

Relevant instruments

- Notice on State aid in the form of guarantees (2008)
- Guidelines on State aid for Rescue and Restructuring firms in difficulty (2004)
- Communication on a Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis (2008, amended 2009, revised 2010)

Guarantee notice vs Temporary Framework

- Both are of general application in terms of the sectors and forms of guarantee covered
- The Guarantee notice focuses on the application of the market economy investor principle and quantification of aid. No guidance on compatibility assessment
- TF provided a basis on which aid measures in the form of subsidised guarantees for loans could be found to be compatible based on Article 107(3)(b) TFEU
- TF was available to firms in difficulty as a result of the financial crisis (post 1 July 2008)

Economic case for use of guarantees in the financial crisis

- One of the main objectives of the TF was to unblock bank lending to companies and ensure access to finance
- State guarantees in this context can be seen as performing an insurance function to maintain or restore market confidence
- Guarantees can be less distortionary than loans or direct subsidy as they:
 - Avoid a need for direct capital outlay (and therefore taxation)
 - Can be tailored to respond to the specific need
 - Can be removed more easily if circumstances change

Practical impact of the Temporary Framework

- The European Commission's analysis suggests that overall there was a wide take up of the TF
 - All Member States except Cyprus introduced schemes under the TF
 - Guarantees were the second most used instrument
 - In most Member States the TF was used to guarantee relatively high amounts to a small number of beneficiaries (although in Germany almost all beneficiaries were SMEs)
- Only about 26% of the aid budget approved under the TF (for all measures) was actually used
- Feedback suggests that Member States nonetheless appreciated the availability of the TF as a "safety net"

Conclusions

- The TF is unusual in providing criteria for the assessment of compatibility that are linked to the type of measure rather than the objective served
- Difficult to reconcile this approach over the long term with the objectives of State aid modernisation
- But in circumstances where the real economy continues to experience difficulties the underlying economic rationale for the TF continues to be relevant
- An equivalent approach could therefore be part of a pragmatic policy response to continuing exceptional market circumstances