU, taking into account an economic and social assessment of the Union as a whole.⁴⁴ The European Courts have consistently recognised this broad scope of discretion in all components of the decision-making process and do not differentiate between factual determinations and judgments. This discretionary authority of the Commission applies to the interpretation of broadly formulated legal terms as well as to defining the legal consequences of a normative provision.

It can be said that the degree of judicial self-restraint of the EU Courts is particularly high in the field of State aid. According to a consistent body of jurisprudence, the extensive freedom enjoyed by the Commission in the application of Article 107 (3) (b) TFEU must not be undermined by the Courts, in that they replace judgments made by the Commission with their own when reviewing the legality of approval rulings. The Courts must limit their review to whether these judgments are clearly erroneous or involve an abuse of discretion. This self-restraint is due to the complex and rapidly evolving circumstances of State aid measures, which call for detailed economic assessments, in particular in the context of an unprecedented financial and economic crisis.

It is important to note that it is within this extensive discretion that the Commission lays out the basics of the approval procedure in various publications and communications, setting out how the Commission will make use of its discretion. Especially in the context of the financial and economic crisis, the Commission has made extensive use of such '*soft law*' instruments early on, in order to give guidance on its application of the State aid rules under the particular circumstances of an imminent failure of the banking system and thus confront calls for a total suspension of the State aid rules.⁴⁵ Therefore, in the autumn of 2008, the Commission issued its '*banking package*' which was originally intended to give

(b) aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State;

(c) aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest;

(d) aid to promote culture and heritage conservation where such aid does not affect trading conditions and competition in the Union to an extent that is contrary to the common interest;

(e) such other categories of aid as may be specified by decision of the Council on a proposal from the Commission.'

Visual emphasis introduced by the authors.

⁴³ Council Regulation (EU) No 734/2013, amending Regulation (EC) No 659/1999 laying down detailed rules for the application of Article 93 of the EC Treaty, OJ 2013 L 204/15, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:204:FULL:EN:PDF>.

⁴⁴ See for a comprehensive account of the relevant jurisprudence, *Schweda* in Heidenhain, European State Aid Law (2009), § 14, para 3 et. seq.

⁴⁵ It was indeed argued that the EU's State aid rules are not entirely appropriate for the banking sector, because of its special nature. Public subsidies may be needed in the banking sector in prolongation of the objectives pursued by regulation and supervision as the entire financial system benefits from financial stability. When combating systemic risk, State aid is used to prevent a serious disruption of the financial system, and of the overall economy. In addition, the aid may be granted through special liquidity support by the central bank. Hence the overall public interest is at stake, not simply a private one. This public interest is essentially monitored by national supervisory authorities and central banks, implying that the control of State aid, when related to financial supervisory and systemic stability issues, should be in their hands.

guidance to the Commission's temporary policy approach towards State aid in to the banking sector.⁴⁶

In July 2013, the Commission published the Banking Communication⁴⁷, which consolidates most of the previous ones and sets out the up-dated EU crisis rules for State aid to banks during the crisis from 1 August 2013. It replaces the 2008 Banking Communication and supplements the remaining crisis rules. Together, they define the common EU conditions under which Member States can support banks with capital, asset relief measures, guarantees and other liquidity facilities. The main objective of the Commission is to safeguard the financial stability, meaning the prevention of negative spill-over's to other banks as well as ensuring that the lending to the real economy continues. In addition, the Commission wants to limit the distortion of the competitive environment, minimize the required tax payers' money and retain the single market.

When a financial institution receives State aid, the Member State has to submit a viability- or restructuring-plan for the bank. This plan sets out the conditions that the bank has to respect during the restructuring process. The Commission examines the plan based on five broad criteria entailed in the 2009 Restructuring Communication:⁴⁸

Restructuring plan should contain an in-depth assessment of the bank's problems.

- The plan should be 'sufficiently flexible' and 'timing realistic'.
- There should sooner or later be an 'appropriate' burden sharing between the Member States and the bank.
- The plan should contain measures to limit the disadvantages for other banks in the same or other Member States.
- Additional aid can be provided during the restructuring, but only for financial stability reasons and for a minimum amount.

2.1.2 Types of bank State aid during the financial and sovereign crisis

The 2007-2009 global financial crisis and the subsequent 2010-2012 euro area sovereign debt crisis forced EU Member States to undertake bold actions. After a long period with

⁴⁶ Communication on the application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis ('2008 Banking Communication') (OJ C 270, 25.10.2008, p. 8, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:270:0008:0014:EN:PDF>); Communication on the recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition ('Recapitalisation Communication') (OJ C 10, 15.1.2009, p. 2, <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52009XC0115%2801%29>); Communication from the Commission on the treatment of impaired assets in the Community financial sector ('Impaired Assets Communication') (OJ C 72, 26.3.2009, p. 1, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:072:0001:0022:EN:PDF>); Communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules ('Restructuring Communication') (OJ C 195, 19.8.2009, p. 9, <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52009XC0819%2803%29>); Communication from the Commission on the application, from 1 January 2011, of State aid rules to support measures in favour of financial institutions in the context of the financial crisis ('2010 Prolongation Communication') (OJ C 329, 7.12.2010, p. 7, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:329:0004:0005:EN:PDF>) and Communication from the Commission on the application, from 1 January 2012, of State aid rules to support measures in favour of financial institutions in the context of the financial crisis ('2011 Prolongation Communication') (OJ C 356, 6.12.2011, p. 7, <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52011XC1206%2802%29>).

⁴⁷ Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis ('Banking Communication'), OJ C 216, 30.7.2013, p. 1, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:216:FULL:EN:PDF>.

⁴⁸ Community guidelines on State aid for rescuing and restructuring firms in difficulty, OJ C 244, 01.10.2004, p 2-17; Latest prolongation OJ C 296, 02.10.2012, p. 3, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:296:FULL:EN:PDF>.

barely any bank rescues,⁴⁹ EU Member States committed between 2008 and 2012 in total EUR 5.1 trillion (equal to almost 40 % of 2012 EU GDP) of State aid. The State aid granted to European banks during the crises can be divided across four broad types; recapitalisation, asset relief measures, guarantees and other liquidity measures.

- The first form of State aid is the **recapitalisation** of banks. Governments provide funds to banks in exchange for equity instruments, including normal shares, preferred shares and hybrid capital. This measure strengthens the capital position of banks. In addition, the recapitalisation can deliver the government the control over the bank. A public body obtaining control over a bank itself is not considered State aid. But it is found to have an impact on the performance of a bank. The empirical literature finds that State owned banks on average perform more poorly than their commercial counterparts due to inefficiencies.⁵⁰ Hence, Shleifer and Vishny (1994) argue that suboptimal allocation of funds and operational inefficiencies are the consequence of political self-interests. State banks should contribute to curing market failures by maximising social welfare.⁵¹
- Second, governments also carve out impaired and toxic bank assets. The provided **asset relief** can help banks to reduce the uncertainty about the value of their assets and limit the impact of temporary losses due to illiquid markets. The asset relief measures contribute to re-gaining access to liquidity, deleveraging and reducing the capital consumption. Moreover the schemes must be justified to taxpayers when public money is used to guarantee the bad assets.⁵²
- Third, governments **guarantee bank liabilities**. Besides the deposits covered under deposit guarantee schemes, governments can also specifically guarantee newly issued bonds. The guaranteeing of newly issued bonds allows banks to raise new funds or rollover old liability instruments.
- Fourth, besides guarantees some Member States also provide **direct liquidity** to ailing banks and other systemic financial institutions that faced problems obtaining funding. The direct short-term facilities mostly contained loans.

Besides through State aid European Banks also received liquidity assistance from central banks. Although the central banks are public institutions most of their funding of the banking sector is exempted from State aid requirements. Hence, instruments related to monetary policy are exempted, while support for a specific institution can be considered State aid (e.g. Emergency liquidity assistance - ELA). Though, in most cases this liquidity support is also exempted, as long as the bank is solvent, the liquidity support is fully collateralised, a penalty interest rate is charged and the initiative for the measure stems from the central bank.⁵³

⁴⁹ 'The most well-known ones are the *Crédit Lyonnais* case and the German regional banks [resp. *Landesbanken*] ruling. In the case of *Crédit Lyonnais*, the European Commission decided in 1995 that *Crédit Lyonnais*, in return for the green light on the EUR 6.9 billion (FF 45 billion) in State aid, had to reduce its commercial operations abroad, including a substantial part of its European banking network, by at least 35 % by the end of 1998. In the German *Landesbanken* case, the European Commission agreed with the German government in 2001 to phase out the system of State guarantees for the regional savings banks in 2005 ('*Landesbanken*') and distinguish between the public policy and purely commercial tasks of these institutions', Lannoo and Napoli, 2010.

⁵⁰ Barth et al (2001) and Porta et al (2002).

⁵¹ Atkinson et al (1980).

⁵² OJ C 72 of 26.3.2009,

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:072:0001:0022:EN:PDF>.

⁵³ OJ C 270, 25.10.2008, p. 8,

2.1.3 Conditionality in EU bank State aid regimes

Having established the general functioning of the State aid rules and the Commission's central role in the application of the exemption criteria of Article 107 (3) TFEU (extensive discretion), the question arises whether approval of a State aid measure under one of the criteria of Article 107 (3) TFEU may be granted by the Commission subject to a condition. Here, Art 7 (4) of the Procedural Regulation No. 659/1999⁵⁴ is quite clear. It is held that:

'The Commission may attach to a positive decision [approval decision] conditions subject to which an aid may be considered compatible with the common market and may lay down obligations to enable compliance with the decision to be monitored'.

In the event of non-compliance, the aid becomes unlawful or misused, as the case may be. As a result, the aid is presumed incompatible with the internal market and the Commission may proceed directly to the European Court pursuant to Article 108 (2) (subpara. 2) TFEU or initiate a formal investigation procedure pursuant to Article 108 (2) (subpara. 1) TFEU.⁵⁵

Conditions imposed by the Commission may, for example, involve limitations with respect to the type, amount, recipient, objective or duration of the aid, which were not foreseen in the aid as originally planned. Usually, regular reporting obligations are foreseen to enable the Commission to monitor the use of the aid.⁵⁶

It is important to understand that the conditions and obligations provided for in Article 7 (4) of the Procedural Regulation are addressed by the Commission to the Member State, thus, in order to have a guiding effect on the market behaviour of an aid recipient, such conditions need to be enforced by the Member State vis-a-vis the recipient by means of national law.⁵⁷

However, a Member State itself may consider granting aid only subject to specific conditions. Such conditions would need to be notified to the Commission as a feature of the particular aid scheme or measure and would thus be assessed by the Commission within its margin of discretion in the approval procedure.⁵⁸ However both types of conditions, either originating from the Commission or from the Member state itself, are ultimately equally subject to the discretionary judgement of the Commission in assessing the compatibility of aid with the internal market.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:270:0008:0014:EN:PDF>

⁵⁴ Council regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty, OJ L 083 of 27.3.1999, p. 1,

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.1999.083.01.0001.01.ENG.

⁵⁵ See for a comprehensive account of the relevant jurisprudence, *Sinnaeve* in Heidenhain, European State Aid Law (2009), § 31, para 52.

⁵⁶ Council Regulation (EC) No 994/98 of 7 May 1998 on the application of Articles 92 and 93 of the Treaty establishing the European Community to certain categories of horizontal State aid, OJ L 142 of 14.5.1998, p.1, <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:31998R0994>.

⁵⁷ See *Harringa* in Birnstiel/Bungenberg/Heinrich, Europäisches Beihilfenrecht (2013), Chapter 2, para 365.

⁵⁸ See e.g. para 85 of the Banking Communication, providing that when notifying a scheme to the Commission, Member States must provide detailed information on the process and on the conditions for the interventions in favour of beneficiary institutions; In this context, it is important to point out that however, in the case of a sale of a public undertaking (privatisation) it is necessary, in order to avoid further State aid to the buyer according to the market economy investor test, to organise the sale through an open and unconditional competitive tender. It would therefore most likely not be compatible with Article 107 (3) (b) TFEU for a Member State to impose a condition of guaranteeing SME-lending in the future on a buyer in the course the privatisation of a bank; see e.g. Banking Communication, para 79 et. seq.; for a general description of the market economy investor test see e.g. *Leibenath* in Heidenhain, § 6 para 1 et seq.

The discretion of the Commission to grant approval of a State aid measure only subject to conditions, as provided for in Article 7 (4) Procedural Regulation, is expressed both in the Commission's guidelines and communications as well as in its decisional practice.

For example, in para. 8 of its *Guidelines on State aid for rescuing and restructuring firms in difficulty*⁵⁹ the Commission explicitly mentions conditions in favour of SMEs stating that, *'the provision of rescue or restructuring aid to firms in difficulty may only be regarded as legitimate subject to certain conditions. It may be justified, for instance, by social or regional policy considerations, by the need to take into account the beneficial role played by small and medium-sized enterprises (SMEs) in the economy or, exceptionally, by the desirability of maintaining a competitive market structure when the demise of firms could lead to a monopoly or to a tight oligopolistic situation.'*⁶⁰

Also in the 2013 Banking Communication, the Commission explicitly mentions conditions to be imposed. Para. 88 holds that *'in order to allow the Commission to monitor the progress of the orderly liquidation process and its impact on competition, Member States must submit regular reports (on at least a yearly basis) on the development of the liquidation process of each bank in liquidation and a final report at the end of the winding-up procedure. In certain cases, a monitoring trustee, a divestment trustee or both may be appointed to ensure compliance with any conditions and obligations underpinning the authorisation of the aid.'*

It has been recognised as one of the major aims of asset relief measures under the EU State aid regime to underpin the supply of credit to the real economy and thus alleviate the so called *'credit crunch'* arising as a consequence of the drastic decline of inter-bank lending during the crisis.⁶¹ The Banking Communication explicitly holds in para. 61 in the specific context of guarantees that *'[i]n exceptional cases guarantees may also be approved covering exposures of the European Investment Bank towards banks for the purpose of restoring lending to the real economy in countries with severely distressed borrowing conditions compared to the Union average.'*

Beyond this very specific statement in the Banking Communication, it becomes clear from a comprehensive review of the Commission's decisional practice in the context of State aid to banks that lending to the real economy (and often in particular to SMEs) is quite often an explicit condition (commitment) for an approval decision of the Commission, in particular according to Article 107 (3)(b) TFEU. Some past decisions show that it is rather irrelevant whether the condition (commitment) of a certain lending practice is brought up by the Member State in notifying an aid scheme or a particular aid measure, or imposed by the Commission in an Annex to the approval decision, see for example:

- KBC, C 18/2009, para 64
- Commerzbank, case N 244/2009, para 73
- Norddeutsche Landesbank, case SA 34381, Annex point 12

⁵⁹ Communication from the Commission community guidelines on State aid for rescuing and restructuring firms in difficulty, OJ C244/2 of 1.10.2004,

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2004:244:0002:0017:EN:PDF>.

⁶⁰ See also *Thyri*, Gemeinschaftsrechtliche Grundlagen der Krisenbewältigung in Hummer (ed.) Die Finanzkrise aus internationaler und österreichischer Sicht (2011), page 79, 89 et seq.

⁶¹ See e.g. Impaired assets communication, para 5; *Mederer*, Europäisches Beihilfenrecht als Instrument des Krisenmanagements in Hummer (ed.) Die Finanzkrise aus internationaler und österreichischer Sicht (2011), page 207, 210.

- Bankia/BFA, case SA 35235, Annex point 8
- Caja3, case SA 35489 para. 141
- Catalunya Banc, Spain, case SA 33735, para 169
- Banco Ceiss, case SA 34536, para 144
- NCG Spain, case SA 33734, para 163
- FHB Hungary, case SA 29608 (2010), para 64
- Anglo Irish Bank, case N 9/2009, para 23
- Bank of Ireland, case N 149/2009, para 36
- ING Netherlands, case SA 33305, Catalogue of commitments, page 47, even stating express production targets
- Lloyds Banking Group, case N 428/2009, para 195
- Royal Bank of Scotland, case N 422/2009, para 164 62

In practice, these commitments appear to be the result of the discussions between the Commission and the Member State authorities during the notification procedure.

It can therefore be concluded that it is legally possible – and actually recurring decisional practice – to grant State aid to banks only under the condition that access to credit for SMEs is provided for. In practice, such a condition (or commitment) may be either annexed to an approval decision under Article 7 (3) (b) TFEU of the procedural regulation (in cases addressing individual measures) or provided for in a national aid scheme which is then notified and approved by the Commission according to Article 7(3) (b) TFEU.

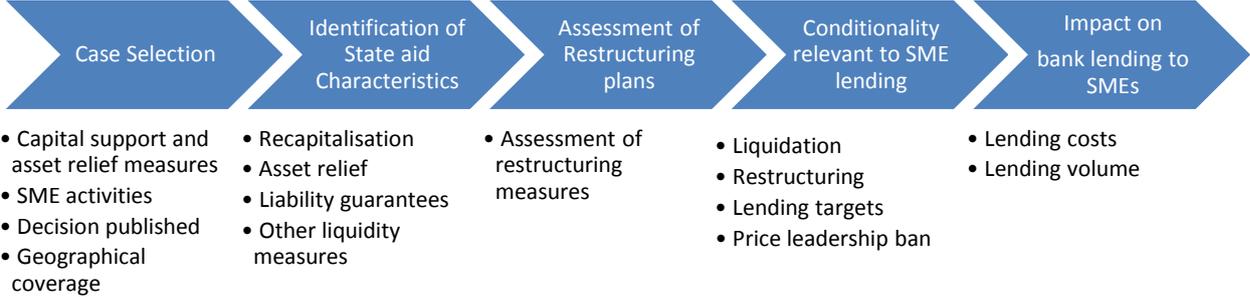
In brief, the legal justification for this finding is to be found in the extensive discretionary power of the Commission to propose or take into consideration such conditions and obligations in the context of its assessment of whether a notified aid measure is compatible with the internal market.

2.2 Framework to assess impact of State aid conditionality on SME lending

In the context of the financial and economic crisis between 2008 and 2013 State aid was exceptionally granted in 92 cases on individual banks and insurers as well as 20 national schemes. The decision texts on the State aid cases are collected from the State aid Register of the European Commission-Directorate General Competition. The decision texts containing, inter alia, the motivation and the specific conditions under which the State aid is allowed.

⁶² Please find further information in Table 21 in the Annex to this study.

Figure 3: Framework to assess impact of State aid conditionality on SME lending



Source: Ayadi et al (2014)

For the qualitative analysis the framework presented in Figure 3 has been used. The framework distinguishes five phases that select the relevant banks, the character of the aid, the overall restructuring measures, conditionality (specific to SME lending) and impact on bank lending to SMEs.

First, based on the decision texts of the closed State aid cases a large number of relevant cases were selected. The **selection** procedure followed four criteria: i) Cases that involve EU banks who received capital support and asset relief measures as defined in section 2.1.2; ii) EU banks that are active in SMEs lending or have certain exposures to SMEs⁶³; iii) Cases for which information is publicly available as of February 2014; and iv) a wide variety of EU countries should be covered.⁶⁴

The selection resulted in a target sample of **46 cases**, which are divided across EU Member States as follows: Austria (4 cases), Belgium (3), Cyprus (1), Denmark (1), France (1), Germany (6), Greece (2), Hungary (1), Ireland (5), Italy (1), Latvia (1), Netherlands (3), Portugal (1), Spain (12) and the United Kingdom (4). The complete list of selected State aid cases assessed is provided in the annex to this study in Table 21, which also summarises the results of the case studies (i.e. character of the State aid as well as the implications of the State aid and the respective conditionality for the bank, the banking system, and SMEs access to credit). The cases are selected out of a group of 92 banks⁶⁵ that have received State aid and have to abide by the conditions recorded in the restructuring plans.

Second, the characteristics of the State aid approved by the European Commission, including the types, but also the amounts and decision dates are identified. Since there were, besides a fee or interest payments, no or barely any conditions bound to liquidity measures, the analyses primarily focuses on the recapitalisation and asset relief measures.

⁶³ The banks active in SME lending have been identified using the description of the activities at the corporate website and 'stress test'-data on exposure to SMEs of the European Banking Authority (EBA).

⁶⁴ For the distribution of aided banks across countries the location of the headquarters as well as of the subsidiaries and branches is taken into account.

⁶⁵ Based on the European Commission's Memo published on 24 February 2014: "Overview of decisions and on-going in-depth investigations in the context of the financial crisis", http://europa.eu/rapid/press-release_MEMO-14-126_en.htm

Third, the conditions aided banks have to fulfil in exchange for the State aid laid down in the restructuring plan and approved by the European Commission are assessed. The conditions range from restructuring through a refocus of geographical coverage and/or activities, resulting in divestment, sell-off, merger or break-up to price leadership bans. There are also other conditions such as temporary dividend, bonuses bans and other restrictions. Most of these conditions will have consequences for the overall activity of the aided banks and their contribution to the real economy.

Fourth, the conditions relevant to SMEs in specific are identified. These conditions focus primarily on the refocus of activities on SME lending or divestments. Moreover, the scope of possible lending targets and price leadership bans is assessed.

Fifth and final phase, the consequences of the conditions on SME lending by banks are assessed. The analysis focuses on the volume and costs of bank loans. Hence, whether the potential impact of conditionality on the costs and amounts of bank loans offered to SMEs is positive or negative, and, if possible, the magnitude of the consequences on bank lending to SMEs is analysed.

For the assessment more information from budgets of national governments, court of auditors, rating agencies and the banking groups themselves is collected to complement the analysis based on the decision texts. The analysis focuses primarily on the identification of conditions to State aid that impact SME lending. It also assesses when the State aid is received in individual cases, the amount, form, duration, conditions and impacts on the banking sectors and real economy with a specific focus on SMEs lending and conditions.

2.3 Findings

The qualitative analysis aims at assessing the link between the different types of State aid, conditionality, and bank lending to SMEs. In total, 46 State aid cases involving banks in 15 different EU Member States have been assessed. The case-specific results can be found in the annex, Table 21.

State aid took the form of either recapitalisation, or asset relief, guarantees, other liquidity measures or ultimately, resolution and liquidation or a blend of them. The average amounts provided are rather high, with the staggering examples of the State aid granted to Belgian and Irish banks if compared to the two countries GDPs. For Belgium, Dexia⁶⁶ received aid amounting of EUR 5.4 billion in recapitalisation, EUR 135 billion in refinancing guarantees and impaired asset measures worth EUR 3.2 billion between 2008 and 2009; Fortis⁶⁷ benefited from a recapitalisation of up to EUR 4.7 billion between 2008 and 2010; and KBC⁶⁸ enjoyed a recapitalisation of EUR 7 billion and other asset relief measures on a CDOs portfolio between 2008 and 2009. For Ireland, between 2009 and 2010, Anglo Irish Bank⁶⁹ has been recapitalised with a total amount of EUR 59 billion, Bank of Ireland⁷⁰ received a recapitalisation amount of over EUR 5.3 billion; EBS⁷¹ received EUR 13.9 billion; Irish Nationwide Building Society⁷² received a recapitalisation amount of EUR 10.8 billion.

In order to have access to State aid, in all the cases conditions as discussed in section 2.1.3 were required either by the Member State in question and then notified to the European Commission or agreed in collaboration with the Commission. These conditions were largely in line with fundamental restructuring via refocus on core activities, divesting from risky exposures, breakup, merger, or sell off to other healthier banks, or outright nationalisation, liquidation and resolution. Other conditions including, price leadership, advertising, coupon/dividend and bonuses bans have been used all along the cases together with requirements to improve risk measurement and management. Undoubtedly, these conditions would impact fundamentally banks behaviours, future businesses and ultimately the banks' role in the economies where they have been active. Several banks had to refocus along their domestic frontiers and core activities, others had to sell important businesses or merge with others that are relatively healthier. These measures are expected to lead to a continued restructuring of the EU banking sector beyond the State aid event and consequently would result in serious implications for competition and funding of these economies.

Focusing on conditionality directly impacting bank lending to SMEs four main kinds of conditions have been identified:

- **liquidation** of the bank;
- **refocusing** of the aided bank's activities towards more or less SME lending;
- general and SME **minimum lending targets**; and,

⁶⁶ See also case NR 5 in annex Table 21.

⁶⁷ See also case NR 6 in annex Table 21.

⁶⁸ See also case NR 7 in annex Table 21.

⁶⁹ See also case NR 32 in annex Table 21.

⁷⁰ See also case NR 33 in annex Table 21.

⁷¹ See also case NR 34 in annex Table 21.

⁷² See also case NR 36 in annex Table 21.

- general and SME **price leadership bans**.

Table 1 provides an overview of the application of the different kinds of conditionality in the selected case studies.

Table 1: Conditionality in bank lending to SMEs in case studies

Condition	Nr of banks	Banks
Liquidation	11	Banco CEISS (ES - 24), Caja Castilla (ES – NR 20), CajaSur (ES - 21), CAM (ES - 22), Cyprus Popular Bank (CY - 8), Hypo Group Alpe Adria (AT - 2), Agricultural Bank of Greece (GR - 29), Bradford & Bingley (UK - 43), Dunfermline (UK - 44), UNNIM Banc (ES -27), WestLB (DE -14)
Refocusing activities	33	ABN Amro (NL – NR 39), Anglo-Irish Bank (IE - 32), Banco de Valencia (ES - 16), Banco Mare Nostrum (ES - 17), Bankia (ES - 18), Bank of Ireland (IE - 33), Bawag PSK (AT - 1), Bayerische Landesbank (DE - 9), Caja3 (ES - 19), Catalunya Banc (ES - 23), CGD (PT - 42), Commerzbank (DE -10), Dexia (BE - 5), EBS (IE -34), FHB Jelzálogbank Nyrt (HU - 31), FIH (DK - 15), Hellenic Postbank (GR - 30), Hypo Tirol Bank AG (AT - 3), ING (NL - 40), Irish Life & Permanent Group (IE - 35), Irish Nationwide Building Society (IE - 36), KBC (BE - 7), Landesbank Baden-Württemberg (DE - 11), LiberBank (ES - 25), Lloyds Banking Group (UK - 45), Monte dei Paschi Siena S.p.A (IT - 37), NCG (ES - 26), Norddeutsche Landesbank (DE - 12), SNS Reaal (NL - 41), Sparkasse KölnBonn (DE - 13), The Mortgage Land Bank of Latvia (LV 38), Volksbanken (AT - 4), Royal Bank of Scotland (UK - 46)
Minimum lending target	4	Bank of Ireland (IE – NR 33), BPCE (FR - 28), Lloyds Banking Group (UK - 45), Royal Bank of Scotland (UK 46)
Price leadership ban	5	ABN Amro (NL – NR 39), Commerzbank (DE - 10), ING (NL - 40), KBC (BE – 7), Sparkasse KölnBonn (DE - 13)

Note: The numbers behind the names of the banks in the right-hand side column refer to the numbering of cases in annex Table 21 first column, which provide more information on the individual State aid cases.

Source: Ayadi et al (2014)

Nearly all aided banks had to restructure their activities or liquidate as part of the restructuring plan, to become long-term viable and/or limit the distortion of competition. Of the in total 46 aided banks analysed only Belgium Fortis and French BPCE⁷³ did not have to refocus or liquidate. The problems at Fortis were mainly caused by a too expensive acquisition of Dutch ABN Amro. Fortis was acquired by the governments of Belgium,

⁷³ See also case NR 28 in annex Table 21.

Netherlands, and Luxembourg that separated the bank and insurance activities. Thereafter the business activities were continued unchanged?. BPCE required the State aid primarily to prevent a capital shortfall due to the consolidation of the joint investment subsidiary Natixis in the merged entity of Banque Populaire and Caisse d'Epargne.

Eleven of the aided banks in the sample were liquidated. They no longer initiated new business activities and the existing activities were sold or wound down. Hence, German WestLB (today known as Portigon)⁷⁴, for instance, ceased new business after receiving State aid. The central bank activities for savings banks were sold to German Helaba another so-called Landesbank, and the legacy activities were resolved in a bad bank. Similarly, the viable banking activities of Spanish savings banks Caja Castilla⁷⁵ and CajaSur⁷⁶ were sold in an auction. The impact of liquidation on bank lending to SMEs is primarily depending on what happens with the legacy assets. In case the activities are wound down completely, the lending activity is likely to be restrained more than when the activities are sold to other banks. The level at which the lending activity is continued, however, depends on the acquiring bank. Moreover, when there is a longer period between the granting of the State aid and the take-over, the lending activity is likely to be harmed more, because the distressed bank cannot undertake new business.

However, most banks had to refocus on their activities. In the majority of the cases the banks had to focus in particular on their core market(s) and traditional banking activities that support the real economy. KBC⁷⁷ was, for instance, required explicitly to maintain its lending policy to the real economy in countries where it has retail and SMEs exposures, but no specific target on volume or pricing was mentioned. It was left at the discretion of the bank to ensure that lending to the real economy was maintained and preferably increased. According to KBC's Annual Report of 2013, the flexible conditions on lending to individual and SMEs resulted in a volume raise of loans to these two categories.

In several State aid cases the refocus on activities that support the real economies has been extended with targets on volume and prices to SMEs. For example, French BPCE⁷⁸ had to comply with a hard target of increasing the volume of SME loans by 3% to 4%. Such a condition can lead the bank to maximise its efforts to lend to this segment but at the risk to increase the required capital if risk on these companies is higher. This is under the assumption that the bank is operating under robust risk measurement and management techniques and that the risk weights used reflect the true risk exposures. In Ireland, the Bank of Ireland⁷⁹ had to commit to increase lending capacity to SMEs and to a new code of practice for business lending to SMEs; equally, the Irish Life & Permanent Group⁸⁰ was required to lower net fees and commissions in favour of SMEs.

Such requirements and targets to maintain and/or increase lending to SMEs can be seen as backstop measures to avoid the negative impacts of some conditions on SMEs lending such as the ones discussed above. However, it is probably not realistic to imagine that in a transition period, where aided banks are embarking in a restructuring phase to shore up

⁷⁴ See also case NR 14 in annex Table 21.

⁷⁵ See also case NR 20 in annex Table 21.

⁷⁶ See also case NR 21 in annex Table 21.

⁷⁷ See also case NR 7 in annex Table 21.

⁷⁸ See also case NR 28 in annex Table 21.

⁷⁹ See also case NR 33 in annex Table 21.

⁸⁰ See also case NR 35 in annex Table 21.

their capital and to divest from risky exposures to increase their exposures to SMEs immediately. In fact, new exposures to SMEs would cost the aided banks more capital as these can be considered as new risk exposures. However, these backstop measures can be beneficial for the medium to the long-term role of the aided bank in the real economy, provided that this bank returns to viability. To ensure this is the case, close monitoring by the Member States and Directorate-General Competition is necessary.

To limit the distortion of competition some aided banks were restricted in their pricing policies. Hence, some aided banks were or are not allowed to quote prices better than the best of the 10 largest banks in the market. This is meant to prevent that aided banks use the obtained State aid to gain market share at the expense of non-aided banks. For example, the German Sparkasse Köln Bonn⁸¹ had to respect a price leadership ban until the end of 2014. The price leadership ban is expected to be detrimental to the bank's SME lending. The bank will focus on corporate clients with yearly turnover below EUR 250 million. Whilst doing so, it is not allowed to offer the best rates for deposits and mortgages.

Despite the large variety of public sources consulted there is still some uncertainty on the impact of conditionality. This is partially due to the fact that not all support programmes are finished at the moment that this analysis was performed, which makes it difficult to assess the full extent of the impact of the measures. Moreover, there is no public reporting on whether the conditions and objectives of individual State aid cases are achieved, which is especially relevant when it concerns targets on which there is no regular disclosure.

Hence, in many or almost all State aid cases related to the financial crisis '*Monitoring Trustees*' were nominated. These '*independent*' agents report at pre-determined times, for example, once every three or six months, to the Commission on the compliance of the Member State and the aided bank with the conditions laid down in the restructuring plan. But the reporting is, however, not disclosed, although it could – for instance - be used to draw lessons for future cases.

⁸¹ See also case NR 13 in annex Table 21.

3. QUANTITATIVE EVIDENCE ON STATE AID TO BANKS AND SME LENDING

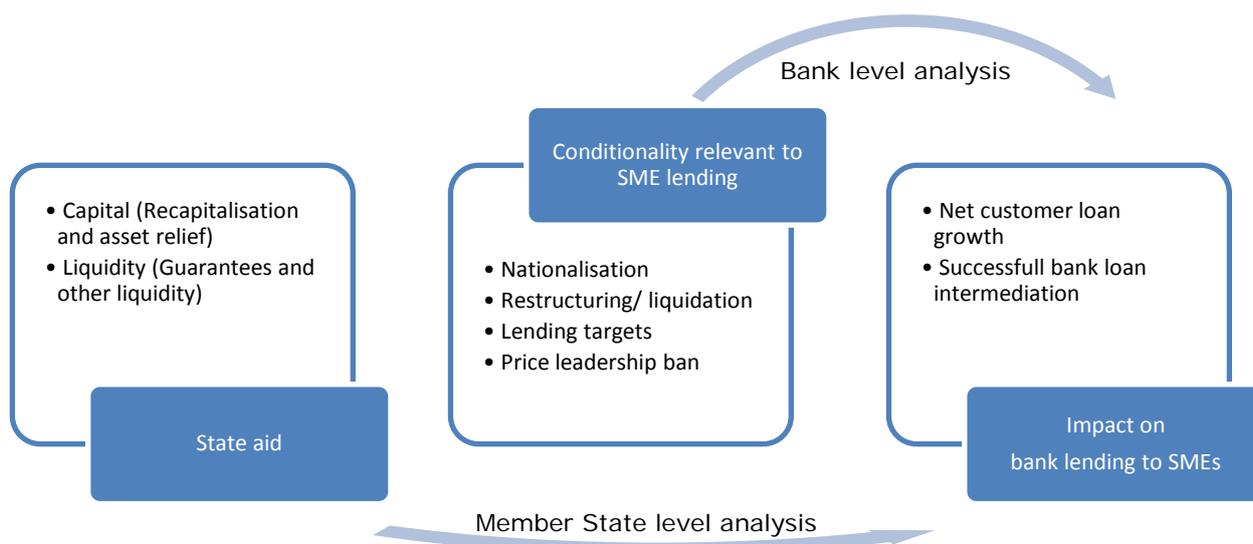
KEY FINDINGS

- Data on SME lending during the financial and sovereign debt crises is relatively scarce.
- There is a wide variance in the successfulness of SME bank loan intermediation in different EU countries.
- Post-financial crisis bank loan intermediation to SMEs fell behind in countries in which the financial sector used relatively more State aid.
- Conditionality can have a significant impact on the lending activities of banks, but does not seem to contribute to more lending to SMEs by banks.

The study's main focus is to provide relevant evidence on conditionality linked to access to finance for SMEs when State aid is granted to ailing banks and if possible assess its effectiveness. This should contribute to the overarching objective of maintaining (and enhancing) the contribution of the banking sector to the real economy via improving the access to finance for SMEs in distressed environment.

For this, first, the SME lending at Member State level, links with banks' conditions and State aid in EU Member States explored in the qualitative analyses are tested and, second, State aid to banks in the EU and potential link with SME lending evolution at bank level are tested. Figure 4 visualises the tested channels by which State aid could (or not) influence SME lending.

Figure 4: Framework to assess State aid conditionality on SME lending



Source: Ayadi et al (2014)

The Member State level analysis concentrates on both supply and demand side as well as the complete banking sector, while the bank level analysis focuses on the supply side and the largest banks active in the banking sector.

3.1 Member State level quantitative analysis

Aim of the Member State level analysis is to explain the **impact of State aid** on bank lending to SMEs. For this purpose a new simple econometric model has been composed. This was necessary because of the shortage of existing analysis and the available data.

3.1.1 Model

The model aims to explain the successfulness of bank loan intermediation to SMEs by using a relatively new metric. The share of fully successful bank loan applications is explained by both demand and supply factors as well as other factors that impact the market for bank loans for SMEs.

The **dependent variable (SUCCESS)** is computed by the percentage of *SMEs successfully obtaining a bank loan* in the EU. Hence, this novel measure provides insight to what extent bank loan supply matches demand of SMEs. Hence, the variable indicates the extent to which bank loan intermediation at the Member State level functions well in the view of SMEs, which is not necessarily the most efficient allocation of the financial resources across financing opportunities.

To explain this success rate of SMEs receiving a bank loan, four groups of **independent variables** are constructed, including variables on respectively demand by SMEs, supply by banks, government support and economic performance.

First, the *demand by SMEs*, which is proxied by the *share of SMEs that applied* (or are willing to apply) for a bank loan (**APPLY**).

Second, the *role of banks* proxied by *impaired loans as percentage of net interest income (RISK)*, *tangible equity/assets (CAPITAL)*. RISK is a general indicator on the materialised riskiness of the bank loan portfolios, which is assumed to strongly correlate with risks on SME loans. CAPITAL indicates the solvency of the banking sector.

Third, *government support* is proxied by State aid granted in the form of *recapitalisation and asset relief measures as percentage of total assets (RECAP)*, *guarantees and other liquidity measures as percentage of bank assets (GUARANT)*, *guaranteed loans as percentage of total bank assets (SMEGUAR)*. RECAP and GUARANT are the two variables on State aid indicating respectively the level of capital and liquidity support.

Fourth, the *macroeconomic conditions* are proxied by *real economic growth (GDP)* to determine the extent that economic prosperity determines successful intermediation for SME-bank loans.

The methodology uses the Generalised Method of Moments (**GMM**).

3.1.2 Data

Data availability. Data on lending to SMEs in the EU is still scarce, therefore most of the quantitative research is performed on proxies like loans up to EUR 1 million as published by the ECB for the individual euro area countries or customer loans as reported by individual banks. The latter is also used for the bank level analysis in section 3.2 of this report. However, in recent years several institutions have undertaken initiatives to get more quantitative information on lending to SMEs. The Dutch central bank has, for instance, in July 2014 for the first time published data on lending to SMEs in 2013, i.e. enterprises with a turnover of up to EUR 50 million⁸². The figures based on the SME exposures of the three

⁸² Based on the DNBulletin published on 17 July 2014: "New statistics show sharp contraction of small loans to SMEs", <http://www.dnb.nl/en/news/news-and-archive/dnbulletin-2014/dnb309784.jsp>.

largest banks in the country show that 95 % of the SMEs with a bank loan have a loan up to EUR 1 million, but these loans represent only 36 % of the total volume of outstanding SME-loans.⁸³ On the other hand, the total loans outstanding to SMEs of these three largest banks forms approximately only 11 % of their total customer loan portfolio. Hence, since only part of the SMEs loans are covered when only the loans up to EUR 1 million are considered and the total SME loans make-up only part of the total customer loans. It is possible that not only the absolute amount of SME loans are respectively over- or underestimated, but also the percentage change.

Data used. The data used to explain the successfulness of bank loan intermediation to SMEs includes demand data (SMEs), supply data (banks), macro-economic data as well as State aid and SME loan guarantee indicators. The indicators are computed for 27 EU Member States. The descriptive statistics of the variables are summarised in Table 3. Table 10 in the Annex contains a more detailed description of the definitions.

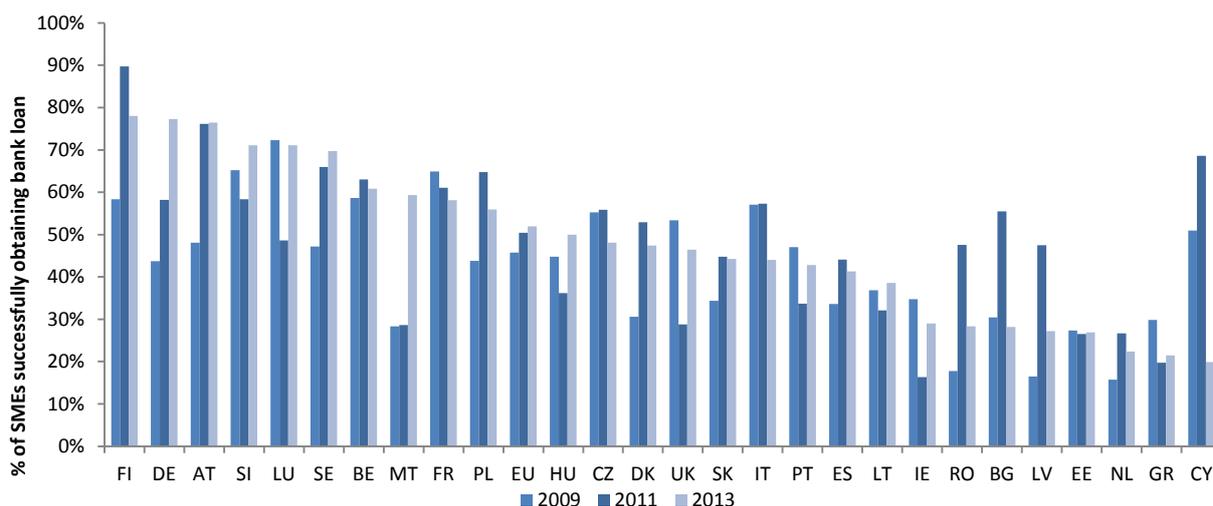
The database contains 103 observations for the EU Member States. However, the 11 larger euro area countries that are included in the **semi-annual ECB SAFE Survey**⁸⁴ account for two thirds of the observations. Whilst for the remaining countries only the **bi-annual survey data of the European Commission**⁸⁵ is available.

The dependent variable SUCCESS and independent variable APPLY are calculated using **SME access to finance data**. This data is obtained from the Survey on Access to Finance of Small and Medium-sized Enterprises (SAFE). The European Central Bank (ECB) publishes since the first half of 2009 twice a year a survey on the access to finance of euro area enterprises. Moreover, once every two year it conducts, in collaboration with the European Commission, a more extensive survey on the access to finance of micro, small and medium-sized enterprises across the European Union in all the individual Member States. The SAFE-database is the limiting factor

⁸³ The loans of 85 % of the SMEs with a bank loan (i.e. up to EUR 250,000) represent only 11 % of the total outstanding SME loans.

⁸⁴ ECB, Survey on the access to finance of SMEs in the euro area (SAFE); <https://www.ecb.europa.eu/stats/money/surveys/sme/html/index.en.html>.

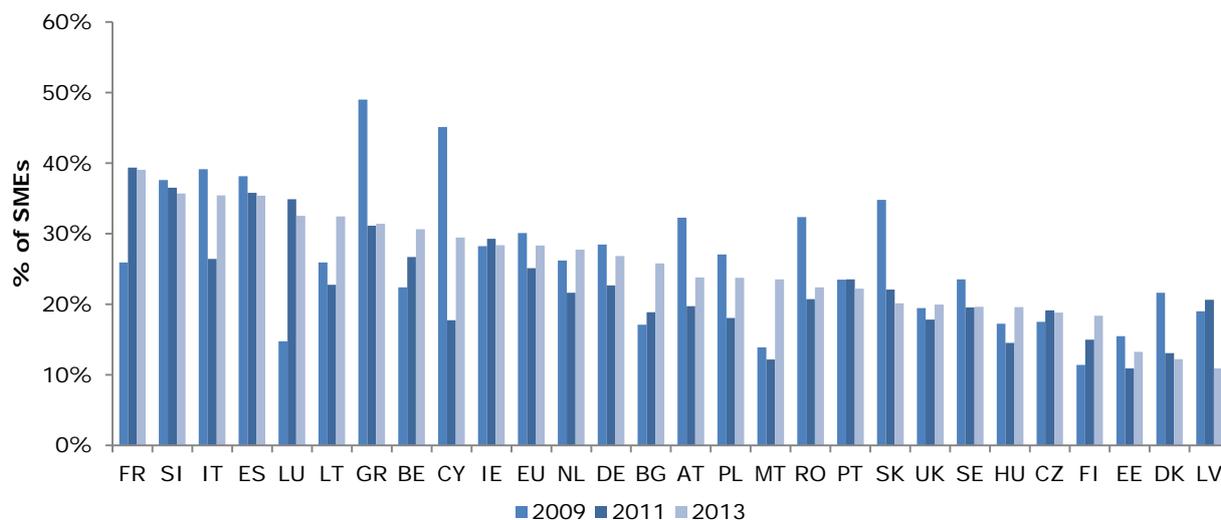
⁸⁵ European Commission, SAFE Commission Waves; http://ec.europa.eu/enterprise/policies/finance/data/index_en.htm#h2-1.

Figure 5: Share of SMEs successfully obtaining bank loans (SUCESS), 2009-2013

Notes: The weighted figures are representing the SMEs that responded positively to the question whether they obtained the bank loan in the past 6 months that they would like to have against, for them, acceptable costs as share of SMEs that applied or would like to apply but did not because of possible rejection. The EU aggregates are weighted based on the SME population in the European Union. Moreover, the aggregates for 2009 and 2011 exclude Croatia. And for comparison purpose the “Don’t Know and No Answer” responses have been excluded.

Source: European Commission, http://ec.europa.eu/enterprise/policies/finance/data/index_en.htm.

The dependent variable SUCCESS in the whole EU has a value of around 50 % (see Figure 5). Hence, on average, half of the SMEs that apply for a bank loan or would like to but expect a rejection receive the full amount against an acceptable rate. However, there is a large variation between the SUCCESS-rates of the different EU Member States ranging from 16 % in the Netherlands in early 2009 up to 90 % in Finland in early 2011.

Figure 6: Share of SMEs applying for bank loans, 2009-2013

Notes: The weighted figures are representing the SMEs that responded positively to the question whether they had applied for a bank loan in the past 6 months or did not apply because of possible rejection as percentage of the SMEs that answered the question. The EU28 aggregates are weighted based on the SME population in the European Union. Moreover, the aggregates for 2009 and 2011 exclude Croatia. And for comparison purpose the “Don’t Know and No Answer” responses have been excluded.

Source: European Commission (2013), http://ec.europa.eu/enterprise/policies/finance/data/index_en.htm.

The demand for bank loans by SMEs (APPLY) has remained rather stable in the past few years (see Figure 6). In the EU, between 25 % and 30 % of the SMEs applied or wanted to

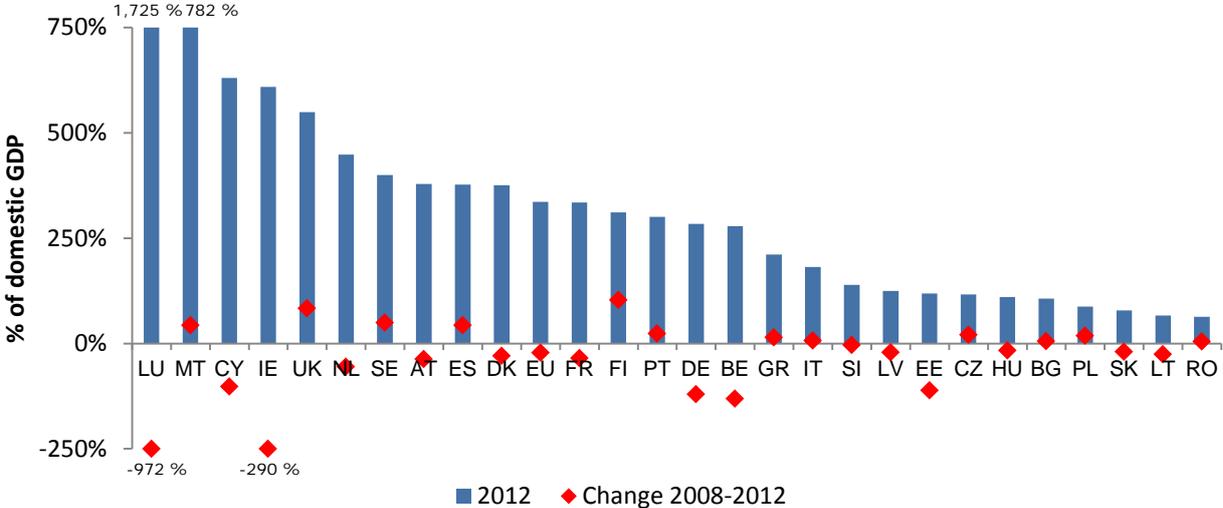
apply, on average, for a bank loan in the first six months preceding the surveys conducted in early 2009, 2011 and 2013. The application ranged from 10.9 % in Estonia (2011) and Latvia (2013) and 49.0% in Greece (2009).

The **bank data** is obtained from the **consolidated banking database (CBD)**⁸⁶ of the European Central Bank (ECB). The database provides aggregates and consolidated bank balance sheet and profitability statistics for the period since 2007. The figures were initially published annually and since 2011 semi-annually.

Most of the EU Member States have a sizable banking sector. The assets of the banking sectors in Luxembourg, Malta, Cyprus, Ireland and the United Kingdom were even more than five times the size of the economy at the end of 2012. Whilst only the banking sectors in Poland, Slovakia, Lithuania and Romania have less assets as compared to the size of their economy. The average size of the banking sectors in the EU Member States is just over three times of GDP (see Figure 7).

After the fall of Lehman Brothers in September 2008 the EU banking sectors' size has declined. The total banking assets have fallen 2.9 %, from EUR 44.8 trillion in 2008 to EUR 43.5 trillion in 2012. As a share of GDP, the average size has even declined by more than 20 %. Nevertheless there are still 12 Member States in which the banks' asset shares increased, including Greece, Portugal, Spain and United Kingdom where State aid amounts of more than 10 % of GDP were used.

Figure 7: Total bank assets as share of GDP, 2008-2012



Note: The dark blue bars show the total assets of the banking sector as share of domestic GDP in 2012. In turn, the markers in red show the change since 2008.

Source: European Central Bank (2013), <http://www.ecb.europa.eu/stats/money/consolidated/html/index.en.html>.

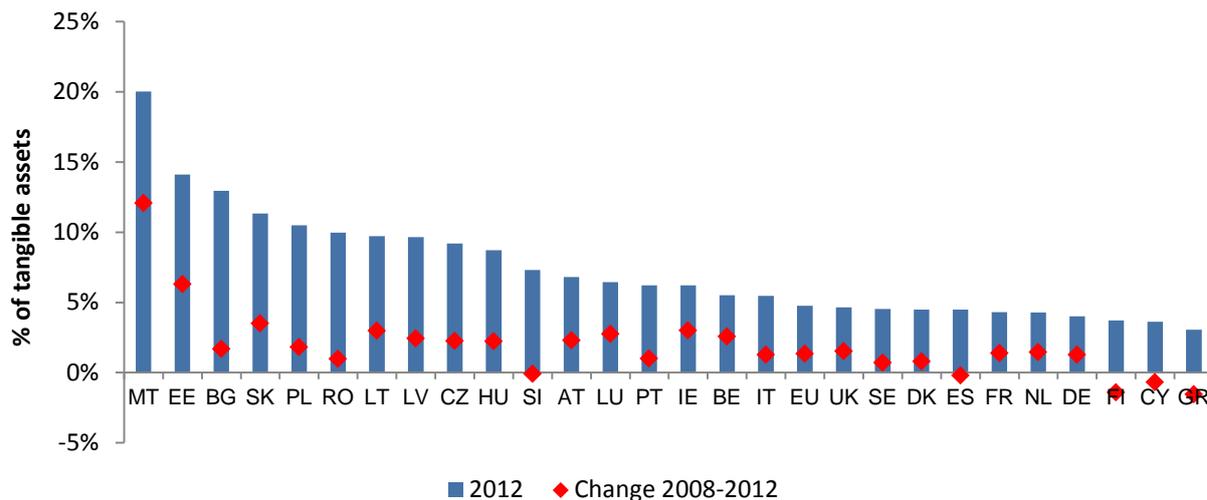
Turning to the development of bank capitalisation, the proxy used for the capital position in most Member States has improved substantially after 2008. The tangible equity ratio (CAPITAL)⁸⁷ increased between 2008 and 2012, on average 40 % from 3.4 % to 4.8 %. Besides due to the limited deleveraging and the substantial amounts of used State aid, the

⁸⁶ ECB, Consolidated Banking Data; <http://www.ecb.europa.eu/stats/money/consolidated/html/index.en.html>.

⁸⁷ Tangible equity ratio: Total equity minus intangible assets as share of total assets minus intangible assets.

capital position was further slightly improved by retained earnings and capital issuance (see Figure 8).

Figure 8: Tangible equity as share of total assets, 2008-2012



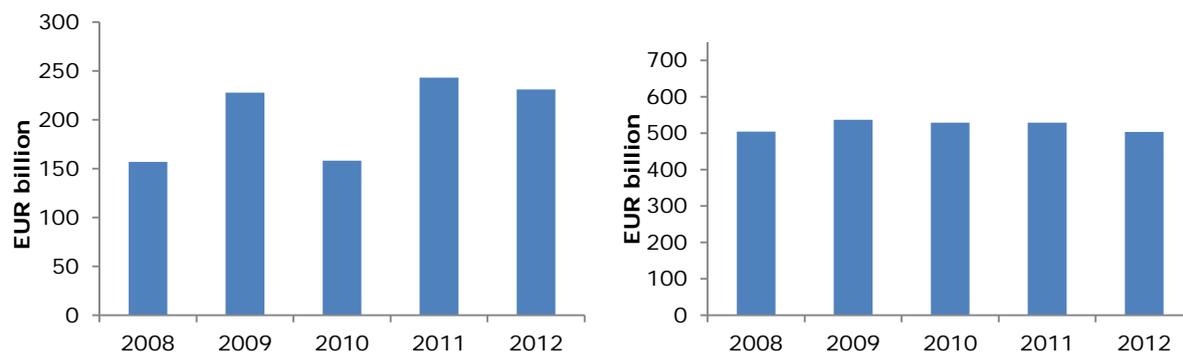
Note: The dark blue bars show the tangible equity of the banking sector as share of domestic GDP in 2012. In turn, the red markers show the change since 2008.

Source: European Central Bank (2013),

<http://www.ecb.europa.eu/stats/money/consolidated/html/index.en.html>.

The retained earnings were hampered by higher impairment losses, while the net interest- and commission income remained constant (RISK). The levels of impaired asset charges were substantially higher at the height of the 2007-2009 global financial crisis and euro area sovereign debt crisis (see Figure 9).

Figure 9: Total impairments and net interest income of EU27 banks, 2008-2012



Note: The total impairments are presented on the left-hand-side and net interest income on the right-hand-side.

Source: European Central Bank (2013),

<http://www.ecb.europa.eu/stats/money/consolidated/html/index.en.html>.

The data on **State aid** is obtained from the European Commission databases. Directorate General Competition publishes regularly the committed and used amounts of direct State aid in the EU. The subcategories further provide a distinction between different forms of State aid, i.e. re-capitalisation, asset relief, guarantees and other liquidity measures. The annual-statistics on the consequences on State aid cover the period from the burst of the financial crisis in Europe.

Table 2: State aid in the EU banking sector

Type of State aid	Committed aid (in EUR billion, % of EU 2012 GDP)	Effectively used (in EUR billion, % of EU 2012 GDP)	Effectively used as share of committed aid (%)
Capital measures (cumulative from 2008 to 2012)			
Re-capitalisation	777.3 (6.01 %)	413.2 (3.20 %)	53.16 %
Support for bad asset schemes	445.7 (3.45 %)	178.7 (1.38 %)	40.10 %
Liquidity measures (only for year 2009)			
Debt guarantee schemes	3,646.6 (28.21 %)	835.8 (7.08 %)	22.92 %
Liquidity support other than guarantees	216.3 (1.67 %)	70.1 (0.59 %)	32.41 %
Total	5,085.9 (39.34 %)	1,497.8 (12.25 %)	29.45 %

Note: For country specific data, see European Commission State aid Scoreboard 2013. The liquidity measures used are for end-2009 to avoid double counting due to roll-overs of guarantees. 2009 was the year in which most liquidity support was tapped. The figures do not include the revenues obtained by governments from these support schemes.

Source: European Commission (2013), http://ec.europa.eu/competition/state_aid/scoreboard/financial_economic_crisis_aid_en.html.

The EU Member States committed during the crisis in total EUR 5.1 trillion (39.3 % of EU GDP in 2012), of which EUR 1.5 trillion (12.25 % of GDP) has been effectively used (see Table 2). The largest share of the committed funds was granted for liquidity support (GUARANT). State guarantees on bank liabilities and other guarantees combined represented EUR 3.9 trillion (30 % of GDP) of the budgetary commitments by the end of 2009, of this amount EUR 0.9 trillion (7.7 % of GDP) has also been effectively used. In turn, the amount of committed capital support is substantially lower. The EU Member States committed in total EUR 1.2 trillion (9 % of GDP) for re-capitalisations and asset relief measures combined (RECAP) from 2008 up to 2012, of which almost EUR 0.6 trillion (5 % of GDP) has been effectively used.

The State aid was unequally divided across the 27 EU Member States (see Table 17 and Table 18 in the Annex). The Irish banks used both in absolute and relative terms most State aid. The used liquidity support to Irish banks amounted up to EUR 280 billion (174 % of Irish GDP) outstanding at the end of 2009. Other countries followed at some distance. Banks in Belgium, Cyprus, Denmark and the Netherlands used liquidity equivalent to up to between 10% and 66 % of national GDP. The Irish banks received in relative terms also most capital support (EUR 38 billion in 2010 or 25 % of GDP), while at the peak banks in Germany (EUR 58 billion in 2009), Spain (EUR 66 billion in 2012) and the United Kingdom

(EUR 47 billion in 2009) received more capital support in absolute terms. In relative terms also banks in Cyprus, Greece and Luxembourg used capital support for amounts equivalent up to more than 5 % of GDP. In turn, there were also seven countries in which banks did neither use liquidity nor capital support⁸⁸, while in Finland there was (almost) no liquidity support drawn and in Lithuania no capital support used.

The annual **SME loan guarantees** data is obtained from the European Mutual Guarantee Association (AECM). The figures in Annex Table 16 on guarantees used in the EU shows that between 2007 and 2012, on average, EUR 26 billion in counter-, co- and guarantees were granted through national guarantee schemes (SMEGUAR). Though, during the period from 2009 to 2011 substantially more guarantees were granted than in the other years, especially in Belgium, Czech Republic, Estonia, France, Greece, Portugal and Slovenia more guarantees were granted. The SME guarantees are mostly granted in Italy and France that represent about 70 % of all guaranteed loans. However, the total amounts of guarantees are very modest in comparison with bank exposures to SMEs. The total outstanding guaranteed loans amounted EUR 75 billion⁸⁹ at the end of 2012, while the total exposure of 63 of the largest EU banks to SMEs alone was already more than 28 times as large (EUR 2,150 billion).⁹⁰

Table 3 provides the descriptive statistics on the variables used in the analysis. Besides the dependent and independent variables described above it also contains real GDP growth, which on average has been positive in the assessed period.

Table 3: Description Member State level database

Variable	Mean	Standard Deviation	Min	Max	Observations
SUCCESS	0.4969	0.1900	0.1373	0.8971	103
RISK	0.5090	0.6563	-0.3913	3.9653	97
CAPITAL	0.0601	0.0258	-0.0133	0.1375	99
APPLY	0.2736	0.0834	0.1089	0.4794	103
RECAP	0.0060	0.0159	0.0000	0.0914	99
GUARANT	0.0324	0.0579	0.0000	0.2989	99

⁸⁸ Banks in Bulgaria, Czech Republic, Estonia, Malta, Poland, Romania and Slovakia did no use State aid facilities.

⁸⁹ Aggregate amount of loan guarantees/counter-guarantees outstanding in the EU at the end of the year based on AECM (2013)- figures. The guarantees are assumed to be zero when the country was excluded in the AECM-list.

⁹⁰ The European Banking Authority included all exposures to SMEs by the largest banks in the EU in December 2013 for the first time in its annual EU-wide transparency exercise. The banks included in the exercise cover together at least 50 % of the banking assets in each of the European Economic Area-countries.

<http://www.eba.europa.eu/risk-analysis-and-data/eu-wide-transparency-exercise>

SMEGUAR	0.0072	0.0250	0.0000	0.1907	99
GDP	0.0139	0.0158	-0.0294	0.0701	103

Source: European Central Bank, European Commission and AECM. Calculations Ayadi et al, CEPS (2014).

Some of the independent variables are highly correlated. The correlation matrix presented in Table 4 shows, for instance, that the two broad categories of State aid recognised in this study are strongly correlated. Hence, the correlation between total guarantees and other liquidity measures (GUARANT) and total recapitalisation and asset relief measures (RECAP) is around 60 %. This indicates that ailing banks with low levels of capital often have difficulties in obtaining funding, while banks with liquidity problems do not necessarily require a State funded recapitalisation (see Table 17 and Table 18). Moreover, there is also a strong correlation between State guarantees and impairment costs (RISK).

Table 4: Correlation matrix Member State level variables

Variable	SUCCESS	RISK	CAPITAL	APPLY	RECAP	GUARANT	SMEGUAR	GDP
SUCCESS	1.000	..	..	..	..	..	..	..
RISK	-0.483	1.000	..	..	..	..	..	..
CAPITAL	-0.119	-0.272	1.000	..	..	..	..	..
APPLY	-0.129	0.412	-0.442	1.000	..	..	..	..
RECAP	-0.380	0.417	-0.152	0.176	1.000	..	..	..
GUARANT	-0.479	0.673	-0.151	0.214	0.571	1.000	..	..
SMEGUAR	-0.115	-0.135	0.385	-0.236	-0.092	-0.127	1.000	..
GDP	0.288	-0.355	0.313	-0.333	-0.433	-0.268	0.187	1.000

Note: The figures are in **bold** when the correlation is above 0.500.

For country specific data, see European Commission State aid Scoreboard 2013, http://ec.europa.eu/competition/state_aid/scoreboard/financial_economic_crisis_aid_en.html.

Source: European Central Bank, European Commission and AECM. Calculations Ayadi et al, CEPS (2014).

3.1.3 Findings

The results for the Member State level panel-regressions are presented in Table 5. Column 1 shows the result including all variables in the regression and columns 2 till 8 show the results with the individual independent variables⁹¹. The findings are based on GMM

⁹¹ The variables are described in the Annex in Table 10.

estimations on 103 semi-annual observations for 27 EU Member States in the period from 2009 to 2013.

Main results. The results show that the post-financial crisis bank loan intermediation to SMEs fell behind in countries in which the financial sector used relatively more State aid. Hence, both the capital- (**RECAP**) and liquidity support (**GUARANT**) have a negative relation with successful bank loan intermediation. The results are significant at 1 % level and support the hypothesis that Member States with ailing banking sectors have more problems in bank loan intermediation. Though, the results on capital support in the combined regression are not significant, which might be the outcome of the relatively high correlation between the two State aid indicators.

Turning to the State aid and other government intervention indicator, the results on credit guarantees on SME loans (**SMEGUAR**) suggest that these did not lead to better bank loan intermediation towards SMEs. The relation between credit guarantees in both the individual and combined regressions is negative and significant from zero at 5 % level. However, this finding should be treated with extra care. Credit guarantees under national schemes are relatively limited and concentrated in just a few countries (e.g. France and Italy). Moreover, the finding is based on a proxy that does also include guarantees on loans to non-SMEs and guarantees granted by international institutions.

Regarding banks indicators, the results suggest that higher risk costs (**RISK**) have a negative impact on successful loan intermediation. The result is significant at a 1 % level both for the combined and individual estimations. Hence, this supports the conventional wisdom that the more risk materialises, the less willing banks are to provide loans. The result provides some evidence that banking sectors with higher tangible equity ratios (**CAPITAL**) are less likely to provide loans, although this is counter-intuitive, the result can be explained by the external broad negative conditions of the financial markets during the crisis, which confirm the funding disruption to the real economy.

Turning to the demand side, the willingness of SMEs to obtain a bank loan (**APPLY**) does have a negative impact on successful bank loan intermediation, but is not significant at 10 % level. In turn, real economic growth (GDP) contributes to bank loan intermediation. This result is significant from zero at 5 % in the combined estimation and 1 % in the individual estimation.

Limitations of analysis. The Member State level quantitative analysis contributes to the overall analysis, but need to be treated with care. The number of observations is still limited and the time-span covered relatively short, which makes the results less robust. Although the dependent variable successful bank loan intermediation was tailored to SMEs, the riskiness of bank loan portfolios is not. More information on the quality of the applications as well as the possibility to offset the risk (e.g. credit guarantee, etc.) would also allow to control for the quality of the applications.

In addition, the explanatory power of the analysis is somewhat limited. The R-square varies between 0.01 for the regression with only the share of SMEs applying for a bank loan (**APPLY**) as independent variable and 0.39 for the complete model. A potential explanation might be the limited available data. The SAFE-surveys are only available since 2009 and the number of Member States for which the results are disclosed separately has increased over time. Moreover, the surveys do not provide much information on the quality of the application, motivation for the rejections as well as the purpose of the loan.

Table 5: Results Member State level estimations

	Variables	1	2	3	4	5	6	7	8
		Dependent variable: SUCCESS							
Banks	RISK	-0.092***	-0.141***	..	..	..	..	..	..
	CAPITAL	-1.992***	..	-0.826	..	..	..	..	..
SMEs	APPLY	-0.063	..	..	-0.241	..	..	..	..
Governments	RECAP	-1.178	..	..	..	-4.491***	..	..	..
	GUARANT	-0.712***	..	..	..	..	-1.563***	..	..
	SMEGUAR	-0.986**	..	..	..	..	..	-0.848**	..
Others	GDP	2.166**	..	..	..	..	..	..	3.327***
	CONSTANT	0.686***	0.568***	0.543***	0.563***	0.520***	0.544***	0.500***	0.451***
Observations		97	97	99	103	99	99	99	103
Groups		26	26	27	27	27	27	27	27
R ²		0.393	0.233	0.012	0.011	0.139	0.223	0.012	0.077

Note: ***, **, * represent significance at 1 %, 5 % and 10 % levels respectively.

Source: European Central Bank, European Commission and AECM. Calculations Ayadi et al (2014), CEPS.

3.2 Bank level quantitative analysis

The bank level analysis aims to explain the consequence of **conditionality** to State aid on bank lending to SMEs. The data to explain the loan growth includes Member State level -, bank specific- and State aid indicators.

3.2.1 Model

For the purpose of the bank level quantitative analysis, the increase in **net customer loans** is computed (see Figure 10). This variable that also includes other loans to non-financial corporations and households is used as the **dependent variable** since there is barely any bank-specific data on lending to SMEs publically available. Hence, the results might be influenced by a change in composition of the loan portfolio of the banks in the sample. The Macro-economic data for the sample period suggest that the share of corporate loans as share of total loans has decreased since November 2008.⁹²

The model to explain net loan growth and which analyses the effects of conditionality is based on the baseline model in Brei et al (2011) to assess the impact of rescue packages on bank lending in fourteen countries around the globe. The baseline model explains loan growth by loan growth in the past year (**LOANGRTH(T-1)**), macroeconomic- and bank specific- independent variables. For this analysis the baseline model is extended with restructuring indicators to test the impact of conditions included in the restructuring plans. These conditions-indicators are based on the channels identified in the qualitative analysis as discussed in section 1.2.

The first group of indicators relates to **macroeconomic developments**, which are measured by the real economic growth in previous year (**GDP(T-1)**), the development in funding costs proxied by the change in the 3 month Euribor interbank-rate in the previous year (**IBRTCH(T-1)**), and the expansion of monetary policy proxied by growth rate of national central bank assets as share of GDP (**CBASSGDP**).

The second group include **bank specific** indicators on the size of the bank proxied by the logarithm of the banks' assets at the end of the previous year (**SIZE(T-1)**), the liquidity buffers proxied by cash and loans to other banks as share of total assets in previous year (**LIQUIDITY(T-1)**), the capital position of the bank proxied by the regulatory capital ratio (**REGCAP(T-1)**) and the square of the ratio (**REGCAPSQR(T-1)**) at the end of the previous year, and the dependence on market funding proxied by total liabilities minus customer loans as share of total assets in the previous year (**MRKTFUND(T-1)**). Since all banks in the sample applied the IFRS accounting standards, the dummy for accounting standards in the baseline model in Brei et al (2011) was omitted from the analysis.

The third group of indicators are related to the **restructuring** of the aided banks. The restructuring variables are more extensive than the variables in Brei et al (2011) to be able to analyse the **impact of conditionality** on bank lending. Besides the dummy variable on whether a bank received **State aid** in the form of re-capitalisation and/or asset relief measure (**RESTRUCT**) and government has obtained the control of the bank during the crises (**NATIONAL**), which is a decomposition of the rescue dummy in Brei et al (2011). The **conditions** that the banks had to fulfil in exchange for the State aid is captured in five dummy variables. The restructuring of the activities is proxied by the dummy variable on banks that are in liquidation or being resolved (**LIQUIDATION**), while the more **specific**

⁹² ECB figures "2.1 Loans and deposits by sector", http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&sf13=4&BS_ITEM=A20&sf14=3&DATA_TYPE=1&sf15=3&BS_SUFFIX=E&node=bbn3155

conditions on lending in general and SMEs in particular are captured by dummy variables that indicate whether banks had to maintain a minimum lending level in general (**GENLOANTGT**), a minimum lending level to SMEs (**SMELOANTGT**), respect a price leadership ban (**GENPRIBAN**), and respect a price leadership ban on SME products (**SMEPRIBAN**).

The model is completed with **country dummies** that account for the differences in institutions across countries, these include, for example, differences in accounting standards, tax, and regulation.

These indicators are computed for 122 large banking groups domiciled in the 27 EU Members States. The variables used in the bank level analysis are summarised in Annex Table 20.

To accommodate exchange rate changes, the loan growth (**LOANGRTH**) and other financial statistics have been calibrated using the reporting currencies. In addition, to adjust the bank data for mergers, acquisitions and splits *'pro forma'* accounts have been composed based on the composition of the banking groups in 2012. Hence, the analysis is performed on the group structure as of 2012. This is in line with the approach of Brei et al (2011).

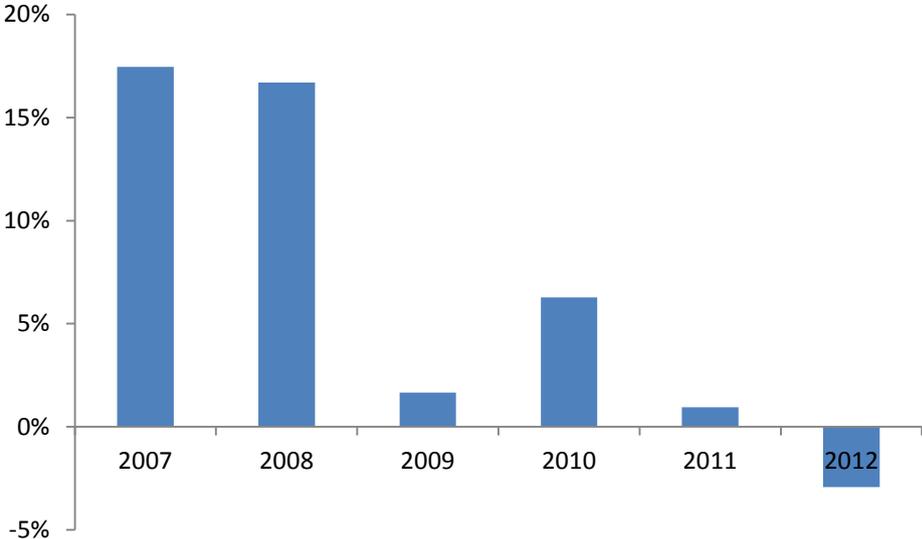
The methodology uses the Generalised Method of Moments (**GMM**) which accommodates the analysis under a dynamic panel-data model.

3.2.2 Data

The database contains 798 bank-year observations for 122 large banking groups, of which some have been dropped for this analysis. Hence, the loan growth variable is calibrated based on two bank-year observations and explained by loan growth in the previous period three years of observations are required for a single observation in the statistical analysis. Moreover, some banks are dropped due to insufficient observations. Ultimately, 650 bank-year observations resulting in 444 observations to estimate the bank-level model.

Net customer loan growth. The average customer loan growth (**LOANGRTH**) decreased sharply after the fall of Lehman Brothers in September 2008, from double digit growth figures in 2007 and 2008 to growth rates – on average - between -2.9 % and 6.3 % in the period from 2009 to 2012. Over the whole sample-period, from 2006 to 2012, the customer loans of the banks in the sample grew 6.5 % per year.

Figure 10: Average growth rate of net customer loans, 2007-2012



Note: The figure shows the unweighted average of the y-o-y net customer loan growth between 2007 and 2012.

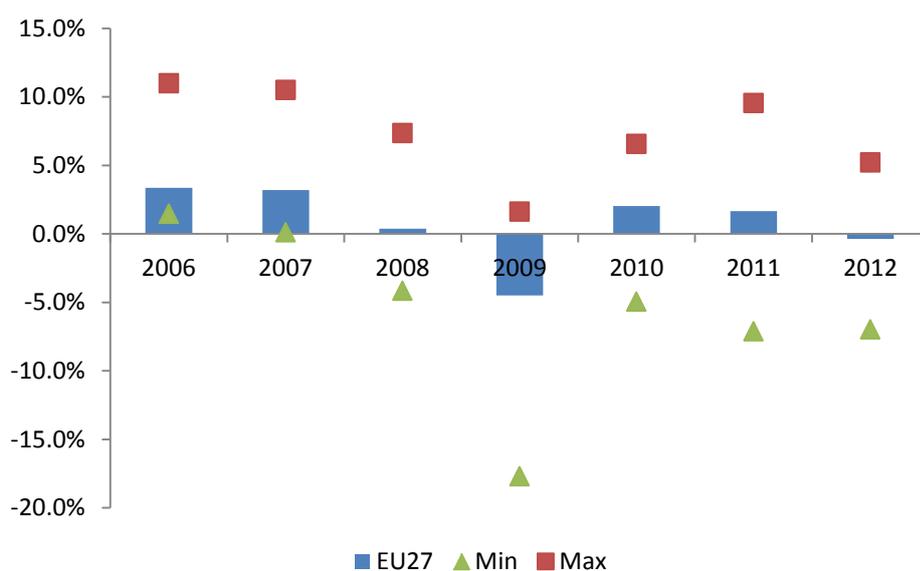
Source: CEPS-FIPP banking database (2014).

However, there is a large variation between the loan growth rates of the different banks and years, as expressed by the minimum of minus 90 % and high maximum of 398 % loan growth in a single year. These extreme values and other large increases or decreases are only apparent in banks with small customer loan portfolios with short maturities and banks that are being liquidated.

Macroeconomic Indicators.

Real economic growth. During the financial- and economic crises the average real economic growth (**GDP**) in the European Union has dropped significantly and even turned negative in 2009 and after a slight recovery in 2010 and 2011, and the economy declined again in 2012 (see Figure 11).

Figure 11: Real economic growth EU27, 2006-2012



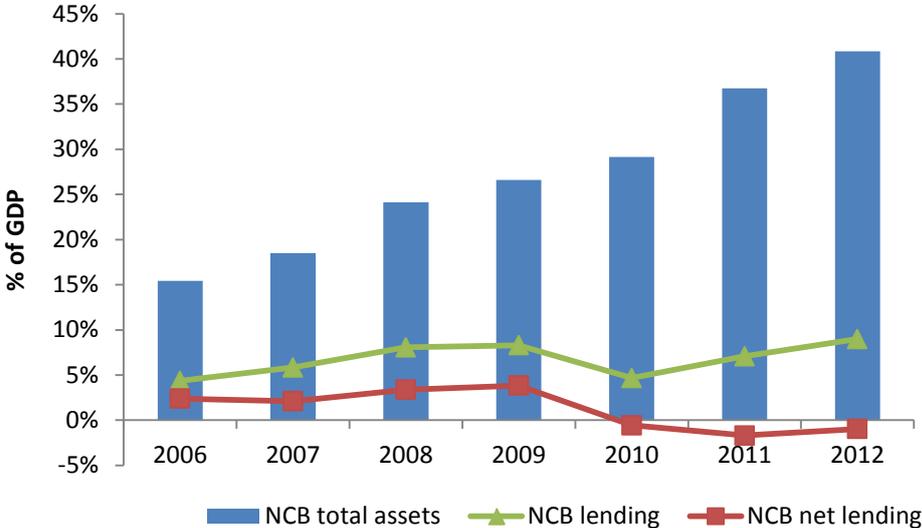
Source: Ameco (2014).

But there are large differences between Member States. Hence, in the two years before the collapse of Lehman Brothers in 2008 all 27 Member States posted positive real economic growth varying between 0.1 % in Hungary (2007) and 11.0 % in Latvia (2006). Thereafter, the annual real economic growth varied between negative 17.7 % in Latvia (2009) and 9.6 % in Estonia (2011).

National Central Banks total assets. Central banks in the European Union have been providing large amounts of liquidity to the banking sectors as well as supporting the inter-bank markets. Hence, the 22 national central banks of the banking groups which are accounted for in the CEPS-FIPP banking database increased their total assets from EUR 1.8 trillion in 2006 to EUR 5.3 trillion in 2012, equivalent to 41 % of the aggregate GDP (**CBASSGDP** – see Figure 12). The larger amount of assets reflects the massive liquidity support to the banking sectors (e.g. loans, Emergency liquidity assistance (ELA) and asset purchases), but also use other monetary instruments. The lending to banks by the central banks increased during the financial crisis from 4.4 % in 2006 to 8.3 % of GDP in 2009, netted for deposits storage at the central banks their direct liquidity support to banks increased during the same period from 2.4 % to 3.8 % of GDP. Thereafter, during the euro area sovereign debt crisis the central banks in the monetary union became primarily an intermediary between banks in countries with strong fiscal balances and those with weak

fiscal balances. In the period between 2010 and 2012, central banks have - at net and aggregated bases – even extracted funds from the banking sectors. The intermediary function of the euro area central banks was reflected in a large variance between banking sectors. The central banks in countries like Cyprus, Greece, Ireland, Spain and Portugal provided net loans up to 76 % of domestic GDP, while central banks in countries like Finland, Luxembourg and the Netherlands received net deposits up to 110 % of domestic GDP.

Figure 12: National Central Banks total assets, lending and net lending, 2006-2012

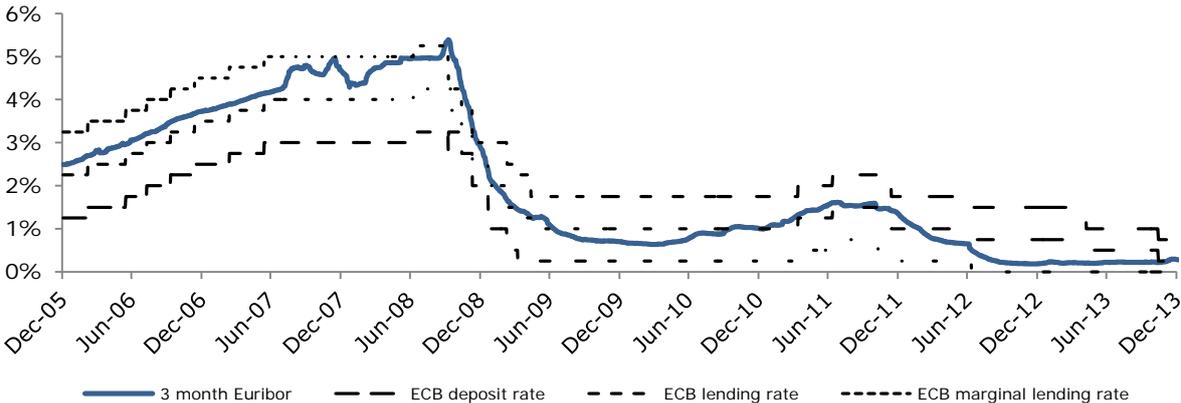


Note: The presented figures are aggregates for the 22 home-country national central banks of the banks included in the CEPS-FIPP banking database.

Source: Annual reports of 22 National Central Banks (2013). Calculations Ayadi et al, CEPS (2014).

Central bank’s policies are also important factors for the determinants of the **costs of bank loans**. The interest rates of many bank loans in Europe are often based on interbank rates plus a mark-up. The inter-bank rates tend to follow the monetary policy rates, which provide under normal circumstances a bandwidth. The 3 month EURIBOR (Euro Interbank Offered Rate), for instance, follows the decisions of the Eurosystem, which decreased the policy rates during the crises (IBRTCH – see Figure 13). The marginal lending rate forms the upper-bound and the deposit rate the lower bound. The shortage in liquidity during the financial crisis is reflected in interbank rates in the higher range of the bandwidth, while the excess liquidity during the sovereign debt crisis led to rates closer to the deposit rate.

Figure 13: 3 month Euribor rate, 2006-2013



Source: European Central Bank and European Banking Federation (2014). Calculations Ayadi et al, CEPS (2014).

Bank Specific Indicators. The banking data are based on an extensive private dataset gathered under the CEPS-FIPP initiative of Monitoring Bank Business Models in the EU.⁹³ The dataset used for this study contains statistics for 122 large banking groups domiciled in the European Union that have been subject to at least one of the European Banking Authority stress tests, capital exercise or transparency exercises conducted between 2010 and 2013 and/or are subject to the asset quality review conducted by the European Central Bank prior to the establishment of the Single Supervisory Mechanism (SSM). The statistics in the database cover the period from 2006 to 2012.

State aid and restructuring Indicators. The State aid and intervention data relevant to the banks in the banking database has been extracted from the decisions texts on State aid cases by the European Commission. Table 6 shows an overview of the main State aid and restructuring related characteristics of the banks in the sample. In total 41 of the 122 large banking groups were in 61 bank-years re-capitalised and/or resolved assets under an asset relief measure in the period from 2007 to 2012 (RESTRUCT). About half of these banks obtained their support in a single year while the others were rescued across two or three years. In 14 of the rescued banks the government gained full control after the bail-out (NATIONAL).

Turning to conditionality to the State aid, most of the aided banks had to respect certain conditions included in the restructuring plans for obtaining the aid. Two banks in the sample even had to be resolved completely (LIQUIDATION), while others had to abide by provisions in the restructuring plans, for instance, to restructure activities or to respect bans on acquisitions, coupon-, dividend- and bonus payments. The restructuring plans in some cases also included conditions to promote lending or prevent distortion of competition in lending markets. Of the banks in the sample seven banks had to grant a minimum amount of loans as one of the conditions for obtaining State aid (GENLOANTGT). And three of these banks had also to lend a specified minimum amount to SMEs (SMELOANTGT). Moreover, some of the banks were restricted in their pricing policies. Hence, four banks in the sample were not allowed to be price leader in certain markets (GENPRIBAN) and in three cases this also included standard products for SMEs (SMEPRIBAN).

⁹³ The CEPS-FIPP banking database has been used for some of the institute featured publications in recent years. Ayadi et al, 2011, 2012 and 2014 (forthcoming). This annually updated dataset covers the years 2006 up to 2012 and has been designed to contribute to policy-oriented research, focusing on metrics like ownership attributes, regulatory capital ratios, leverage ratios, balance sheet structure and performance (financial and economic, including risk, performance, efficiency and lending to the private sector) indicators. Moreover, it contains data on governance related topics like executive compensation and data on whether or not a bank has benefited from State aid. A general descriptive of the CEPS-FIPP banking database can be found in Annex Table 19.

Table 6: SME related conditions in restructuring plans for EBA and SSM banks

Variable	2006	2007	2008	2009	2010	2011	2012
Banks that obtained State aid (recapitalisation and/or asset relief measures) (base for RESTRUCT)	0	1	11	18	7	11	13
Banks nationalised (base for NATIONAL)	0	0	2	1	2	3	6
Aided banks in liquidation or resolution (LIQUIDATION)	0	0	0	2	2	2	2
Aided banks with general lending target following restructuring plan or national scheme (GENLOANTGT)	0	0	5	6	7	7	5
Aided banks with SME lending target following restructuring plan or national scheme (SMELOANTGT)	0	0	2	3	3	3	1
Aided banks with general price leadership ban following restructuring plan (GENPRIBAN)	0	0	0	2	3	3	3
Aided banks with price leadership ban on SME products following restructuring plan (SMEPRIBAN)	0	0	0	2	3	3	2
Nr of banks included by year	108	112	112	112	118	119	117

Source: European Commission and CEPS-FIPP Banking database (2014). Analysis Ayadi et al, CEPS (2014).

Note: Large banking groups included that have been subject to at least one of the European Banking Authority stress tests, capital exercise or transparency exercises conducted between 2010 and (EBA banks) 2013 and/or are subject to the asset quality review conducted by the European Central Bank prior to the establishment of the Single Supervisory Mechanism (SSM banks).

Table 7 provides the descriptive statistics on all the variables used in the analysis. Besides the dependent and independent variables described above it also contains real GDP growth (GDP), which on average has been positive in the assessed period despite the inclusion of the crisis years. And the different banking variables show a large variance. The total assets of the banks included as logarithm in the baseline model (SIZE), for instance, vary between EUR 299 million and EUR 2.5 trillion. On average, each of the banks in the sample has EUR 277 billion total assets. The share of liquid assets of total assets (LIQUIDITY) varies between 0.5% and 98%, while on average the banks held 14% of their assets as cash or loans to banks at the end of the year. Over half of the total assets were, on average, funded through market funding (MRKTFUND), with the share of banks' activities being up funded by neither customer deposits nor equity varying between 4% and 97%. The regulatory capital ratio was, on average, 14.8 % almost twice the minimum of 8 % total

capital ratio under the Basel capital accords implementations in the EU⁹⁴. However, also the variance of this indicator is high, the share of regulatory capital as share of risk weighted assets varied between minus 6.1 % and 227.8 %.

Table 7: Description bank level database

Variable	Mean	Standard Deviation	Min	Max	Observations
LOANGRTH	0.0649	0.2607	-0.9054	3.9893	675
GDP	0.0160	0.0255	-0.1583	0.1963	798
IBRTCH	-0.0023	0.0145	-0.0343	0.0120	798
CBASSGDP	0.2198	0.3406	-0.5592	1.9102	690
SIZE	11.4689	1.5756	5.7021	14.7678	798
LIQUIDITY	0.1408	0.1464	0.0050	0.9834	797
REGCAP	0.1477	0.1298	-0.0610	2.2778	632
MRKTFUND	0.5397	0.2302	0.0437	0.9656	786
RESTRUCT	0.3170	0.4656	0.0000	1.0000	798
NATIONAL	0.0351	0.1841	0.0000	1.0000	798
LIQUIDATION	0.0100	0.0997	0.0000	1.0000	798
GENLOANTGT	0.0363	0.1873	0.0000	1.0000	798
SMELOANTGT	0.0150	0.1218	0.0000	1.0000	798
GENPRIBAN	0.0113	0.1057	0.0000	1.0000	798
SMEPRIBAN	0.0100	0.0997	0.0000	1.0000	798

Source: CEPS, European Banking Federation, European Commission and EU Central Banks. Calculations Ayadi et al, CEPS (2014).

None of the independent variables in the baseline model are strongly correlated. The correlation matrix presented in Table 8 shows, for instance, that there is no correlation between these independent variables above 33 %. Whilst of the restructuring indicators only the dummy variables that indicate whether banks have to respect a general

⁹⁴ Article 501, OJ L 176 of 27.6.2013.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:FULL:EN:PDF>

(GENLOANTGT) and/or SME lending target (SMELOANTGT) is highly correlated. The correlation is around 60 %. Hence, the banks in the sample that had a specified minimum lending to SMEs obligation had also specified lending target to other customers.

Table 8: Correlation matrix bank level variables

Variable	LOANGRTH	GDP	IBRTCH	CBASSGDP	SIZE	LIQUIDITY	REGCAP	MRKTFUND
LOANGRTH	1.000	..	..	..	..	..	..	..
GDP	0.072	1.000	..	..	..	..	..	..
IBRTCH	0.183	0.258	1.000	..	..	..	..	..
CBASSGDP	0.026	-0.312	0.149	1.000	..	..	..	..
SIZE	-0.056	-0.091	0.011	0.124	1.000	..	..	..
LIQUIDITY	0.199	0.079	0.008	-0.104	-0.196	1.000	..	..
REGCAP	-0.086	0.018	-0.041	-0.029	-0.070	0.052	1.000	..
MRKTFUND	0.020	-0.036	0.038	-0.014	0.325	0.179	0.176	1.000

Note: The figures are in **bold** when the correlation is above 0.500.

Source: CEPS, European Banking Federation, European Commission and EU Central Banks. Calculations Ayadi et al, CEPS (2014).

3.2.3 Findings

The results for the bank level panel regressions estimating the baseline model plus restructuring indicators are presented in Table 9. The findings are based on GMM estimations on 444 observations (i.e. using 650 bank-year observations) for 102 large EU banking groups accounted for mergers and acquisitions⁹⁵ in 21 EU Member States in the period from 2006 to 2012.

Main results. The results suggest that conditionality can, depending on the specific condition, have a significant impact on the lending activities of banks, but that they do not contribute to more lending. The analysis focuses on conditions both on the relative **price** levels and lending **volumes**, which are the two channels to directly influence lending to SMEs. Hence, the banks that had to abide to minimum SME-lending targets (SMELOANTGT) posted lower growth in total customer loans than banks that did not have to full-fill any lending target or for which maximum targets are applied. The results are significant from zero at 5 % level in the individual regression, while in the combined regression the result is not significantly different. The results for banks that had to comply with general lending

⁹⁵ The database covered 122 EU banking groups accounted for mergers and acquisitions, of which 20 were dropped because of insufficient consecutive bank-year observations. Hence, in order to estimate the model at least three consecutive years of outstanding customer loan are required.

targets (GENLOANTGT) are ambiguous and not significant. On an individual basis the parameter is negative, while combined with the other restructuring indicators slightly positive. Moreover, the banks that were not allowed to be price leader in standard products in general (GENPRIBAN) quoted lower loan growth rates. While the banks with price-leadership bans in SMEs products (SMEPRIBAN) also posted lower loan growth at individual basis, but no growth in the combined estimate. All results on the price leadership ban are not significant at 10 % level. Hence, the lending targets and price-leadership bans have each only been used in a handful of cases, which leads to less robust results. The dummies combined also only add four percentage points to the explanatory power of the baseline model, which explains 17 % of the total variance.

The other more general indicators on restructuring support the findings in the Member State level quantitative analysis that the State aided banking sectors have worsened SME bank loan intermediation. Hence, banks that received State aid in the form of capital measures (RESTRUCT) during the 2007-2009 Global financial and 2010-2012 euro area sovereign debt crisis posted significant lower loan growth than banks that did not receive State aid or only liquidity support. Moreover, the banks that were resolved or liquidated (LIQUIDATION) posted lower loan growth after receiving State aid, significant at 5 % level. In addition, banks of which governments obtained control (NATIONAL) during the crises years quoted lower loan growth. Though, the result is only significant from zero for the individual estimate at 1 % level and not significant for the combined estimate.

Regarding the results on the baseline model, the results suggest that banks with more liquid funds (LIQUIDITY), and less market funding (MRKTFUND) quoted relatively higher loan growth. The results on regulatory capital are more ambiguous. Higher capital levels lead to lower loan growth (REGCAP), except for relative extreme levels of capital that benefit from the diminishing increase to scale (REGCAPSQR). The results are not conclusive with none of the parameters significant from zero in all the estimates. The bank-specific indicators also show that banks with higher total assets (SIZE) – on average - reported significantly lower loan growth. And the turbulence in the banking sector reflected also in a, significant at 10 %, negative relation between the loan growth in the previous period and loan growth.

Finally, most of the **macroeconomic indicators** have the expected signs. Economic prosperity proxied by real GDP growth (GDP) as well as liquidity provisioning by central banks (CBASSGDP) contributes to significant higher loan growth. Albeit not significant, the change of the inter-bank interest rate (IBRTCH) has a positive impact on loan growth. The counterintuitive sign might be the consequence of the Eurosystems' aim to stabilise the financial markets as discussed in section 3.2.2. Hence, the inter-bank interest rates tends to follow the monetary policy rates, which were decreased at the moment that the market was most stressed, i.e. financial and the sovereign debt crises. Moreover, the decrease in cheaper inter-bank funding was only partially translated in lower interest rates on loans, with the interest rates on smaller loans of up to EUR 1 million decreasing less than the larger loans (see Annex Figure 16 and Figure 17).

Limitations of analysis. The bank level analysis contributes to the overall analysis, albeit limitations should be taken into account when the results are applied. There is barely any bank-specific data on exposures to SMEs in the EU. An exception is the data of the European Banking Authority that has reported data on defaulted and non-defaulted exposures to SMEs of the largest and most systemic banks in Europe in both 2010 and

2013.⁹⁶ The limited number of observations at a certain point in time and over time, as well as the change in categorisation have made it difficult to use this data to construct the dependent variable. Though, it can provide an indication of the relevance of using customer loans as proxy for SME bank loans. When the total defaulted and non-defaulted exposures are compared to the customer loan data used for the bank level analysis, the share of SME exposure in customer loans varies between 0 % and 68 % for the banks that were participating in the EBA transparency exercise in 2013, while on average 17 % of the customer loans were exposures to SMEs. This implies that the growth or decline in loans to other types of customers has, on average, a four times larger impact on the growth of the overall customer loans than SME loans. The current publicly available data does not allow to control whether the SME loan growth is different than the growth of non-SME loans using the public available data. More detailed data on bank loans to SMEs reported at regular points in time would contribute to a more robust analysis.

⁹⁶ See the results of the EBA EU-wide stress testing 2010 (<https://www.eba.europa.eu/risk-analysis-and-data/eu-wide-stress-testing/2010>) and the EBA EU-wide transparency exercise 2013 (<https://www.eba.europa.eu/risk-analysis-and-data/eu-wide-transparency-exercise>).

Table 9: Results bank level estimations

Variables		1	2 - BASELINE	3	4	5	6	7	8	9	10
Dependent variable: Customer loan growth											
Macro	LOANRTH (T-1)	-0.26**	-0.22*	-0.25**	-0.24*	-0.24*	-0.23*	-0.22*	-0.22*	-0.22*	-0.22*
	GDP (T-1)	..	0.66***	0.64***	0.66***	0.60***	0.67***	0.65***	0.64***	0.66***	0.66***
	IBRTCH (T-1)	..	0.08	0.16	0.16	0.25	0.04	0.08	0.07	0.08	0.07
	CBASSGDP	..	0.06***	0.06***	0.06***	0.05***	0.06***	0.06***	0.06***	0.06***	0.06***
Banks	SIZE (T-1)	-0.02**	-0.02***	-0.02*	-0.02**	-0.02***	-0.02***	-0.02***	-0.02***	-0.02***	-0.02***
	LIQUIDITY (T-1)	0.79**	0.84*	0.71	0.75*	0.82*	0.77*	0.84*	0.84*	0.84*	0.84*
	REGCAP (T-1)	0.50	-0.15	0.04	-0.12	-0.14	0.04	-0.15	-0.16	-0.13	-0.14
	REGCAPSQR (T-1)	-0.25	0.35	0.17	0.30	0.36	0.19	0.36	0.37	0.32	0.34
	MRKTFUND (T-1)	-0.07	-0.05	-0.02	-0.06	-0.03	-0.01	-0.05	-0.05	-0.06	-0.06
Governments	RESTRUCT	..	..	-0.07***	-0.10***	..	..	..	..	..	..
	NATIONAL	..	..	-0.04	..	-0.13***	..	..	..	..	..
	LIQUIDATION	..	..	-0.27**	..	..	-0.32***	..	..	..	..
	GENLOANTGT	..	..	0.02	..	..	..	-0.02	..	..	..
	SMELOANTGT	..	..	-0.05	..	..	..	..	-0.07**	..	..
	GENPRIBAN	..	..	-0.05	..	..	..	..	..	-0.09	..
	SMEPRIBAN	..	..	0.00	..	..	..	..	..	..	-0.05
Others	CONSTANT	0.02	0.13	0.09	0.14	0.11	0.07	0.11	0.12	0.12	0.12
	Time dummies	Yes	No	No	No	No	No	No	No	No	No
	Country dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	444	444	444	444	444	444	444	444	444	444	444
R ²	0.23	0.17	0.21	0.19	0.18	0.20	0.17	0.17	0.17	0.18	0.17

Note: ***, **, * represent significance at 1 %, 5 % and 10 % levels respectively.

Source: European Central Bank, European Commission and AECM. Calculations Ayadi et al (2014), CEPS.

4. CONCLUSIONS AND POLICY RECOMMENDATIONS

KEY FINDINGS

- Lending to SMEs can be legally justified as a condition to State aid.
- Better SME bank loan intermediation in countries where less State aid has been used.
- More data on bank loans to SMEs and implementation of restructuring plans are needed for more robust analysis.
- No evidence that conditionality between State aid and financing of SMEs has contributed to higher levels of bank lending to SMEs.

The objective of this study was to assess whether and how conditionality linked to State aid decisions involving banks was used or could be used effectively to support lending to SMEs.

Several measures have tried to alleviate the funding constraints to SMEs lending by banks. The new capital requirements regulation (CRR) 2012/648/EU⁹⁷ introduced a preferential risk weight for SMEs (Article 501) aimed at reducing the regulatory costs for SMEs. However, this might not be sufficient for banks to enhance access to credit to this category of enterprises. Indeed, as a result of the financial crisis, banks have largely suffered losses because of excessive risk taking in previous years, which has led governments to provide them financial support in form of State aid equivalent to 40 % of EU GDP.⁹⁸

At European- and Member State level the SME support programmes were expanded. The European Commission provided financial instruments to SMEs under the Competitiveness and Innovation Framework Programme (CIP).

The **legal assessment** concluded that lending to SMEs can be legally justified as a condition to State aid, without a change in the current legislation. The assessment of the compatibility of the State aid with the internal market under Article 107 (3) (b) TFEU provides the European Commission with sufficient discretion to approve SME lending targets to prevent a so called '*credit crunch*' and hence disturbance to the real economy. In practice, such a condition may be either annexed to an approval decision or provided for in the national aid scheme with a notification to the Commission.

The **qualitative assessment** based on identifying and analysing 46 State aid decisions that involve banks having exposures to SMEs during the crisis years (2007-2012) for 15 Member States, showed that in several cases restructuring would potentially lead to disruptions in funding the real economy, if no backstop measures are accounted for. This is in particular the case when liquidation, divestment and price leadership bans are applied. In other cases, the impact of the restructuring plans with explicit provisions related to lending to the real economy in general and SMEs in particular (e.g. caps on SMEs lending volumes, preferential pricing, etc.) may encourage aided banks credibly to focus on the real economy and dedicate more of their resources to lend to SMEs mostly focused on their geographical perimeters in the near future. However, although a few banks have posted positive outcome with respect to their contribution to SMEs, it is premature to assess with full certainty whether aided banks have complied (and continue to comply) with these

⁹⁷ Article 501, OJ L 176 of 27.6.2013.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:FULL:EN:PDF>

⁹⁸ See also section 3.1.2 for a detailed overview of the committed and used State aid in the EU.

conditions laid down in the restructuring plans. Therefore, continued close monitoring of their activities is recommended.

The **quantitative assessment at Member State level** confirms that the post-financial crisis bank loan intermediation to SMEs fell behind in countries in which the financial sector used relatively more State aid. This is an indication of ailing banking sectors in these countries. Besides the measures for capital and liquidity support, loan guarantees did not lead to better bank loan intermediation towards SMEs during the crisis years. Loan guarantees under national schemes are however relatively limited and concentrated in just a few countries (e.g. France and Italy) to allow a comprehensive assessment. Moreover, bank intermediation in countries where banks display more risk and more leverage is significantly less performing, while the opposite is true for countries with better macro-economic conditions. These findings are based on GMM estimations on 103 semi-annual observations for 27 EU Member States in the period from 2009 to 2013.

The **bank level quantitative results** suggest that conditionality can have a significant impact on the lending activities of banks, but seems not to contribute to more lending to SMEs by banks. Generally, ailing banks that were subject to State aid with the condition to restructure, liquidate or to be nationalised, displayed lower customer loan growth (which was used as proxy for SME loan growth) when compared to other banks that were not subject to State aid. More specifically, the analysis focuses on conditions both on the relative **price levels** and **lending volumes**, which are the two channels to directly influence lending to SMEs. Hence, aid recipient banks that had to abide to minimum SME-lending targets posted significantly lower growth in total customer loans than banks that did not have to fulfil any lending target or for which maximum targets are applied. The results for banks that had to comply with general lending targets are ambiguous and not significant. Moreover, the banks that were not allowed to be price leader in standard products in general, quoted lower loan growth rates. While for banks with price-leadership bans in SMEs products the results were ambiguous, but also not significant. However, though inclusive, sounder banks that display more liquid funds, very high level of regulatory capital and lower market funding are expected to sustain lending to the real economy. In addition, higher economic growth and liquidity provisioning by central banks contribute to higher loan growth, which confirms that the monetary policy actions of the ECB were beneficial to sustain lending to SMEs. These findings are based on GMM estimations on 444 bank-year observations for a sample of 102 EU banking groups.

Overall, the findings suggest that conditionality to State aid linked to SME lending does not necessarily result in more lending activity, at least not during the first years after the aid has been granted. This does not come as a surprise as ailing banks that require State aid to continue operations are not expected to become viable as soon as they receive the aid. Time is necessary to bring these banks to a healthier and viable state to continue to lend to the real economy. The expansion of SMEs lending generally consumes extra capital, even when the loans are partially guaranteed and lower risk weights apply because of the opaque nature of these companies. This implies that to increase their SME lending activity, banks have to improve their financial position to be able to increase their risk exposures to this type of companies.

The **policy recommendations** drawn from these analyses suggest that aided banks must continue to be closely monitored by the relevant authorities to ensure they return to a healthy and viable state. For the aided banks that were required to continue lending to the real economy in general and SMEs in particular, via conditions to promote this objective, although a few banks have reported positive outcomes, it is important to continue monitoring these banks to ensure they have complied with these conditions and that these conditions have produced the expected effects. In the meanwhile, for banks, which were

not subject to such conditions, it is equally important to keep them in the radar screen as banks' behaviours change when there is a wide-ranging industry restructuring movement. Overall, the lack of significance of the economic results on the links between State aid, conditionality and SMEs lending would invite for further research on the implications of State aid on the business models of banks and future behaviours when it comes to SMEs lending. The study explored the links during the crises period that is between 2006 and 2012. A longer timespan is necessary to understand with confidence these links.

Beyond this, the broader aim of the policy recommendations emanating from this study is to enhance the role of banks in serving the real economy and improve their contribution to the SME lending in the EU. The best safeguard for a well-functioning of the SME bank lending chain is a sounder banking sector that contributes to the funding of the real economy. Although not yet conclusive (because of scarcity of data on SMEs exposures and the shortness of duration of the analysis), the results of the quantitative analysis suggest that nationalisation, liquidation, low capital levels, and price leadership bans do not contribute to higher SMEs loan growth. If the banks build-up higher capital buffers at times of economic prosperity, the ability to absorb losses and the obligation to take rigorous measures and cut risky lending activities during an economic down-turn will be less painful.

More broadly, a better-coordinated macro-prudential supervision as well as provisions on the banking structures in particular the systematic monitoring of business models of banks are other important policy instruments to enhance the soundness of the banking sector as whole. The rules of CRD IV, Banking Union- as well as Bank Structural Reform proposals in line with the above can contribute to the creation of a safer banking sector.

To make it more attractive for banks to lend to SMEs during an economic downturn, the loan guarantee facilities at national and EU level could further be used and if successful expanded. Like effective minimum lending targets for aided banks, guarantees can also demand additional funds from governments. Albeit, the econometric analysis did not provide evidence that the national SME loan guarantees schemes contribute to successful SME bank loan intermediation. The guarantees can, however, be provided also for loans issued by non-aided banks with a stronger financial position to leverage their capital consumption for SME loans.

Furthermore, specific measures could be taken to enhance lending to SMEs. During the financial crisis there were, for instance, credit mediators dedicated to advice on the validity on SME loan request in Belgium, France and the United Kingdom. In Ireland, banks were required to enhance disclosure of changes in fees and interest rates to customers. These practices could be used to facilitate the process for SMEs to switch banks. If the SME would, for example, be able to obtain its own credit history at the moment that a bank is bailed-out, part of the information asymmetry between the SME and potential new banks can be breached as well as a potential lock-in prevented.

Finally, the analysis of SME lending during the past crises is challenging due to data limitations and lack of transparency on SMEs exposures by banks. Most of the reporting on the exposures on SME lending of the largest European banks as well as the access to finance of SMEs surveys of the ECB and European Commission only started after the burst of the financial crisis, which constrained the statistical and econometric analyses. Moreover, there is no consistent public reporting on whether the conditions and objectives are achieved, which is especially relevant when it concerns targets on which there is no regular disclosure.

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ANNEX: DETAILED TABLES AND FIGURES SUPPORTING THE ANALYSIS

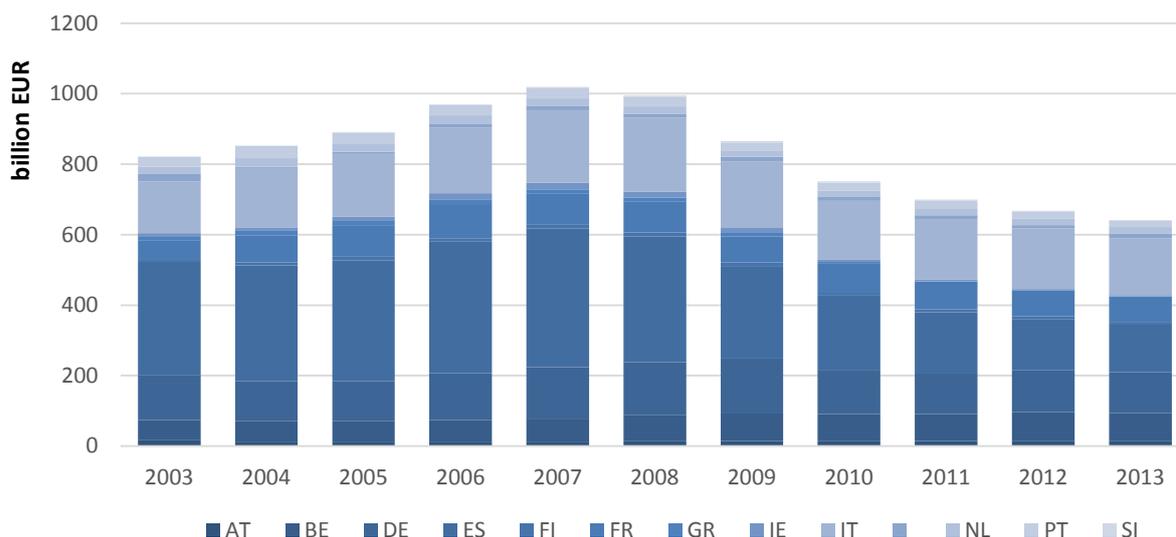
Table 10: Definitions of Member State level indicators

	Variable	Definition	Frequency	Source
Dependent Variable	SUCCESS	SMEs that have obtained the bank loan they requested in the past 6 months within the total SMEs that applied (or would have liked to apply but did not because of possible rejection). For comparison purpose the 'Don't Know and No Answer' responses have been omitted from the analyses.	Semi-annual (EA) / Bi-annual (EU)	ECB and EC SAFE-surveys
BANKS	RISK	Risk costs of bank loan: Impairments as share of net interest income.	Semi-annual	ECB CBD
	CAPITAL	Tangible equity as share of total assets (total equity minus intangible assets divided by total assets minus intangible assets). When the intangible assets were unavailable the sample average intangible assets to assets was used to estimate the tangible equity.	Semi-annual	ECB CBD
SMEs	APPLY	Share of SMEs that applied or would have liked to apply for a bank loan in the past six months. For comparison purpose 'Don't Know and No Answer' responses have been omitted from the analyses.	Semi-annual (EA) / Bi-annual (EU)	ECB and EC SAFE-surveys
Governments	RECAP	Total recapitalisation and asset relief measures used in the context of financial crisis as share of total banking assets.	Annual	EC State aid Scoreboard 2013 and ECB CBD
	GUARANT	Total guarantees and other liquidity measures used in the context of financial crisis as share of total banking assets.	Annual	EC State aid Scoreboard 2013 and ECB CBD
	SMEGUAR	Volume of loan guarantees/counter-guarantees granted during a single year as share of total banking assets. The guarantees are assumed to be zero when the country was excluded in the AECM-list.	Annual	AECM Statistics and ECB CBD

Macro	GDP	Real Gross Domestic Product (GDP) growth.	Annual	AMECO database DG ECFIN
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Source: Ayadi et al, CEPS (2014).

Figure 14: New issuance of SME loans, 2003-2013

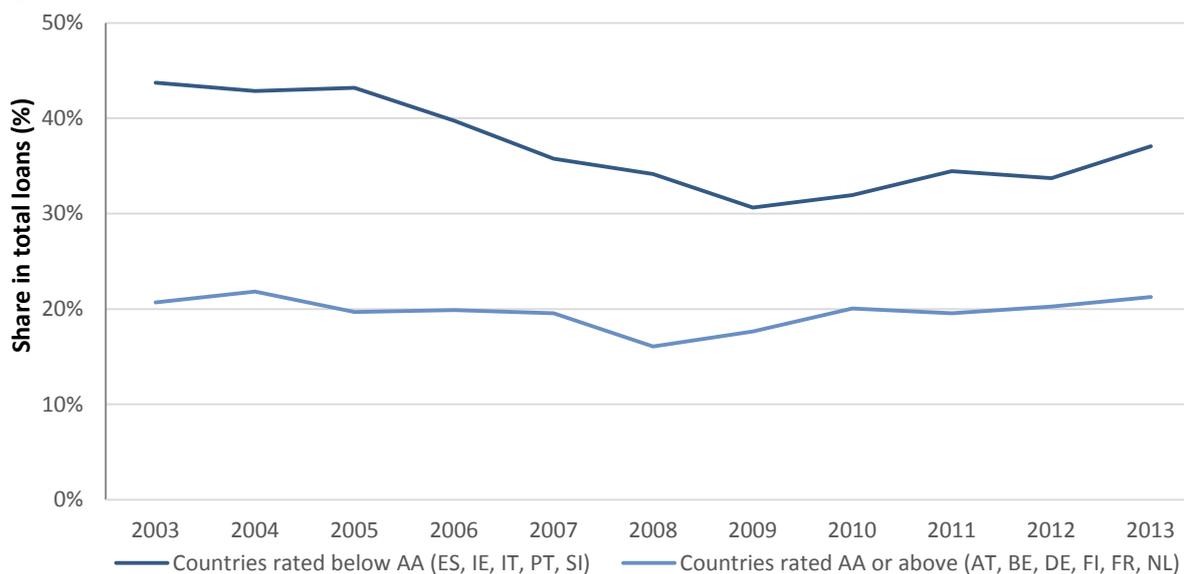


Notes: The figure above shows the cumulative annual amounts of new loans up to 1 million EUR issued, which the amount is considered to be representative for the SME segment. The loans considered are new loans other than revolving loans and overdrafts granted to non-financial corporations by credit institutions and other institutions. Only the countries for which data was available from 2003 to 2013 were included.

Source: European Central Bank

<http://sdw.ecb.europa.eu/browse.do?node=9484373>

Figure 15: Share of new SME loans in total new bank loans, 2003-2013



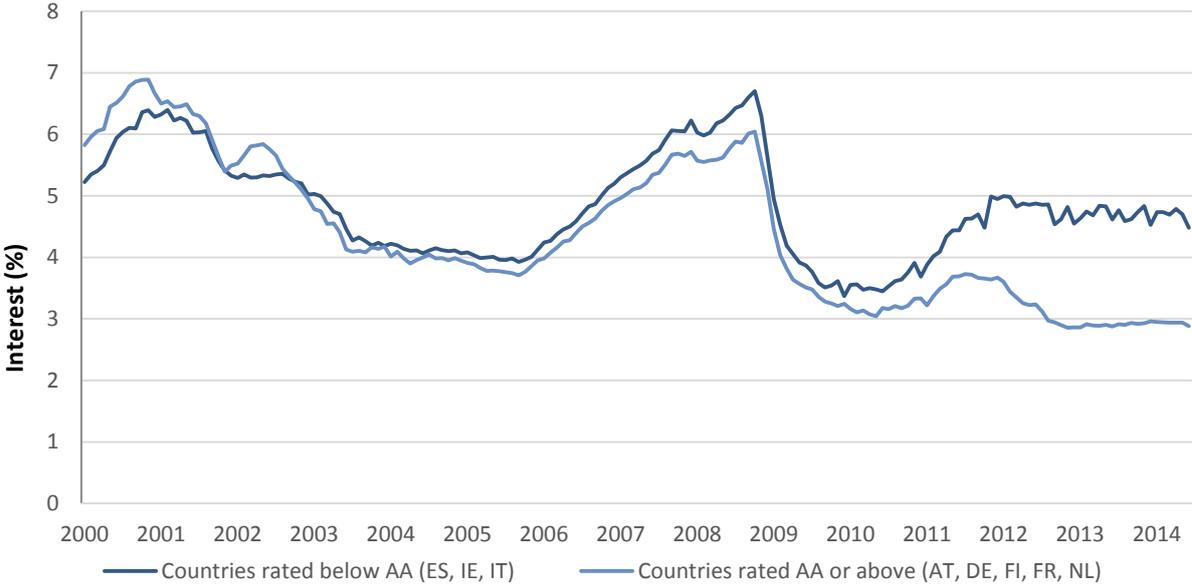
Notes: The figure above shows the weighted average shares of loans up to 1 million as share of total loans. The euro area countries, for which, the data was available from 2003 to 2013 have for the figure been split in two groups, with a sovereign foreign currency rating by Standard & Poor's of AA or above and below AA. Loans below 1 million EUR are considered to represent the SME segment. The loans considered are new loans other than revolving loans and overdrafts granted to non-financial corporations by credit institutions and other institutions.

Source: European Central Bank, Standard & Poor's Rating Services

<http://sdw.ecb.europa.eu/browse.do?node=9484373>

<http://www.standardandpoors.com/ratings/sovereigns/ratings-list/en/us/?subSectorCode=39§orId=1221186707758&subSectorId=1221187348494>

Figure 16: Average interest rates new SME loans, 2000-2014



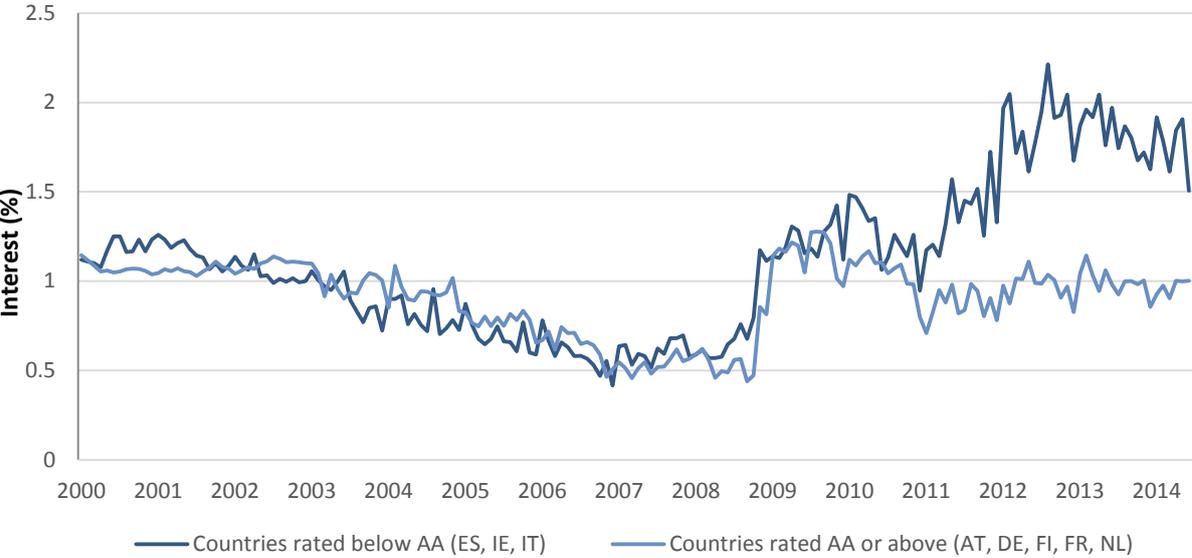
Notes: The figure above shows the unweighted average interest rates of euro area countries with a sovereign foreign currency rating by Standard & Poor’s of AA or above and below AA. Loans up to 1 million EUR are considered to represent the SME segment. The loans considered are new loans other than revolving loans and overdrafts granted to non-financial corporations by credit institutions and other institutions. Only the countries for which data was available from 2000 to mid-2014 were included.

Source: European Central Bank, Standard & Poor’s Rating Services

http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&sf12=4&sf13=4&MATURITY_ORIG=A&sf15=4&BS_COU NT_SECTOR=2240&node=9484266

<http://www.standardandpoors.com/ratings/sovereigns/ratings-list/en/us/?subSectorCode=39§orId=1221186707758&subSectorId=1221187348494>

Figure 17: Average interest mark-up new SME loans, 2000-2014



Notes: The figure above shows the unweighted average interest rate mark-up of euro area countries with a sovereign foreign currency rating by Standard & Poor’s of AA or above and below AA. The mark-up is the difference between loans up to 1 million EUR and above 1 million EUR. Loans up to 1 million EUR are considered to represent the SME segment. The loans considered are new loans other than revolving loans and overdrafts

granted to non-financial corporations by credit institutions and other institutions. Only the countries for which data was available from 2000 to mid-2014 were included.

Source: European Central Bank, Standard & Poor's Rating Services

http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&sf12=4&sf13=4&MATURITY_ORIG=A&sf15=4&BS_COUNT_SECTOR=2240&node=9484266

<http://www.standardandpoors.com/ratings/sovereigns/ratings-list/en/us/?subSectorCode=39§orId=1221186707758&subSectorId=1221187348494>

Table 11: Number of enterprises
2011, thousands

Country	Micro	Small	Medium	SME	Large	Total	% SMEs
AT	265.6	32.6	5.0	303.2	1.0	304	99.7 %
BE	517.8	27.9	4.2	549.9	0.9	551	99.8 %
BG	281.8	23.2	4.3	309.3	0.7	310	99.8 %
CY	42.2	..	..	..	..	46	..
CZ	963.8	32.8	6.6	1,003.2	1.4	1,005	99.9 %
DE	1,765.0	327.4	55.2	2,147.6	10.5	2,158	99.5 %
DK	190.7	18.7	3.4	212.8	0.6	213	99.7 %
EE	49.1	4.7	1.0	54.8	0.1	55	99.7 %
ES	1,963.6	106.8	14.2	2,084.7	2.7	2,087	99.9 %
FI	207.4	15.4	2.5	225.3	0.6	226	99.7 %
FR	2,417.7	124.9	20.5	2,563.0	4.4	2,567	99.8 %
GR	..	..	..	..	..	..	..
HR	140.9	10.4	1.9	153.3	0.4	154	99.7 %
HU	521.4	24.0	4.1	549.5	0.8	550	99.9 %
IE	130.7	..	..	..	..	147	..
IT	3,642.0	178.8	19.5	3,840.3	3.2	3,843	99.9 %
LT	114.7	10.4	2.1	127.2	0.3	128	99.8 %
LU	25.4	3.0	0.6	29.0	0.1	29	99.5 %
LV	70.4	7.3	1.4	79.1	0.2	79	99.8 %
MT	..	..	..	..	..	..	..
NL	759.1	42.2	8.4	809.7	1.5	811	99.8 %
PL	1,452.0	53.1	15.3	1,520.4	3.0	1,523	99.8 %
PT	789.9	35.7	5.2	830.9	0.8	832	99.9 %
RO	356.0	43.2	8.2	407.4	1.5	409	99.6 %
SE	616.1	29.3	5.0	650.4	1.0	651	99.8 %
SI	110.3	5.7	1.2	117.3	0.2	117	99.8 %
SK	398.3	13.8	2.3	414.4	0.5	415	99.9 %
UK	1,518.2	147.0	25.5	1,690.7	5.9	1,697	99.7 %
EU28	19,310	1,318	218	20,673	43	20,909	99.8 %

Notes: Autonomous individual firms and consolidated groups that employ both less than 250 full-time equivalent (FTE) employees and have either a turnover of up to 50 million euro and/or a balance sheet total of up to 43 million qualify as SME, while the remaining enterprises are considered large. The SMEs are further divided in three sub categories. Micro enterprises employ both less than 10 FTE employees and have either a turnover and/or balance sheet total of up to 2 million, small enterprises are non-micro-enterprises that employ both less than 50 FTE employees and have either a turnover and/or balance sheet total of up to 10 million, and remaining SMEs are medium enterprises. The figures are for 2011 and expressed in thousands unless stated otherwise.

Source: Eurostat (2012),

http://appsso.eurostat.ec.europa.eu/nui/show.do?query=BOOKMARK_DS-297817_QID_1C75073E_UID_-3F171EB0&layout=SIZE_EMP,L,X,0:GEO,L,Y,0:NACE_R2,L,Z,0:INDIC_SB,L,Z,1:TIME,C,Z,2:INDICATORS,C,Z,3:&zSelection=DS-297817INDICATORS_OBS_FLAG:DS-297817TIME,2011:DS-297817NACE_R2,B-N_S95_X_K:DS-297817INDIC_SB,V11110:&rankName1=TIME_1_0_-1_2&rankName2=INDIC-SB_1_2_-1_2&rankName3=NACE-R2_1_2_-1_2&rankName4=INDICATORS_1_2_-1_2&rankName5=SIZE-EMP_1_2_0_0&rankName6=GEO_1_2_0_1&rStp=&cStp=&rDCh=&cDCh=&rDM=true&cDM=true&footnes=false&empty=false&wai=false&time_mode=NONE&time_most_recent=false&lang=EN&cfo=%23%23%23%2C%23%23%23.%23%23%23

Table 12: Turnover or gross premiums written
2011, EUR billion

Country	Micro	Small	Medium	SME	Large	Total	% SMEs
AT	108.6	135.5	171.0	415.1	215.5	631	65.8 %
BE	235.3	203.4	181.0	619.8	360.5	980	63.2 %
BG	20.8	24.5	24.5	69.8	33.6	103	67.5 %
CY	7.1	..	..	..	..	27	..
CZ	85.6	79.2	92.9	257.8	188.3	446	57.8 %
DE	616.3	911.0	1,149.6	2,677.0	2,892.1	5,569	48.1 %
DK	95.7	..	..	..	..	..	..
EE	13.7	10.5	10.0	34.2	10.3	44	76.9 %
ES	371.1	326.3	308.0	1,005.3	628.6	1,634	61.5 %
FI	60.5	62.9	66.3	189.8	189.0	379	50.1 %
FR	816.4	658.9	619.5	2,094.9	1,526.3	3,621	57.9 %
GR	..	..	..	..	..	..	..
HR	14.1	15.6	16.4	46.0	31.4	77	59.5 %
HU	54.2	45.3	49.8	149.3	112.8	262	57.0 %
IE	35.1	..	..	..	..	323	..
IT	740.2	644.1	602.5	1,986.8	944.8	2,932	67.8 %
LT	10.2	14.2	15.7	40.1	22.4	63	64.2 %
LU	20.8	16.9	63.6	101.3	33.8	135	75.0 %
LV	10.7	11.4	11.4	33.6	10.2	44	76.6 %
MT	..	..	..	..	..	..	..
NL	..	274.0	..	..	..	1,399	..
PL	172.1	120.4	177.3	469.8	366.6	836	56.2 %
PT	77.4	79.7	74.3	231.3	95.0	326	70.9 %
RO	40.3	45.5	50.2	136.0	98.5	234	58.0 %
SE	142.3	137.6	160.1	440.0	306.1	746	59.0 %
SI	16.4	17.0	20.7	54.1	25.9	80	67.6 %
SK	26.9	29.8	30.7	87.4	70.6	158	55.3 %
UK	452.5	530.8	574.2	1,557.5	1,961.7	3,519	44.3 %
EU28	4,244	4,395	4,470	12,697	10,124	24,570	55.6 %

Note: The figures are for 2011 and the amounts in billion EUR unless stated otherwise.

Source: Eurostat (2012),

http://appsso.eurostat.ec.europa.eu/nui/show.do?query=BOOKMARK_DS-297817_QID_40E427A6_UID_-3F171EB0&layout=SIZE_EMP,L,X,0:GEO,L,Y,0:NACE_R2,L,Z,0:INDIC_SB,L,Z,1:TIME,C,Z,2:INDICATORS,C,Z,3:&zSelection=DS-297817INDICATORS,OBS_FLAG;DS-297817TIME,2011;DS-297817NACE_R2,B-N_S95_X_K;DS-297817INDIC_SB,V11110:&rankName1=TIME_1_0_-1_2&rankName2=INDIC-SB_1_2_-1_2&rankName3=NACE-R2_1_2_-1_2&rankName4=INDICATORS_1_2_-1_2&rankName5=SIZE-EMP_1_2_0_0&rankName6=GEO_1_2_0_1&rStp=&cStp=&rDCh=&cDCh=&rDM=true&cDM=true&footnes=false&empty=false&wai=false&time_mode=NONE&time_most_recent=false&lang=EN&cfo=%23%23%23%2C%23%23%23.%23%23%23

**Table 13: Value added at factor costs
2011, EUR billion**

Country	Micro	Small	Medium	SME	Large	Total	% SMEs
AT	30.0	32.5	36.1	98.6	62.7	161	61 %
BE	42.0	36.1	34.7	112.8	71.4	184	61 %
BG	3.0	3.5	4.0	10.5	7.2	18	59 %
CY	2.2	..	..	..	..	8	..
CZ	17.0	13.1	18.0	48.1	38.4	86	56 %
DE	..	..	..	..	..	1,384	..
DK	..	..	..	..	..	119	..
EE	2.2	2.0	2.3	6.4	2.3	9	74 %
ES	102.8	79.3	72.2	254.3	159.9	414	61 %
FI	18.9	16.6	15.9	51.3	36.1	87	59 %
FR	242.4	147.6	133.1	523.1	371.3	894	58 %
GR	..	..	..	..	..	..	..
HR	3.5	3.7	4.0	11.1	9.3	20	55 %
HU	9.4	7.6	9.0	26.1	22.4	49	54 %
IE	11.8	..	..	..	..	88	..
IT	201.9	141.3	114.6	457.7	221.2	679	67 %
LT	1.5	2.7	3.4	7.6	3.9	11	66 %
LU	4.2	3.6	5.5	13.2	5.8	19	69 %
LV	1.3	1.9	2.2	5.4	2.7	8	67 %
MT	..	..	..	..	..	..	..
NL	..	59.2	..	..	..	311	..
PL	29.3	23.9	37.1	90.3	87.0	177	51 %
PT	16.8	16.2	15.6	48.7	23.8	72	67 %
RO	6.2	7.7	..	..	..	48	..
SE	43.9	37.5	38.0	119.4	84.6	204	59 %
SI	3.7	3.5	4.0	11.3	6.6	18	63 %
SK	8.7	6.3	5.9	20.9	12.4	33	63 %
UK	183.3	146.2	162.2	491.7	480.9	973	51 %
EU28	986	792	718	2,409	1,710	6,077	58 %

Note: The figures are for 2011 and the amounts in billion EUR unless stated otherwise.

Source: Eurostat (2012),

http://appsso.eurostat.ec.europa.eu/nui/show.do?query=BOOKMARK_DS-297817_QID_-6EB0C25F_UID_-3F171EB0&layout=SIZE_EMP,L,X,0:GEO,L,Y,0:NACE_R2,L,Z,0:INDIC_SB,L,Z,1:TIME,C,Z,2:INDICATORS,C,Z,3:&zSelection=DS-297817INDICATORS,OBS_FLAG:DS-297817TIME,2011:DS-297817NACE_R2,B-N_S95_X_K:DS-297817INDIC_SB,V12110:&rankName1=TIME_1_0_-1_2&rankName2=INDIC-SB_1_2_-1_2&rankName3=NACE-R2_1_2_-1_2&rankName4=INDICATORS_1_2_-1_2&rankName5=SIZE-EMP_1_2_0_0&rankName6=GEO_1_2_0_1&rStp=&cStp=&rDCh=&cDCh=&rDM=true&cDM=true&footnes=false&empty=false&wai=false&time_mode=NONE&time_most_recent=false&lang=EN&cfo=%23%23%23%2C%23%23%23.%23%23%23

Table 14: Number of persons employed
2011, million

Country	Micro	Small	Medium	SME	Large	Total	% SMEs
AT	0.7	0.6	0.5	1.8	0.8	2.6	68 %
BE	0.9	0.6	0.4	1.9	0.8	2.7	69 %
BG	0.6	0.5	0.4	1.4	0.5	1.9	75 %
CY	0.1	..	..	..	..	0.2	..
CZ	1.1	0.6	0.7	2.4	1.1	3.5	69 %
DE	..	..	..	16.4	9.9	26.2	62 %
DK	..	..	..	..	..	1.6	..
EE	0.1	0.1	0.1	0.3	0.1	0.4	78 %
ES	3.9	2.0	1.4	7.3	2.8	10.1	72 %
FI	0.4	0.3	0.2	0.9	0.5	1.5	63 %
FR	4.5	..	2.3	9.7	5.6	15.3	63 %
GR	..	..	..	..	..	..	..
HR	0.3	0.2	0.2	0.7	0.3	1.0	68 %
HU	0.9	0.5	0.4	1.7	0.7	2.4	71 %
IE	0.3	..	..	..	..	1.1	..
IT	6.9	3.2	1.9	11.9	3.0	14.9	80 %
LT	0.2	0.2	0.2	0.6	0.2	0.8	76 %
LU	0.0	0.1	0.1	0.2	0.1	0.2	67 %
LV	0.1	0.1	0.1	0.4	0.1	0.5	77 %
MT	..	..	..	..	..	..	..
NL	1.5	..	1.0	..	..	5.4	..
PL	3.1	1.1	1.6	5.8	2.6	8.4	69 %
PT	1.3	0.7	0.5	2.5	0.7	3.1	79 %
RO	0.9	0.9	0.8	2.5	1.3	3.8	66 %
SE	0.8	0.7	0.6	2.0	1.0	3.0	65 %
SI	0.2	0.1	0.1	0.4	0.2	0.6	72 %
SK	0.6	0.3	0.2	1.1	0.4	1.5	71 %
UK	3.2	3.4	2.9	9.5	8.2	17.7	54 %
EU28	32.5	16.0	16.6	81.5	40.9	130.7	67 %

Note: The figures are for 2011 and the amounts in million persons unless stated otherwise.

Source: Eurostat (2012),

http://appsso.eurostat.ec.europa.eu/nui/show.do?query=BOOKMARK_DS-297817_QID_-38FC3F12_UID_-3F171EB0&layout=SIZE_EMP,L,X,0;GEO,L,Y,0;NACE_R2,L,Z,0;INDIC_SB,L,Z,1;TIME,C,Z,2;INDICATORS,C,Z,3;&zSelection=DS-297817INDICATORS,OBS_FLAG;DS-297817TIME,2011;DS-297817NACE_R2,B-N_S95_X_K;DS-297817INDIC_SB,V12150:&rankName1=TIME_1_0_-1_2&rankName2=INDIC-SB_1_2_-1_2&rankName3=NACE-R2_1_2_-1_2&rankName4=INDICATORS_1_2_-1_2&rankName5=SIZE-EMP_1_2_0_0&rankName6=GEO_1_2_0_1&rStp=&cStp=&rDCh=&cDCh=&rDM=true&cDM=true&footnes=false&empty=false&wai=false&time_mode=NONE&time_most_recent=false&lang=EN&cfo=%23%23%23%2C%23%23%23.%23%23%23

Table 15: Share of SMEs considering finance most pressing problem

Country	2009	2011	2013
AT	14.7 %	6.8 %	7.1 %
BE	10.2 %	8.4 %	11.6 %
BG	12.1 %	18.5 %	15.5 %
CY	14.6 %	14.7 %	40.2 %
CZ	14.5 %	12.1 %	9.7 %
DE	13.9 %	11.4 %	8.2 %
DK	15.2 %	13.6 %	14.8 %
EE	18.7 %	28.8 %	8.7 %
ES	23.5 %	24.8 %	23.4 %
FI	8.9 %	7.5 %	12.1 %
FR	19.7 %	16.4 %	14.8 %
GR	40.7 %	30.1 %	32.4 %
HR	37.7 %	24.9 %	22.7 %
HU	19.1 %	22.0 %	17.3 %
IE	13.1 %	20.7 %	19.8 %
IT	19.6 %	14.5 %	20.0 %
LT	22.2 %	18.9 %	17.8 %
LU	17.7 %	9.5 %	6.2 %
LV	18.4 %	12.7 %	14.7 %
MT	7.9 %	4.7 %	11.0 %
NL	14.5 %	12.3 %	19.8 %
PL	11.0 %	11.2 %	8.5 %
PT	12.1 %	18.2 %	19.2 %
RO	19.4 %	15.0 %	15.0 %
SE	12.0 %	9.1 %	9.3 %
SI	14.5 %	28.7 %	22.4 %
SK	12.5 %	16.8 %	17.6 %
UK	15.5 %	13.9 %	15.4 %
EU28	16.8 %	15.6 %	15.4 %

Notes: The figures are in **bold** when access to finance was the most pressing problem. The EU28 aggregates are weighted based on the SME population in the European Union. Moreover, the aggregates for 2009 and 2011 exclude Croatia. And for comparison purpose the “Don’t Know and No Answer” responses have been excluded.

Source: European Commission (2013), http://ec.europa.eu/enterprise/policies/finance/data/index_en.htm.

Table 16: Volume guarantees granted

Country	2007	2008	2009	2010	2011	2012
AT	121	78	112	113	76	80
BE	124	141	263	253	252	229
BG	..	..	..	30	37	11
CY	..	..	..	..	..	..
CZ	120	174	302	333	63	75
DE	1,156	1,077	1,261	1,301	1,150	1,091
DK	..	..	..	..	..	..
EE	22	23	51	67	52	58
ES	2,441	2,238	2,516	1,766	1,283	967
FI	..	..	..	..	..	..
FR	3,883	4,013	6,733	6,857	6,012	5,762
GR	88	83	4,085	200	31	5
HR	..	..	..	..	..	..
HU	1,306	1,321	1,500	1,293	1,083	1,186
IE	..	..	..	..	..	..
IT	12,574	11,903	12,321	12,881	12,601	11,147
LT	87	78	89	79	84	59
LU	..	..	..	..	1	0
LV	16	30	30	47	43	23
MT	..	..	..	..	..	..
NL	..	..	..	742	909	486
PL	..	..	226	179	285	236
PT	312	665	2,273	1,794	728	867
RO	356	320	659	843	1,172	1,327
SE	3	2	..	..	..	..
SI	7	16	74	86	76	51
SK	40	76	92	76	89	..
UK	..	..	..	..	..	..
EU28	22,657	22,238	32,587	28,941	26,026	23,659

Note: The amounts are expressed in million EUR unless stated otherwise.

Source: AECM (2013), <http://www.aecm.eu/en/statistics.html?IDC=32>.

Table 17: State aid effectively used: Total recapitalisation and asset relief

Country	2008	2009	2010	2011	2012
AT	0.9	6.3	0.6	0.0	2.1
BE	16.9	11.2	0.0	0.0	12.3
BG	0.0	0.0	0.0	0.0	0.0
CY	0.0	0.0	0.0	0.0	1.8
CZ	0.0	0.0	0.0	0.0	0.0
DE	29.8	57.7	51.7	3.6	1.3
DK	0.5	8.0	1.9	0.3	0.0
EE	0.0	0.0	0.0	0.0	0.0
ES	0.0	1.3	12.4	8.5	66.0
FI	0.0	0.0	0.0	0.0	0.0
FR	13.2	10.5	0.0	0.0	2.6
GR	0.0	3.8	0.0	2.6	30.9
HU	0.0	0.2	0.0	0.0	0.0
IE	0.0	11.0	37.9	16.5	0.0
IT	0.0	4.1	0.0	0.0	2.0
LT	0.0	0.0	0.0	0.0	0.0
LU	2.5	0.1	0.0	0.0	0.0
LV	0.0	0.4	0.5	0.0	0.0
MT	0.0	0.0	0.0	0.0	0.0
NL	14.0	5.0	4.8	0.0	0.0
PL	0.0	0.0	0.0	0.0	0.0
PT	0.0	0.0	3.1	0.0	6.8
RO	0.0	0.0	0.0	0.0	0.0
SE	0.3	0.5	0.0	0.0	0.0
SI	0.0	0.0	0.0	0.3	0.5
SK	0.0	0.0	0.0	0.0	0.0
UK	44.4	47.0	31.4	0.0	0.0
EU27	122.5	167.1	144.2	31.8	126.3

Note: Total recapitalisation and asset relief measures outstanding are expressed in billion EUR.

Source: European Commission (2013),

http://ec.europa.eu/competition/state_aid/scoreboard/financial_economic_crisis_aid_en.html.

Table 18: State aid effectively used: Total guarantees and liquidity measures

Country	2008	2009	2010	2011	2012
AT	2.4	15.5	19.3	17.1	11.8
BE	9.0	46.8	32.8	26.4	45.8
BG	0.0	0.0	0.0	0.0	0.0
CY	0.0	0.6	2.8	2.8	2.3
CZ	0.0	0.0	0.0	0.0	0.0
DE	22.7	135.0	136.8	34.7	10.0
DK	145.6	8.4	23.0	23.0	1.2
EE	0.0	0.0	0.0	0.0	0.0
ES	2.3	55.4	74.8	75.2	75.4
FI	0.1	0.1	0.0	0.0	0.0
FR	8.7	92.7	91.5	71.8	53.4
GR	0.5	5.8	33.6	62.9	65.1
HU	0.0	2.5	0.0	0.0	0.0
IE	180.3	284.3	196.3	110.6	84.2
IT	0.0	0.0	0.0	10.9	85.7
LT	0.0	0.0	0.0	0.0	0.0
LU	0.4	1.8	1.6	1.3	2.0
LV	1.0	1.5	1.1	0.8	0.7
MT	0.0	0.0	0.0	0.0	0.0
NL	14.1	66.4	48.8	36.9	21.0
PL	0.0	0.0	0.0	0.0	0.0
PT	2.2	9.0	8.8	11.0	16.8
RO	0.0	0.0	0.0	0.0	0.0
SE	0.3	14.3	19.9	14.0	4.4
SI	0.0	1.0	2.2	1.6	0.2
SK	0.0	0.0	0.0	0.0	0.0
UK	33.5	165.1	169.2	148.5	54.6
EU27	423.0	906.0	862.5	649.5	534.5

Note: Total guarantees and liquidity measures outstanding are expressed in billion EUR.

Source: European Commission (2013),

http://ec.europa.eu/competition/state_aid/scoreboard/financial_economic_crisis_aid_en.html.

Table 19: General descriptive CEPS-FIPP Banking Database

Country	Total Assets (EUR bn)	Total Customer Loans (EUR bn)	Banking Groups	Observations
	2012	2012	2012	2006-2012
AT	500.8	266.1	6	42
BE	862.6	385.4	4	27
BG	..	..	..	..
CY	39.8	29.1	2	26
CZ	..	..	..	..
DE	6,018.8	1,945.2	24	167
DK	714.3	337.9	4	28
EE	..	..	..	..
ES	3,413.7	1,945.6	18	102
FI	99.8	65.2	1	7
FR	7,354.3	2,292.1	10	63
GR	301.2	197.4	3	26
HR	..	..	..	..
HU	34.6	22.1	1	7
IE	311.6	197.4	3	21
IT	2,538.9	1,534.6	15	100
LT	..	..	..	..
LU	40.5	16.7	1	13
LV	3.0	0.7	1	7
MT	7.0	3.7	1	7
NL	2,667.4	1,539.2	6	36
PL	46.2	34.4	1	7
PT	338.8	215.4	4	28
RO	..	..	..	..
SE	1,456.8	830.5	4	28
SI	23.9	13.7	3	21
SK	..	..	..	..
UK	7,090.2	2,739.6	5	35
EU28	33,864.2	14,611.8	117	798

Note: The database provides the overview of the dataset after dropping subsidiaries and based on “pro-forma” figures for the banks that were involved in mergers, acquisitions and splits.

Source: CEPS-FIPP Banking Database

Table 20: Definitions of bank level indicators

	Variable	Definition	Frequency	Source
Dependent Variable	LOANGRTH	Net customer loan growth: Annual net customer loans in reporting currency as % of net customer loans (t-1).	Annual	CEPS-FIPP banking database
MACRO	GDP	Real Gross Domestic Product (GDP) Growth.	Annual	AMECO database DG ECFIN
	IBRTCH	Percentage points change in 3-month Euribor interbank rate.	Daily	European Banking Federation (EBF)
	CBASSGDP	Growth rate of National Central Bank assets as share of GDP.	Annual	Annual reports EU NCBs
BANKS	SIZE	Logarithm of total bank assets.	Annual	CEPS-FIPP banking database
	LIQUIDITY	Total cash plus loans to banks as % of total bank assets.	Annual	CEPS-FIPP banking database
	REGCAP	Total regulatory capital ratio: Total regulatory capital (Tier 1 plus Tier 2 capital) as % of risk weighted assets.	Annual	CEPS-FIPP banking database
	REGCAPSQ	Square of total regulatory capital ratio	Annual	CEPS-FIPP banking database
	MRKTFUND	Market funding proxied by total assets minus total equity and customer deposits as % of total assets.	Annual	CEPS-FIPP banking database
GOVERNMENT	RESTRUCT	Dummy variable (1 or 0) on restructured banks: It takes 1 if a bank has used State aid in the form of capital and/or asset relief measures and 0 otherwise.	Not applicable	Case database DG COMP
	NATIONAL	Dummy variable (1 or 0) for nationalised banks: It takes 1 for banks on which governments obtained the control (i.e. owning more than 50% of share capital) in the period from 2006 to 2012 and 0 otherwise. Hence, the dummy is only 1 for the years after which the government obtained control.	Not applicable	Case database DG COMP

Table 20: Definitions of bank level indicators (Continued)

	Variable	Definition	Frequency	Source
GOVERNMENT	LIQUIDATION	Dummy variable (1 or 0) for liquidations: It takes 1 for banks that were obliged to liquidate or resolve following the accepted restructuring plan and 0 otherwise. Hence, the dummy is only 1 for the years after the bank received State aid.	Not applicable	Case database DG COMP
	GENLOANTGT	Dummy variable (1 or 0) for general lending targets: It takes 1 for the years in which the bank had to fulfil a minimum lending target following the accepted restructuring plan and 0 otherwise.	Not applicable	Case database DG COMP
	SMELOANTGT	Dummy variable (1 or 0) for SME lending targets: It takes 1 for the years in which the bank had to fulfil a minimum SME lending target following the accepted restructuring plan and 0 otherwise.	Not applicable	Case database DG COMP
	GENPRIBAN	Dummy variable (1 or 0) for general price leadership bans: It takes 1 for the years in which the bank had to comply with a price leadership ban following the accepted restructuring plan and 0 otherwise.	Not applicable	Case database DG COMP
	SMEPRIBAN	Dummy variable (1 or 0) for price leadership bans on SME products: It takes 1 for the years in which the bank had to comply with a price leadership ban on standard SME products following the accepted restructuring plan and 0 otherwise.	Not applicable	Case database DG COMP

Source: Ayadi et al, CEPS (2014).

Table 21: Financial crisis related State aid and implications for SME lending

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
1	Bawag PSK (AT – NN68/2006 ⁹⁹ , C50/2006 ¹⁰⁰ , N640/2009 ¹⁰¹ , N261/2010 ¹⁰²)	December 2007: EUR 900 million State guarantee. December 2009: EUR 550 million capital injection.	Bawag PSK had in response to State aid to cease its investments in US securities that caused its difficulties during and after the financial crisis. It is now operating on retail and corporate customers. Moreover the bank had to respect a temporary dividend and acquisition ban.	Prioritisation of retail, private SME and mid-cap segments, Bawag PSK chose to resume its normal lending activities (Austrian retail and corporate, commercial real estate, selective investments in central and eastern Europe). However, Bawag PSK's revised business activities implies higher risk aversion and special focus on international corporate, international commercial real estate, and Central and Eastern Europe in defensive sectors. Fears were that, local SMEs might face credit squeeze. Conditions to refocus activities laid down in Article 2 of the decision.
2	Hypo Group Alpe Adria (AT – N698/2009 ¹⁰³ ,	December 2008: Recapitalisation of EUR 900 million and liability guarantee of EUR 1.35	Hypo Group Alpe Adria (HGAA) was one of the few subsidiaries of banking groups that were bailed-out at subsidiary-level instead of group level. The bank was at the time of the bail-out	Retail clients and SMEs become HGAA's preferred business. However, the bank gets much more selective and risk-averse: plans to discontinue the cross-border financing business and the

⁹⁹ http://ec.europa.eu/competition/state_aid/cases/217624/217624_623419_36_1.pdf

¹⁰⁰ http://ec.europa.eu/competition/state_aid/cases/217624/217624_695586_32_1.pdf

¹⁰¹ http://ec.europa.eu/competition/state_aid/cases/233938/233938_1069054_54_2.pdf

¹⁰² http://ec.europa.eu/competition/state_aid/cases/236692/236692_1127494_46_2.pdf

¹⁰³ http://ec.europa.eu/competition/state_aid/cases/234367/234367_1074209_23_1.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
	SA.32172 ¹⁰⁴ , SA.32554 ¹⁰⁵)	billion. December 2009: Recapitalisation of EUR 450 million and an asset guarantee of EUR 100 million. December 2010: A second asset guarantee amounting EUR 200 million. December 2012: Direct recapitalisation of EUR 500 million and a State guarantee on subordinated capital with a nominal value of EUR 1 billion.	owned by BayernLB, which was later on bailed-out itself (see case study Bayerische Landesbank - DE). The main condition for the State aid was a winding down of most of the activities. The bank had to decrease its total assets by 85 %, from EUR 43.3 billion at the end of 2008 to EUR 6.56 billion in 2017. The bank has already started a wind-down process for some of its business in a number of countries, notably the leasing business in South-Eastern Europe and Italy. Moreover, according to the liquidation plan, the operative parts of the bank will be sold while the non-viable remainder is put into an orderly wind-down process. The Austrian subsidiary was already sold in May 2013 to the British-Indian investor Sanjeev Kanoria and the South-Eastern European network will be sold by 30 June 2015 at the latest. Until the sales process is completed, the bank has to respect certain conditions limiting new business in non-core activities.	financing of big ticket projects, ceases its risky project finance activities and tourism projects financing activities.
3	Hypo Tirol Bank AG (AT - SA.34716 ¹⁰⁶ , N214/2008 ¹⁰⁷)	June 2009: A recapitalisation of EUR 220 million.	According to its restructuring plan, the bank will in the future focus on its core market Tirol region in Austria and withdraw from Germany and Italy (except for the Südtirol/Alto Adige regions). It	The bank committed to focus on SME-customers in Tirol within its corporate banking activities.

¹⁰⁴ http://ec.europa.eu/competition/state_aid/cases/240620/240620_1283048_66_1.pdf

¹⁰⁵ http://ec.europa.eu/competition/state_aid/cases/239580/239580_1494229_743_2.pdf

¹⁰⁶ http://ec.europa.eu/competition/state_aid/cases/244546/244546_1420859_187_2.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
			has already withdrawn from Switzerland. Hypo Tirol will considerably reduce its operations, in particular, to limit certain types of loans and to conduct new business against commercial rates. Moreover, Hypo Tirol will further strengthen its corporate governance by increasing the number of independent experts in the supervisory board.	
4	Österreichische Volksbanken (AT - SA.31883 ¹⁰⁸)	September 2009: Recapitalisation of EUR 1 billion and government guarantees on bonds of EUR 3 billion.	The bank had to reduce its balance sheet and the complexity of its business model. The bank will cease its real estate activities and parts of its corporate financing and investment portfolios. Moreover, it will divest all non-core subsidiaries. Over the last three years (2010-2012), the bank already divested a number of activities, including the majority of its banking operations in Central and Eastern Europe.	Potential negative impacts on the real economy in particular for countries in Central and Eastern Europe. ÖVAG withdrawing from several countries and limiting the scope of its activities, which might lead to a credit squeeze mainly that affects SMEs if the acquiring bank does not retain the current lending levels.
5	Dexia/Belfius (C9/2009 ¹⁰⁹ , SA.30521 ¹¹⁰ , SA.33751 ¹¹¹ ,	October 2008: A EUR 5.4 billion recapitalisation, refinancing guarantees	Reduction in Dexia's total assets of 35 % between 2008 and 2014. And reduction of short-term funding from 30 % of total assets in 2009 to 11 % in 2014. To establish the restructuring	The SME activities in Belgium were carved out of Dexia, when Dexia Belgium (now called Belfius) was sold to the Belgian state.

¹⁰⁷ http://ec.europa.eu/competition/state_aid/cases/225467/225467_829299_20_2.pdf

¹⁰⁸ http://ec.europa.eu/competition/state_aid/cases/242958/242958_1401365_186_3.pdf

¹⁰⁹ http://ec.europa.eu/competition/state_aid/cases/230284/230284_1128904_285_1.pdf

¹¹⁰ http://ec.europa.eu/competition/state_aid/cases/235395/235395_1520674_699_2.pdf

¹¹¹ http://ec.europa.eu/competition/state_aid/cases/242281/242281_1280525_33_1.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
	SA.33760 ¹¹² , SA.34440 ¹¹³)	amounting to EUR 135 billion July 2009: Impaired asset measures worth EUR 3.2 billion.	targets Dexia sold its Belgium activities (life insurance business, retail branches, bond portfolio) to the Belgium state that rebranded it to Belfius. Moreover the international (Crediop, RCB International, Dexia bank Slovakia) were sold. In addition to the restructuring measures Dexia was until end-2011 not allowed paying dividends, do acquisitions, limited advertising and respect to G-20 remuneration principles.	
6	Fortis (BE – NN-42-46-53A/2008 ¹¹⁴ , N274/2009 ¹¹⁵)	September 2008: A recapitalisation of EUR 11.2 billion granted by the Belgian, Dutch and Luxembourg authorities.	Fortis was split into three parts: i) the Dutch activities that were acquired by the Dutch State (discussed under ABN Amro - NL); ii) the Belgian activities that were acquired by the Belgian State and later-on acquired by BNP Paribas (FR); and iii) the remainder of the activities, mainly including insurance and distressed assets, continued as Ageas.	With the sale of Fortis Belgium to BNP Paribas, the bank is expected to continue funding SMEs where it operates.
7	KBC (BE – N602/2008 ¹¹⁶ ,	December 2008: A recapitalisation of	KBC will remain a combined bank and insurance provider and will retain activities which are	KBC had to maintain its lending policy to the real economy in countries where it has retail

¹¹² http://ec.europa.eu/competition/state_aid/cases/245073/245073_1520670_536_2.pdf

¹¹³ http://ec.europa.eu/competition/state_aid/cases/244302/244302_1353624_142_2.pdf

¹¹⁴ http://ec.europa.eu/competition/state_aid/cases/227768/227768_1027866_42_1.pdf

¹¹⁵ http://ec.europa.eu/competition/state_aid/cases/231240/231240_1040772_26_1.pdf

¹¹⁶ http://ec.europa.eu/eu_law/state_aids/comp-2008/n602-08.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
	C18/2009 ¹¹⁷ , SA.29833 ¹¹⁸)	EUR 3.5 billion. January 2009: A second recapitalisation of EUR 3.5 billion. May 2009: An asset relief measure on a portfolio containing CDOs with a notional value of EUR 20 billion.	necessary to service its core SME and corporate client activities, mainly in Belgium. Moreover, besides the Belgian activities, KBC continues to focus on Central and Eastern Europe and Russia. In turn, KBL Private Bank, and non-core activities in Central and Eastern Europe as well as some investment banking activities were sold or ceased. Moreover, the bank had to respect a dividend, acquisition and price leadership ban (excl. BE) and was restricted in its advertising.	operations. The credit provided by KBC was on commercial terms. KBC's flat costs and the relatively flexible conditions on lending resulted in volume raise of lending to individuals and SMEs.
8	Cyprus Popular Bank (CY - SA.34827 ¹¹⁹)	May 2012: A EUR 1.8 billion recapitalisation.	The Cyprus Popular Bank (former Laiki Bank) has been <i>defacto</i> liquidated. Hence, the branches in Greece were sold to Greek Piraeus Bank, while the Cypriot activities were acquired by Bank of Cyprus. The left-over was considered a bad bank containing uninsured deposits and the loans and credit facilities attributed to it. The bad bank is being wound down.	The bad bank does not engage in new banking activities.
9	Bayerische Landesbank	November 2008: A recapitalisation of EUR	Substantial changes to the business model, including risk reduction, a stronger focus on	Bayerische Landesbank was committed to providing credit in the domestic economy, in

¹¹⁷ http://ec.europa.eu/competition/state_aid/cases/232156/232156_1079006_91_1.pdf

¹¹⁸ http://ec.europa.eu/competition/state_aid/cases/233981/233981_1316868_561_6.pdf

¹¹⁹ http://ec.europa.eu/competition/state_aid/cases/245846/245846_1367342_82_1.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
	(DE - N615/2008 ¹²⁰ , SA.28487 ¹²¹)	10 billion, an asset relief measure implying EUR 4.8 billion extra aid and liquidity guarantees of about EUR 5 billion. 2009: EUR 2.6 billion guarantee by Austrian authorities on the intra-group liquidity exposure of former subsidiary Hypo Group Alpe Adria (HGAA).	regional business and sustainability of funding and lending strategies. The bank had to reduce its balance sheet and divest a number of activities (sale of MKB (HU), SaarLB, LB (CH), LBLux (LU), LBS (DE) and GBW Bayerische Wohnung AG (DE)). Moreover, subsidiary HGAA was nationalised by the Austrian authorities. Bayerische Landesbank will also reduce the number of international branches and representation offices. BayernLB will restrict its activities in project finance, international real estate and corporate banking. It also committed to a number of behavioural measures, including a dividend and acquisition ban, a hybrid ban and cap on executive remuneration.	particular with respect to small and medium-sized companies (reference can be made to Article 5 of the FMStFV, article of Commission Directive to public undertakings in the manufacturing sector).
10	Commerzbank (DE - N244/2009 ¹²² , SA.34539 ¹²³)	October 2008: Recapitalisation worth EUR 8.2 billion and an asset guarantee framework for securities worth up to EUR 15 billion. January 2009:	Restructuring/downsizing programme (45 % reduction of balance sheet), divestment of Eurohypo, reduction of investment banking operations and divestment of some entities (Kleinwort Benson), reduced market presence in Central and Eastern Europe, acquisition ban until April 2012, dividend ban for 2008 and 2009 and price leadership ban.	Commerzbank committed to use the State aid particularly to ensure lending to the real economy. Albeit severe limitations in accessing finance, and a fall in the outstanding amount of credit to SMEs especially in Central and Eastern Europe. The CEE segment is structurally profitable but has been negatively affected by the need for greater risk provisioning as a result of

¹²⁰ http://ec.europa.eu/competition/state_aid/cases/228700/228700_1022048_47_1.pdf

¹²¹ http://ec.europa.eu/competition/state_aid/cases/231280/231280_1130947_144_1.pdf

¹²² http://ec.europa.eu/competition/state_aid/cases/231053/231053_959312_23_1.pdf

¹²³ http://ec.europa.eu/competition/state_aid/cases/244147/244147_1326390_39_2.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
		Additional recapitalisation for EUR 10 billion.		the knock-on effects of the crisis in financial markets and the current economic situation.
11	Landesbank Baden-Württemberg (DE – C17/2009 ¹²⁴ , SA.30062 ¹²⁵ .)	June 2009: A EUR 5 billion recapitalisation and an assets relief measure with aid amount amounting EUR 9.8 billion.	LBBW's business model will have to restructure and redefine its business model. The balance sheet of the bank has to be reduced by? 40 % between 2008 and 2012. Moreover, the bank will reduce its exposure to capital markets activities and proprietary trading, making the regional activities more important. The bank further has to improve its corporate governance (e.g. quality of oversight and change legal status into joint stock corporation).	Obligation to sustain lending to the real economy.
12	Norddeutsche Landesbank (DE – N655/2008 ¹²⁶ , N412/2009 ¹²⁷ , SA.33571 ¹²⁸ , SA.34381 ¹²⁹)	December 2008: Liability guarantees up to EUR 10 billion a year. December 2011: A recapitalisation of EUR 2.6 billion.	A moderate adjustment of the bank's size in terms of total assets, a stronger concentration on the core clients and the shift of the business mix towards more stable business segments. Further, a cost-optimisation programme and a set of behavioural commitments were suggested by the bank.	Norddeutsche Landesbank has further expanded its business with customers in the SME sector, and 2012 saw the bank's financing volume in corporate banking up by 3.4 % to EUR 1.9 billion. The trend within the corporate customers segment was particularly positive in the sphere of agriculture, with business volume growth of

¹²⁴ http://ec.europa.eu/competition/state_aid/cases/232152/232152_1085305_8_1.pdf

¹²⁵ http://ec.europa.eu/competition/state_aid/cases/250794/250794_1503929_87_2.pdf

¹²⁶ http://ec.europa.eu/competition/state_aid/cases/228946/228946_987690_26_1.pdf

¹²⁷ http://ec.europa.eu/competition/state_aid/cases/232285/232285_992466_33_1.pdf

¹²⁸ http://ec.europa.eu/competition/state_aid/cases/241859/241859_1361905_125_1.pdf

¹²⁹ http://ec.europa.eu/competition/state_aid/cases/243733/243733_1423719_237_2.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
				4.3 %. Further focal spheres of Norddeutsche Landesbank's business activities lie in the financing of residential housing, the arranging of capital market products for SMEs and involvement in major projects in the fields of renewable energies and public infrastructure.
13	Sparkasse KölnBonn (DE – C32/2009 ¹³⁰ , SA.31646 ¹³¹)	September 2010: A recapitalisation of EUR 650 million.	Sparkasse KölnBonn restructuring will result in a balance sheet reduction of 17 % (not including growth in the traditional local customer segments) by the end of 2014 as compared to the end of 2008. Sparkasse KölnBonn will concentrate on providing retail banking services to its traditional customer segments, i.e. private customers and SMEs, and withdraw from activities such as proprietary trading or investments in structured products. And has to decrease its administrative expenses. Moreover, it has to respect restrictions on coupon payments, advertisement-, acquisitions- and a price leadership ban.	The bank will focus on corporate clients with yearly turnover below EUR 250 million. Whilst doing so it has to respect a price leadership ban until the end of 2014. Hence, Sparkasse KölnBonn is not allowed to offer better rates for deposits and mortgages than the best out of its 10 largest competitors.
14	West LB (DE – C43/2008 ¹³² , N531/2009 ¹³³ ,	May 2009: A recapitalisation of EUR 3 billion and an asset	WestLB was split in a good and bad bank. According to the restructuring plan, the so-called Verbundbank activities will be carved out in order	The aid was notified as to remedy a serious disturbance in the economy. Refocus on the home market but no specific condition in favour

¹³⁰ http://ec.europa.eu/competition/state_aid/cases/233732/233732_1029364_9_1.pdf

¹³¹ http://ec.europa.eu/competition/state_aid/cases/237766/237766_1244247_98_4.pdf

¹³² http://ec.europa.eu/competition/state_aid/cases/227692/227692_980787_81_1.pdf

¹³³ http://ec.europa.eu/competition/state_aid/cases/233195/233195_1095432_60_2.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
	N555/2009 ¹³⁴ , SA.29510 ¹³⁵ , SA.29590 ¹³⁶)	relief measure with an expected loss of EUR 3 billion.	to be resolved. On 30 June 2012, all assets and liabilities not carved out to the Verbundbank or sold had to be transferred to the EAA wind-down facility. After 30 June 2012, WestLB did not engage in new banking business and transformed into a servicing platform including a run-down vehicle that holds legacy positions transferred to or hedged by a government led entity. The name was changed into Portigon Financial Services AG.	to SMEs. Though, the halt in engaging in new banking activities might still lead to a credit squeeze.
15	FIH (DK – SA.34445 ¹³⁷)	June 2009: Benefited from government guarantee and issued State-guaranteed bonds in the amount of EUR 5.7 billion and from an asset relief measure amounting to EUR 2.315 billion. And a hybrid core capital injection of EUR 256 million.	Refocus of the business strategy by substantially reducing the balance sheet. Hence, improve its viability through an increase in the funding by customer deposits and reduction in exposure to loans as well as other assets (e.g. equity instruments and corporate bonds). Moreover, FIH had to respect a dividend-, discretionary coupon payment- and acquisition ban.	Notwithstanding the shrinkage of the balance sheet, the bank's SME lending activities are untouched.
16	Banco De	November 2011: A	Banco de Valencia was sold through an open and	Complicated insolvency procedures and tight

¹³⁴ http://ec.europa.eu/competition/state_aid/cases/234461/234461_1039399_162_1.pdf

¹³⁵ http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_29510

¹³⁶ http://ec.europa.eu/competition/state_aid/cases/234461/234461_1314783_602_2.pdf

¹³⁷ http://ec.europa.eu/competition/state_aid/cases/245255/245255_1350980_822_2.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
	Valencia (ES - SA.33917 ¹³⁸ , SA.34053 ¹³⁹)	recapitalisation of up to EUR 1 billion and a liquidity assistance of up to EUR 2 billion.	competitive tender. Banco de Valencia will be fully integrated into CaixaBank and will cease to exist as an independent bank.	lending conditions -- credit squeeze, mainly affecting SMEs at least until the bank is passed over to CaixaBank.
17	Banco Mare Nostrum (ES - SA.35488 ¹⁴⁰)	June 2010: A recapitalisation of EUR 915 million in the form of convertible preference shares and State guarantees on unsecured senior debt worth EUR 4 424 million. December 2012: Recapitalisation of EUR 73 million in ordinary shares as well as transfer of impaired assets into bad-bank, the aid amounted to approximately EUR 2.1 billion.	By 2017, the balance sheet of the bank will be reduced by more than 40 % compared to 2010. BMN will refocus its activities to retail and SME lending in its historical core regions. In turn, the real estate development will be substantially downsized to become a marginal activity, the wholesale business is subject to an asset relief measure and a number of small subsidiaries were sold. Later, a flotation of BMN is envisaged.	A business model focused on retail and SME lending on one hand, a conservative bank funding/lending profile on the other hand: no advantageous conditionality towards SMEs access to credit; total loans to clients (general net) will be maximized to EUR 30 billion per year (2011 - 2017).
18	Bankia / BFA	June 2010: A	By 2017, the balance sheet of the bank will be	Lending conditions remained tight and credit to

¹³⁸ http://ec.europa.eu/competition/state_aid/cases/242685/242685_1284207_23_2.pdf

¹³⁹ http://ec.europa.eu/competition/state_aid/cases/244807/244807_1400359_165_4.pdf

¹⁴⁰ http://ec.europa.eu/competition/state_aid/cases/247030/247030_1413141_80_6.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
	(ES - SA.34820 ¹⁴¹ , SA.35253 ¹⁴² , SA.35369 ¹⁴³)	<p>conversion of existing State owned preference shares of EUR 4.5 billion into equity and a liquidity guarantee amounting to EUR 19 billion. Hence, the aid does not include the announced capital injections sought by BFA.</p> <p>June 2012: A liquidity guarantee amounting up to EUR 19 billion is provided.</p>	<p>reduced by at least 60 % compared to 2010. BFA/Bankia will refocus its business activities to retail and SME lending in its historical core regions. It exits from lending to real estate development and limit its presence in the wholesale business. Besides the assets included in the asset relief measure, the bank committed to sell several smaller subsidiaries. It has to respect a coupon payment-, dividend- and acquisition ban and advertising restrictions.</p>	<p>the private sector continued to contract rapidly. The complicated insolvency procedures and the non-accommodating interest rates increased the trade-off between deleveraging and aggregate demand. Improved market conditions in mid-2013 (the increase in solvent demand detected in the market, along with the decline in borrowing costs resulting from the fall in Spain's risk premium) helped to reverse the trend: Bankia provided more than EUR 1 billion of financing to businesses, SMEs and independent contractors by the end of 2013.</p> <p>A 'Business Plan' has been launched to improve the bank's products and services as well as available funds for small companies and businesses with an annual turnover below EUR 1 million. The plan is addressed to clients, both individuals and legal entities, with business activity and invoicing below EUR 1 million. The institution is establishing a specialised management model based on advice and closeness. The institution offers its clients pre-approved loans. These are financing lines, which allow the borrower to call the loan when needed. Since the start until end 2012, a total amount of</p>

¹⁴¹ http://ec.europa.eu/competition/state_aid/cases/245134/245134_1341455_209_1.pdf

¹⁴² http://ec.europa.eu/competition/state_aid/cases/246568/246568_1406507_239_4.pdf

¹⁴³ http://ec.europa.eu/competition/state_aid/cases/245840/245840_1399980_87_1.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
				EUR 1.3 billion in credit lines to SMEs have been granted.
19	Caja3 (ES - SA.35489 ¹⁴⁴)	December 2012: A recapitalisation of EUR 407 million in the form of contingent convertible bonds (CoCos), transfer of impaired assets to a bad bank for an aid amount of around EUR 770 million and liability guarantees worth EUR 654 million.	Caja3 merges with Ibercaja that did not receive State aid. The activities of both banks will be fully integrated in the new organisation. The branch network of Caja3 will be downsized, following two criteria: i) rationalisation in its strategic area, and ii) closure of most of the branches in the rest of Spain.	The business model focuses on retail and SME lending. Moreover, the lending book will be cleaned-up. .
20	Caja Castilla (ES - NN61/2009 ¹⁴⁵)	March 2009: State guarantee of EUR 3 billion. June 2009: Capital injection of EUR 1.3 billion, a liquidity contribution of EUR 350 million and an impaired asset measure consisting in a guarantee worth EUR	Sale of the viable parts through an auction and liquidation of the non-banking assets. Caja Castilla will give up its banking licence and be transformed into a foundation aimed at continuing only existing commitments on charitable, cultural and social services. These services will be funded through dividends from the foundation's shares in Banco Liberta. The viable part of Caja Castilla was absorbed in September 2010 by Cajastur's subsidiary Banco Liberta.	The merged entity's mission is to revive lending to entrepreneurs by bringing together various local funding sources. In 2013, agreements worth EUR 64 million in very favourable conditions for entrepreneurs had direct involvement in this new entity.

¹⁴⁴ http://ec.europa.eu/competition/state_aid/cases/247032/247032_1423221_82_2.pdf

¹⁴⁵ http://ec.europa.eu/competition/state_aid/cases/233842/233842_1154008_100_2.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
		2.5 billion.		
21	CajaSur (ES – N392/2010 ¹⁴⁶)	May 2010: Recapitalisation of EUR 800 million and a liquidity assistance of EUR 1.5 billion.	CajaSur was liquidated. The banking business was sold in an open and competitive tender to BBK in July 2010. After integrating the whole economic structure, financial, customer base and branch network were universally inherited by BBK and subsequently by Kutxabank.	Several SMEs, mainly in Andalusia, can no longer rely on the financial support of Cajasur.
22	CAM (ES – SA.33402 ¹⁴⁷ , SA.34255 ¹⁴⁸)	July 2011: Recapitalisation of EUR 2.8 billion and a liquidity facility of EUR 3 billion. May 2012: Recapitalisation of EUR 2.4 billion, additional conditional recap of EUR 0.7 billion and asset relief measure with an implied amount of State aid between EUR 7.2 and EUR 8.2 billion.	Banco Caja de Ahorros del Mediterráneo's (CAM) has been liquidated. The banking activities were transferred to Banco Sabadell.	SMEs had problems obtaining bank loans from the bank until it was acquired by Banco Sabadell.
23	Catalunya	July 2010:	Other than the balance sheet reduction, the	The activities of Catalunya bank are centred on

¹⁴⁶ http://ec.europa.eu/competition/state_aid/cases/237557/237557_1164518_62_2.pdf

¹⁴⁷ http://ec.europa.eu/competition/state_aid/cases/241479/241479_1247908_53_2.pdf

¹⁴⁸ http://ec.europa.eu/competition/state_aid/cases/243405/243405_1344573_85_1.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
	Banc (former CatalunyaCaixa) (ES - SA.33103 ¹⁴⁹ , SA.33735 ¹⁵⁰)	Recapitalisation of EUR 1.25 billion. September 2011: Recapitalisation of EUR 1.7 billion.	divestment of activities including the transfer of impaired assets and loans to a badbank, the restructuring plan predicts a sale of the bank before the end of a five-year restructuring period. In case a sale does not deliver the foreseen result, the Spanish authorities will present an orderly resolution plan to resolve the bank.	SMEs and public banking. The financial position of Catalunya Banc's has remained weak (situation as of July 2013), also in comparison with the other Spanish banks. Further credit deterioration is likely especially in the non-export oriented corporate segment (local SMEs mainly) and more broadly over the next year as asset quality improvements are likely to lag well behind the expected modest economic recovery. (Moody's, July 2013).
24	Banco CEISS (ES - SA.34536 ¹⁵¹ , SA.36249 ¹⁵²)	June 2010: A EUR 525 million recapitalisation and guarantees on unsecured senior debt worth EUR 3.2 billion. December 2012: Recapitalisation of EUR 604 million as well as asset relief worth around EUR 717 million in State aid.	Banco CEISS also known as Banco de Caja España will be fully integrated into Unicaja Banco and will cease to exist as an independent bank.	The activities of Banco CEISS were refocused on granting residential mortgage loans and SME loans in its core region (i.e. Castilla y León and province of Cáceres).

¹⁴⁹ http://ec.europa.eu/competition/state_aid/cases/242006/242006_1284183_34_2.pdf

¹⁵⁰ http://ec.europa.eu/competition/state_aid/cases/244292/244292_1400504_213_2.pdf

¹⁵¹ http://ec.europa.eu/competition/state_aid/cases/247029/247029_1413168_96_4.pdf

¹⁵² http://ec.europa.eu/competition/state_aid/cases/251929/251929_1532615_59_2.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
25	LiberBank (ES - SA.35490 ¹⁵³)	December 2012: A EUR 124 million recapitalisation in the form of contingent convertible bonds (CoCos), transfer of impaired assets into badbank for an aid amount of around EUR 1.0 billion and debt guarantees up to EUR 3.9 billion.	Other than the balance sheet reduction by the divestment of activities towards retail and SME lending, the restructuring plan predicts a flotation of Liberbank before the end of a five-year restructuring period.	Liberbank's loan book (net) amounted to EUR 36.5 billion as of December 2012, of which SMEs' corporate loans accounted for only 8 %. The bank's portfolio includes 25,000 SMEs. The bank's increased risk aversion resulted in less granting of loans to SMEs. Moreover, one third of the loans have a 'floor clause' that protects the margin of the bank in a low interest rate environment. For Liberbank this is 3.75 %, which makes it more expensive than most competitors. The availability of loans for SMEs will remain under pressure. The loan portfolio of Liberbank may not exceed EUR 26.1 billion at 31 December 2014 and of EUR 25.3 billion at December 31, 2016. The percentage allocated to SMEs would not exceed 20 %.
26	NCG (ES - SA.33096 ¹⁵⁴ , SA.33734 ¹⁵⁵)	December 2010: Recapitalisation of EUR 1.162 million. September 2011: Recapitalisation of EUR 2.465.	Other than the balance sheet reduction by divestment of activities and the transfer of impaired assets and loans to a badbank, the restructuring plan foresaw the sale of the bank before the end of a five-year restructuring period. The banking assets were transferred to Spanish Banesco International Financial Group that won the tender for the bank in 2013. The acquired	Although the market share was neglectable at the national level, the bank had a large stake in the Galicia-region banking market. The credit squeeze affected the non-export oriented corporate segment, mainly local SMEs. (Moody's, July 2013). Hence, the bank still granted new loans predominately to households, SMEs and other corporates, though at marginal levels.

¹⁵³ http://ec.europa.eu/competition/state_aid/cases/247031/247031_1413139_210_3.pdf

¹⁵⁴ http://ec.europa.eu/competition/state_aid/cases/242105/242105_1284129_18_2.pdf

¹⁵⁵ http://ec.europa.eu/competition/state_aid/cases/244293/244293_1400377_199_2.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
			activities were merged with those of Banesco's subsidiary Etcheverria Bank, which already obtained a small part of the branch network of NCG earlier in 2013.	
27	UNNIM Banc (ES - SA.33095 ¹⁵⁶ , SA.33733 ¹⁵⁷)	March 2010: Recapitalisation of EUR 380 million. March 2011: Recapitalisation of EUR 538 million May 2012: A loss protection measure worth up to EUR 2.9 billion.	UNNIM will be integrated into BBVA, which won the auction in 2012, and will cease to exist as an independent bank. UNNIM's branch network will be reduced and integrated within BBVA's branch network.	Complicated insolvency procedures and tight lending conditions -- credit squeeze, mainly affect the SME lending activity until the activities are taken over by BBVA.
28	BPCE (FR - N249/2009 ¹⁵⁸)	March 2009: EUR 3 billion recapitalisation and liquidity assistance of EUR 2 billion. April 2009: EUR 2.45 billion additional capital.	BPCE is the result of a merger between savings bank group CE and corporative banking group BP. Only the central institutions of CE and BP are merged. The regional banks remained the owner of the new central institutions. Due to the merger Natixis, which was partially owned by both BP and CE, had to be fully consolidated BPCE. This increased the capital requirement of the new banking group substantially. Despite the support,	In exchange of the State aid BPCE and other French banks had to respect a lending target. The bank had to increase loans to individuals, SMEs and local authorities by 3 to 4 % per annum. Although the retail loan portfolio of BPCE's two main networks – SMEs and corporates for the BPs, private individuals for the CEs – grew by approximately 4 % between end-2011 and end-third-quarter of 2012, new lending contracted

¹⁵⁶ http://ec.europa.eu/competition/state_aid/cases/242004/242004_1284133_32_2.pdf

¹⁵⁷ http://ec.europa.eu/competition/state_aid/cases/244265/244265_1361889_113_1.pdf

¹⁵⁸ http://ec.europa.eu/competition/state_aid/cases/231081/231081_1014474_46_1.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
			the new bank was considered fundamentally sound. The support was below the threshold of 2 %.	strongly in 2012. This was in line with market trends.
29	Agricultural Bank of Greece (GR – SA.31154 ¹⁵⁹ , SA.35460 ¹⁶⁰)	May 2009: A EUR 675 million recapitalisation. June 2009: Received government backed zero coupon bonds of EUR 807 million. June 2010: Received government backed zero coupon bonds of EUR 600 million. April 2011: Recapitalisation of EUR 1.3 billion and guarantees on debt for a total amount of EUR 4.7 billion.	Agricultural Bank of Greece or ATE Bank was liquidated in July 2012, part of the assets and liabilities were transferred to Piraeus Bank. The remaining assets and liabilities were put into a "bad bank" to be wound down. Before the decision to resolve the bank was taken, a restructuring plan was executed. It mainly consisted of: i) a net capital increase of EUR 584.5 million, ii) a gradual reduction of the Group's total assets (should have reached 25% in 2013 as compared to the bank's assets in 2009). Moreover, the bank had to gradually reduce the operating costs, improve risk management and credit approval processes.	ATE Bank was highly focused on risk management: stricter loan origination criteria, higher costs on new loans, stricter management of non-performing loans. Moreover, ATE Bank's reduction of the loan portfolio was achieved through a reduction of the public sector loan portfolio, a reduction of the housing loans, a reduction of consumer and a reduction of SME and agricultural loans. In turn, loans to large corporate clients increased. -- Huge impacts on private households and SMEs making them lose their capacity to apply for loans: The credit contraction was happening at an uninterrupted pace for more than two years.
30	Hellenic Postbank (GR - SA.31155 ¹⁶¹)	May 2009: A recapitalisation of approximately EUR 225	Downsizing programme, reduction of operating costs (the bank had to simplify its organisational structure, reducing its seven main divisions to	Hellenic Postbank plan to allow significant rationalisation of costs and would facilitate the repricing of deposits and new loans. Liquidity is

¹⁵⁹ http://ec.europa.eu/competition/state_aid/cases/237841/237841_1233861_100_2.pdf

¹⁶⁰ http://ec.europa.eu/competition/state_aid/cases/248444/248444_1455022_38_2.pdf

¹⁶¹ http://ec.europa.eu/competition/state_aid/cases/248556/248556_1432404_5_3.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
		million.	five, a 29 % reduction in the number of departments and promotional costs). Non-essential projects will be, or already have been stopped. Furthermore, the bank had to re-price its loans and deposits in order to improve its profitability.	gradually becoming less of a problem for Greek Hellenic Postbank. The bank could therefore meet its commitments to SMEs and to the Greek economy. Though, the credit rationing issues are making this more difficult.
31	FHB Jelzálogbank Nyrt (HU - SA.29608 ¹⁶²)	March 2009: A recapitalisation of EUR 100 million and loan of EUR 410 million.	The bank had to reduce its involvement in the mortgage bond market and its exposure to adverse currency movements. It also managed to increase its share on retail loans.	The SME lending business started strengthening in 2009 but the process came to a standstill during the first three quarters of 2010. At the same time, the supply side was weakened by unfavourable changes in the regulatory environment and in the market conditions.
32	Anglo-Irish Bank (IE - N9/2009 ¹⁶³ , N61/2009 ¹⁶⁴ , N241/2009 ¹⁶⁵ , N356/2009 ¹⁶⁶ , NN12/2010 ¹⁶⁷ ,	June 2009: Recapitalised of EUR 4 billion. March 2010: Recapitalisation of EUR 10.4 billion. August 2010:	Anglo Irish Bank was restructured through a joint plan with the Irish Nationwide Building Society (INBS). Both institutions are nationalised, merged and resolved over a period of 10 years. The merged institution has to respect a ban to develop new activities and to enter new markets, do acquisitions and pay coupons.	Although the bank has committed to continue lending to the real economy, the lending to SMEs of the merged bank is expected to decrease. Hence, the merged bank will limit advances to contractually committed amounts and amounts arising as part of the restructuring of existing mortgage facilities. Additional financing to

¹⁶² http://ec.europa.eu/competition/state_aid/cases/238763/238763_1362034_190_2.pdf

¹⁶³ http://ec.europa.eu/competition/state_aid/cases/230289/230289_978754_31_2.pdf

¹⁶⁴ http://ec.europa.eu/competition/state_aid/cases/229659/229659_978951_60_2.pdf

¹⁶⁵ http://ec.europa.eu/competition/state_aid/cases/231023/231023_1153993_38_2.pdf

¹⁶⁶ http://ec.europa.eu/competition/state_aid/cases/231723/231723_970996_46_2.pdf

¹⁶⁷ http://ec.europa.eu/competition/state_aid/cases/235166/235166_1110647_39_1.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
	NN35/2010 ¹⁶⁸ , SA.32057 ¹⁶⁹ , SA.32504 ¹⁷⁰ , SA.33296 ¹⁷¹)	Recapitalisation of EUR 10.0 billion, December 2010: Recapitalisation of EUR 4.946 billion.		borrowers is limited to small amounts under very strict conditions. The merged entity may lend to a new borrower only if the proceeds are used to reduce exposure of an existing borrower or regulatory group.
33	Bank Of Ireland (IE – N149/2009 ¹⁷² , N564/2009 ¹⁷³ , SA.33216 ¹⁷⁴ , SA.33443 ¹⁷⁵ , SA.36784 ¹⁷⁶)	March 2009: Recapitalisation of EUR 3.5 billion, July 2010 Recapitalisation amounting to EUR 1.85 billion.	Behavioural conditions and transparency and reporting conditions, remuneration arrangements/reductions for directors and executives, ban on dividends and acquisitions as well as restrictions on investments and advertising and risk management arrangements.	SMEs benefited of a series of measures, including an increased capacity for lending to SMEs and first time buyers, new codes of practice for business lending to SMEs. Credit granted under the credit package had to be issued on a commercial basis.
34	EBS (IE – N160/2010 ¹⁷⁷)	July 2011: Recapitalisation of EUR	Behavioural conditions and transparency and reporting conditions, remuneration	No favourable conditions on lending to SMEs and no real motivation to prioritise the real economy.

¹⁶⁸ http://ec.europa.eu/competition/state_aid/cases/237117/237117_1144972_27_2.pdf

¹⁶⁹ http://ec.europa.eu/competition/state_aid/cases/239758/239758_1187960_26_2.pdf

¹⁷⁰ http://ec.europa.eu/competition/state_aid/cases/239466/239466_1251121_21_3.pdf

¹⁷¹ http://ec.europa.eu/competition/state_aid/cases/241261/241261_1242549_81_2.pdf

¹⁷² http://ec.europa.eu/competition/state_aid/cases/230254/230254_997291_29_2.pdf

¹⁷³ http://ec.europa.eu/competition/state_aid/cases/233487/233487_1108426_33_1.pdf

¹⁷⁴ http://ec.europa.eu/competition/state_aid/cases/241090/241090_1245419_68_2.pdf

¹⁷⁵ http://ec.europa.eu/competition/state_aid/cases/241558/241558_1347276_81_1.pdf

¹⁷⁶ http://ec.europa.eu/competition/state_aid/cases/248880/248880_1466833_120_2.pdf

¹⁷⁷ http://ec.europa.eu/competition/state_aid/cases/236102/236102_1120836_54_2.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
		13.1 billion.	arrangements/reductions for directors and executives, ban on dividends and acquisitions as well as restrictions on investments and advertising and risk management arrangements.	
35	Irish Life & Permanent Group (IE - SA.33311 ¹⁷⁸)	July 2011: Recapitalisation of EUR 3.8 billion.	Behavioural conditions and transparency and reporting conditions, remuneration arrangements/reductions for directors and executives, ban on dividends and acquisitions as well as restrictions on investments and advertising and risk management arrangements.	Regulations requiring lower net fees and commissions, especially in favour of SMEs.
36	Irish Nationwide Building Society (IE - N11/2010 ¹⁷⁹ , SA.32504 ¹⁸⁰)	March 2010: Recapitalised of EUR 2.7 billion. December 2010: Recapitalisation of EUR 2.7 billion.	INBS was restructured through a joint plan with the Anglo Irish Bank (see also Anglo-Irish Bank - IE). Both institutions will be nationalised, merged and resolved over a period of 10 years. INBS will be subject to the behavioural constraints and transparency and reporting conditions imposed under the Eligible Liabilities Guarantee (ELG) scheme. These include balance sheet growth constraints, controls over acquisition, establishing subsidiaries and/or entering into new business, compliance with targets on assets, liabilities and capital ratios, limitations on the payment of dividends and controls on executive	No favourable conditions on lending to SMEs and no real motivation to prioritise the real economy.

¹⁷⁸ http://ec.europa.eu/competition/state_aid/cases/241287/241287_1243263_62_2.pdf

¹⁷⁹ http://ec.europa.eu/competition/state_aid/cases/235165/235165_1101916_40_2.pdf

¹⁸⁰ http://ec.europa.eu/competition/state_aid/cases/239466/239466_1251121_21_3.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
			remuneration.	
37	Monte dei Paschi Siena S.p.A (IT - SA.35137 ¹⁸¹ , SA.36175 ¹⁸²)	February 2009: Recapitalisation of EUR 1.9 billion. December 2012: Recapitalisation of EUR 2 billion and a debt guarantee amounting to EUR 13 billion.	Capital management initiatives, optimisation of risk weighted assets, assets disposal, dividend ban, advertising restrictions, prohibition on aggressive commercial strategies, and adherence to G-20 remuneration principles.	No favourable conditions on lending to SMEs and no additional motivation to prioritise the real economy.
38	The Mortgage and Land Bank of Latvia, LHZB (LV - SA.30704 ¹⁸³)	November 2009: A recapitalisation of EUR 102.5 million.	Phasing-out of the bank's commercial activities to transform LHZB into a pure development bank.	The bank had to prioritise the public development. LHZB's tasks were limited to the financing of: SMEs, business start-ups, technology development and innovations, the development of agriculture and rural areas, projects to protect the environment and improve energy efficiency projects and self-employment and business activities of socially vulnerable groups of the population. Furthermore, LHZB provides loans with specific terms, different from those available from commercial banks. Hence, less than required by commercial banks or even no collateral required at all, lower capital contribution, no credit history and lower interest

¹⁸¹ http://ec.europa.eu/competition/state_aid/cases/246983/246983_1401709_117_2.pdf

¹⁸² http://ec.europa.eu/competition/state_aid/cases/249091/249091_1518538_162_2.pdf

¹⁸³ http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_30704

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
				rate.
39	ABN AMRO Group (NL – SA.26674 ¹⁸⁴)	October 2008: Recapitalisation EUR 4.2 billion, asset relief measure for a EUR 34.5 billion mortgage loan portfolio, short-term liquidity facility for EUR 45 billion and guarantees on bond issuance. January 2010: Recapitalisation EUR 5.5 billion.	ABN Amro was nationalised by the Dutch state (ABN Amro contains primarily the Dutch banking activities that were carved out of Fortis in July 2010). The new merged entity had to reduce its presence in "commercial banking" and "factoring". The bank is banned to conduct any significant acquisitions until the government sells its majority stake. It had also to respect a price leadership ban on mortgages and savings deposits (started in 2008).	No favourable conditions on lending to SMEs and no real motivation to prioritise the real economy. Though, parts of the non-profitable banking relations of SME customers were ceased after being acquired by Deutsche Bank.
40	ING (NL – N528/2008 ¹⁸⁵ , N373/2009 ¹⁸⁶ , SA.29832 ¹⁸⁷ , SA.33305 ¹⁸⁸)	October 2008: A recapitalisation of EUR 10 billion and asset relief measure on US based RMBS portfolio to USD 9 billion, equivalent to EUR 7	ING had to undertake a divestment program that will make it a much smaller combined bank and insurer primarily focusing on Europe, with the Netherlands, Belgium and Germany as its core markets. To simplify the group, ING regrouped its six business lines into two independent divisions, banking and insurance, of which the insurance	ING projects an organic balance sheet growth for the new core bank and plans to achieve most of that growth by lending to the real economy (i.e. households and companies). ING will have a general policy to use its growth in funds entrusted by customers mainly to grow in lending to the real economy and decrease its

¹⁸⁴ http://ec.europa.eu/competition/state_aid/cases/230806/230806_1235915_338_2.pdf

¹⁸⁵ http://ec.europa.eu/competition/state_aid/cases/228038/228038_1153976_60_2.pdf

¹⁸⁶ http://ec.europa.eu/competition/state_aid/cases/232045/232045_1345036_30_1.pdf

¹⁸⁷ http://ec.europa.eu/competition/state_aid/cases/233980/233980_1490836_334_2.pdf

¹⁸⁸ http://ec.europa.eu/competition/state_aid/cases/244693/244693_1419090_118_2.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
		billion. March 2009: An asset relief measure worth up to EUR 5 billion.	activities will be divested. The bank also had to make number of divestments, develop a sustainable remuneration policy, strengthen its capital structure, install new internal capital ratio targets and extend the amount of long-term funding in non-deposits. It also has to commit to an acquisition-, dividend- and a general price leadership ban.	exposure to higher risk asset classes. ING was encouraged to take some government guarantees to support lending to the real economy.
41	SNS Reaal (NL - N611/2008 ¹⁸⁹ , N371/2009 ¹⁹⁰)	December 2008: Recapitalisation of EUR 750 million. February 2013: Recapitalisation of around EUR 2.2 billion, bridge loan of EUR 1.1 billion and asset relief measure for property development loans implying State aid of EUR 859 million.	After restructuring SNS Reaal will focus on retail and SME clients in the Netherlands. And provide products divided across three broad product groups: i) mortgages (including Dutch property finance), ii) savings and investments, and iii) insurance and pensions. The combined bank and insurer had to run off its international property project division and reduce its risk exposure in the insurance division.	Going forward, SNS Bank will focus primarily on retail clients.
42	CGD (PT - SA.35062 ¹⁹¹ , SA.35238 ¹⁹²)	June 2012: A recapitalisation of EUR 1.7 billion.	Three main vectors will lead the bank's strategic re-focus on Portuguese households and corporates: i) Restructuring the balance sheet by	In 2013, the CGD Group retained its orientation to the funding of the Portuguese economy. This was particularly noticeable in the SME segment.

¹⁸⁹ http://ec.europa.eu/competition/state_aid/cases/228680/228680_988544_31_2.pdf

¹⁹⁰ http://ec.europa.eu/competition/state_aid/cases/232043/232043_1085851_37_2.pdf

¹⁹¹ http://ec.europa.eu/competition/state_aid/cases/247498/247498_1536770_153_2.pdf

¹⁹² http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_35238

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
			the sale of the insurance business, and remaining non-strategic holdings as well as the run-down of non-core assets; ii) improve operational efficiency by reducing operational costs, including retail branch network and staff as well as renegotiation of contracted services; and iii) restructuring the activity and optimize the scale of CGD's network in Spain.	Moreover CDG also changed its approach to debtors defaulting on their debt payments, mainly by extending loan maturities (grace periods and repayments) and loan consolidations. On the one hand the measures reduced the loan losses for the bank, on the other the customer could continue running its business.
43	Bradford & Bingley (UK - NN41/2008 ¹⁹³ , N194/2009 ¹⁹⁴)	September 2008: A recapitalisation of up to GBP 11.7 billion, equivalent to EUR 14.5 billion (working capital) and debt guarantees up to GBP 7.5 billion equivalent to EUR 9.3 billion.	Bradford & Bingley was nationalised and liquidated, the deposit book and branches were transferred to Abbey National, a UK subsidiary of Spanish Banco Santander.	Bradford & Bingley had the obligation to sustain lending to the real economy (i.e. homeowners and small business) after obtaining the State aid in September 2008. However, it has been unable to meet its obligations in the short period between State intervention and the liquidation.
44	Dunfermline (UK - NN19/2009 ¹⁹⁵)	January 2010: A GBP 1.5 billion, equivalent to EUR 1.7 billion, recapitalisation and a working capital facility worth up to GBP 10	Dunfermline underwent a similar restructuring as Bradford & Bingley's described above. Hence, the bank was split-up, after which the part containing the good assets and liabilities was sold in an auction to its former competitor Nationwide Building Society. The part containing the impaired	The UK authorities opted for a market-oriented solution which enabled competitors to obtain and rescue the viable parts of the businesses.

¹⁹³ http://ec.europa.eu/competition/state_aid/cases/227662/227662_884717_21_2.pdf

¹⁹⁴ http://ec.europa.eu/competition/state_aid/cases/230722/230722_1101919_47_2.pdf

¹⁹⁵ http://ec.europa.eu/competition/state_aid/cases/230721/230721_1088213_25_2.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
		million, equivalent to EUR 11 million.	assets was put into administration.	
45	Lloyds Banking Group (UK – N428/2009 ¹⁹⁶)	October 2008: Recapitalisation of EUR 19 billion. March 2009: Asset relief measure worth up to EUR 15.6 billion.	An asset reduction programme, disposal or run-down of non-core businesses and activities. Within the personal and small business segment, a special asset reduction programme was planned. A total reduction of around GBP 181 billion is planned.	Lloyds Banking Group (LBG) had the obligation to maintain lending to homeowners and small business at 2007 levels. Moreover, LBG committed to the government-backed SME Charter, published for the first time in 2009 and annually updated since then. Moreover, after the Bank of England announced a GBP 300 million drop in loans to small businesses in January 2014, LBG pledged to provide GBP 1 billion to SMEs over the coming year. The bank will further also double the amount of money its local senior managers can lend without seeking central approval to 1 million pounds.
46	Royal Bank of Scotland (UK - N422/2009 ¹⁹⁷ , N621/2009 ¹⁹⁸)	October 2008: Recapitalisation of GBP 20 billion, equivalent to EUR 25 billion. November 2008: Recapitalisation of GBP 32.5 billion, equivalent to EUR 41.1 billion.	Royal Bank of Scotland (RBS) has to restructure its activities. After the restructuring process RBS will focus on its retail and corporate activities in the UK, while the US subsidiary Citizens Financial Group will be sold and the investment banking activities are reduced considerably. An internal badbank is set up to resolve the non-core assets. In 2009, the bank committed to divest its UK	RBS has announced a series of measure to ensure that its gross lending to SMEs increases and customer service are improved. RBS, for instance, wrote thousands of SMEs a letter telling them how much they can borrow at the bank, but also pointing them at the possibility of independent appeal. Moreover, they also noted alternatives to obtain financing to SMEs, of which

¹⁹⁶ http://ec.europa.eu/competition/state_aid/cases/232373/232373_1069315_136_2.pdf

¹⁹⁷ http://ec.europa.eu/competition/state_aid/cases/232360/232360_1093292_148_2.pdf

¹⁹⁸ http://ec.europa.eu/competition/state_aid/cases/233798/233798_1093298_30_2.pdf

NR	Bank name (Country code - Case number(s))	State aid measures	Implications on the banks and banking system	Implications on SMEs access to Credit
			SME banking operations, Rainbow (Commission requirements to remedy competition concerns in the concentrated UK SME and mid-corporate banking sector, where RBS is the leading bank). RBS tried to divest Rainbow by proposing to transfer Rainbow's assets and liabilities to a buyer with existing banking operations in the UK retail and SME market. However, after three years of unsuccessful negotiations with potential purchasers, RBS had to modify its plans and instead proceed to establish Rainbow as a standalone bank.	loan applications were declined. In 2013, reports state that RBS has succeeded in delivering a number of critical changes to its SME business. Albeit, RBS has not supported the SME sector in a way that meets its own targets or the expectations of its customers. RBS acknowledges that there is significantly more it can do to expand its lending to SMEs. It announced to come up with solutions by the end of 2014.

Note: The above table takes into account the European Commission financial crisis related State aid cases-decisions up to February 2014.

Source: Analysis Ayadi et al (2014) with the assistance of Ibtihel Sassi from HEC Montréal based on e.g. European Commission (2014), http://ec.europa.eu/competition/state_aid/register/.

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