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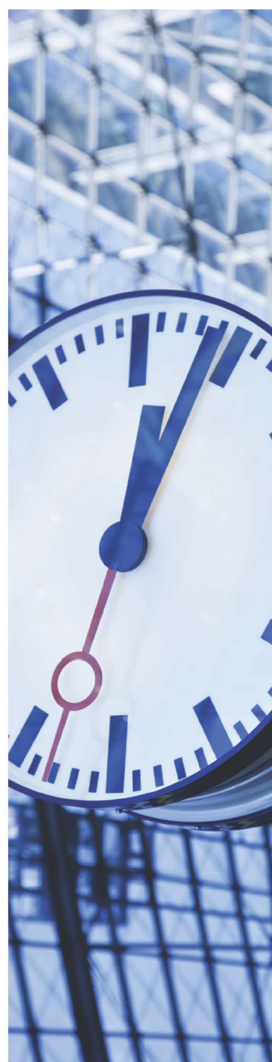
POLICY DEPARTMENT A
ECONOMIC AND SCIENTIFIC POLICY



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State Aid to Banks and Credit for SMEs: Is there a Need for Conditionality?

Study for the ECON Committee

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State Aid to Banks and Credit for SMEs: Is there a Need for Conditionality?

DIRECTORATE GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

State Aid to Banks and Credit for SMEs: Is there a need for Conditionality?

STUDY

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 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.

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CONTENTS

LIST OF ABBREVIATIONS 4

LIST OF FIGURES 6

LIST OF TABLES 6

EXECUTIVE SUMMARY 8

INTRODUCTION 11

1. ECONOMIC REVIEW 13

1.1. Interactions of SMEs with banks and governments 14

1.2. Bank balance sheet repair, State aid and impact on lending to SMEs 17

1.2.1. Internal 18

1.2.2. External measures- Markets 18

1.2.3. External measures - Governments 19

1.2.4. External measures – Central Banks 21

2. QUALITATIVE EVIDENCE ON STATE AID TO BANKS AND SME LENDING 22

2.1. EU bank State aid policy and conditionality 22

2.1.1. The EU's State aid rules 23

2.1.2. Types of bank State aid during the financial and sovereign crisis 25

2.1.3. Conditionality in EU bank State aid regimes 26

2.2. Framework to assess impact of State aid conditionality on SME lending 29

2.3. Findings 30

3. QUANTITATIVE EVIDENCE ON STATE AID TO BANKS AND LENDING TO SMES 35

3.1. Member State-level quantitative analysis 36

3.1.1. Model 36

3.1.2. Data 36

3.2. Bank-level quantitative analysis 46

3.2.1. Model 46

3.2.2. Data 47

3.2.3. Findings 53

4. CONCLUSIONS AND POLICY RECOMMENDATIONS 57

REFERENCES 60

ANNEX: DETAILED TABLES AND FIGURES SUPPORTING THE ANALYSIS 63

LIST OF ABBREVIATIONS

AECM European mutual guarantee association (Association Européenne du Cautionnement Mutuel)

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 Centre for European Policy Studies

CGD Caixa Geral de Depósitios

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 estblishing 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 Societey
HGAA	Hypo Group Alpe Adria
KfW	KFW Group, formerly Kreditanstalt für Wiederaufbau (Germany),
LBBW	Landesbank Baden-Württemberg
LHZB	Latvijas Hipotēku un zemes banka (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

LIST OF FIGURES

Figure 1: Relations between governments, banks and SMEs 14
Figure 2: Government interventions in the financial sector during the crises 22
Figure 3: Framework to assess impact of State aid conditionality on SME lending 29
Figure 4: Framework to assess State aid conditionality on lending to SMEs 35
Figure 5: Share of SMEs successfully obtaining bank loans (SUCCESS), 2009-13 38
Figure 6: Share of SMEs applying for bank loans, 2009-13 38
Figure 7: Total bank assets as a share of GDP, 2008-12 39
Figure 8: Tangible equity as share of total assets, 2008-12 40
Figure 9: Total impairments and net interest income of EU27 banks, 2008-12 40
Figure 10: Average growth rate of net customer loans, 2007-2012 47
Figure 11: Real economic growth EU27, 2006-2012 48
Figure 12: National central banks total assets, lending and net lending, 2006-2012 49
Figure 13: 3 month Euribor rate, 2006-2013 49
Figure 14: New issuance of SME loans, 2003-13 64
Figure 15: Share of new SME loans in total new bank loans, 2003-13 64
Figure 16: Average interest rates new SME loans, 2000-14 65
Figure 17: Average interest mark-up new SME loans, 2000-14 65

LIST OF TABLES

Table 1: Conditionality in bank lending to SMEs in case studies 31
Table 2: State aid in the EU banking sector 41
Table 3: Description Member State level database 42
Table 4: Correlation matrix of Member State level variables 43
Table 5: Results of Member State level estimations 45
Table 6: SME-related conditions in restructuring plans for EBA and SSM banks 51
Table 7: Description bank-level database 52
Table 8: Correlation matrix of bank-level variables 53
Table 9: Results bank level estimations 56
Table 10: Definitions of Member State-level indicators 63
Table 11: Number of enterprises, 2011 (thousands) 66
Table 12: Turnover or gross premiums written, 2011 (EUR billion) 67
Table 13: Value added at factor costs, 2011, EUR billion 68

Table 14: Number of persons employed, 2011, million 69
Table 15: Share of SMEs considering finance most pressing problem 70
Table 16: Volume guarantees granted 71
Table 17: State aid effectively used: Total recapitalisation and asset relief 72
Table 18: State aid effectively used: Total guarantees and liquidity measures 73
Table 19: General description of the CEPS database of banking statistics 74
Table 20: Definitions of bank level indicators 75
Table 21: Financial crisis-related State aid and implications for SME lending 77

EXECUTIVE SUMMARY

Obtaining access to finance has become more difficult for small- (including micro) and medium sized enterprises (SMEs) during the recent financial and economic crises. These enterprises (up to 250 employees) faced more challenging economic and financial conditions, while the banks, which are their main provider of external funding, had to shore up their own finances. Member state governments 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 European economies and constitute a driver for growth and innovation. However, many of the more than 20 million SMEs, which employ over 80 million persons and generate over €2.4 trillion of added value, are unable to fully exploit their potential. Other than attracting customers, most SMEs perceive access to finance as the most pressing problem. 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 assesses whether lending to SMEs could and should be one of the conditions for a bank to qualify to receive State aid. The assessment consists of a legal and an 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 the member state- and bank level. The results could provide policy-makers with measures that reduce the obstacles 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- (including micro) and medium-sized enterprises (SMEs) are the backbone of the European economy. They provide the lion's share of the added value and employment and 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 main channels through which the financial crisis hit SMEs, which are largely reliant on bank financing. In fact, many SMEs consider obtaining access to finance as their most pressing problem (see Table 15 in the Annex). Among other important factors associated with the crisis that took their toll on enterprises was the sustained uncertainty of macroeconomic conditions, including the slow recovery and sluggish consumer demand. The impact on SMEs was more severe than on large firms, which found an alternative to bank funding in market-based funds.

Bank loans to SMEs decreased during the crisis. The limited available data on loans to SMEs show that since the burst of the crisis in 2008 the amount of new bank loans issued below EUR 1 million, which is an often used as a proxy for SME loans, has gradually declined (see Annex Figure 14 and Figure 15). The reduction is noticeable in almost all countries, although the drop is more severe in countries that were in the centre of the 2010-12 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 trend seems especially pronounced in countries like FR, DE, IT and NL where the issuance of corporate debt instruments has increased substantially since the burst of the crisis.

The interest rate on bank loans to SME has decreased during the crisis, but less so 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). Although 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, a slack in accommodation of funding costs, larger effective capital consumption as well as less competition. The interest rate on bank loans to SMEs had more impact than other loans in which the interest rate decline more. Whilst the interest rates in most euro area countries continued to follow the monetary policy rates, the interest rates diverged in the countries most severely hit by the 2010-12 euro-area sovereign-debt crisis. Hence, the interest rates on new bank loans to SMEs 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 been taken with the aim of alleviating the funding constraints on bank lending to SMEs. The new capital requirements Regulation (CRR) 2012/648/EU[1] introduced a preferential risk weight for SMEs (Article 501) in order to reduce their regulatory costs. However, this might not provide sufficient incentive for banks to enhance access to credit for this category of enterprise. Indeed, as a result of the financial crisis, banks have suffered large losses because of excessive risk-taking in previous years, leading governments to provide them with financial support in the form of State aid. Between 2008

[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).

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

In an attempt to raise awareness of SMEs' lack of access to finance through bank 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:

> […] 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 Annual Report on EU Competition Policy (2013/2075(INI)[4] discusses the specific need of SMEs to receive credit during times of crisis and suggests that consideration should be given to making **State aid to banks in certain cases 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 answer this question the study assesses the importance of bank loans for SME financing as well as the restructuring that the European banking sector has undergone during 2007 and 2012. The latter is important since the granting of 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, however, banks must comply with case-specific conditions. The transmission channels of State aid in combination with the conditionality relative to bank lending to SMEs are assessed from a legal and economics perspective.

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[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 working 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.
- The impact of State aid is likely to depend on the conditions included in the restructuring plans.

Definition of SMEs. The definition of SMEs varies significantly across the globe. Different countries use different criteria such as employment, turnover and/or assets to identify SMEs. Moreover, the thresholds for the criteria also vary between countries. For example, the most commonly used indicator for SMEs, the number of employees, varies between 50 in Egypt to a 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. The main determining factors in this definition are the number of employees and financial records. 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 SMEs. These enterprises benefit from less burdensome administrative requirements and are eligible for specially designed government support programmes.

In the capital requirements Regulation No. 2013/575[7], 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, will 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 & Van Der Vaart (2008, p. 6).

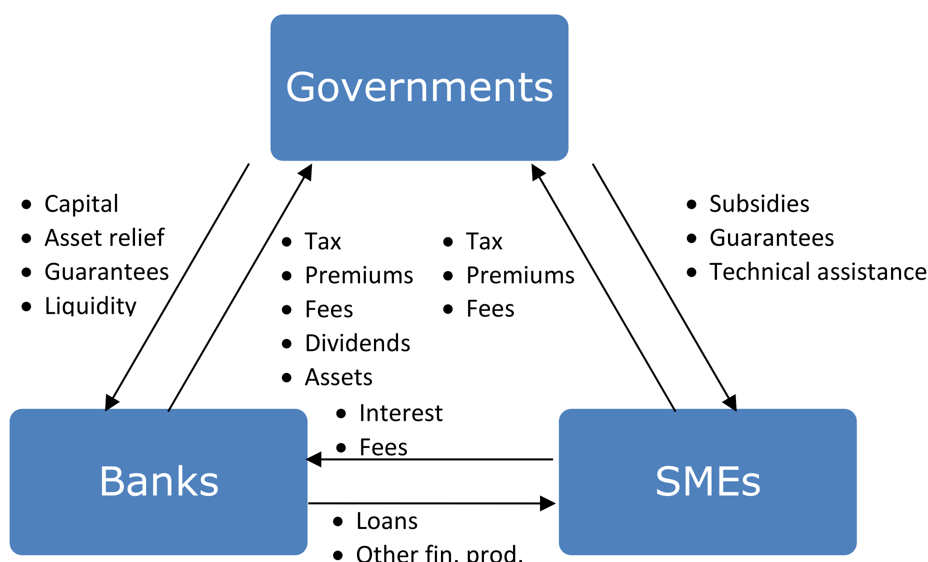
[6] Commission Recommendation of of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, OJ L 124 of 20.5.2003, p. 36 (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:en:PDF).

[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. Interactions of SMEs with banks and governments

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

Figure 1: Relations between governments, banks and SMEs



Source: Authors' own configuration.

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

In 2011, 99.8% of companies in the EU qualified as SMEs, representing more than 20 million companies and 55.6% of total 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 make an important contribution to economic growth and prosperity.** In the three years before the burst of the 2007-09 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] And many of these larger firms started as SMEs[10].

The development of SMEs is thus critical to the performance of the economy. Some studies find, however, that SMEs face more difficulty in accessing (attractive) financial resources than large enterprises, which constrains 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 search for external financial resources to fund their growth and that they

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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 Demirguc-Kunt (2006), pp. 2931-2942.

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

usually do not have problems obtaining it when needed. Despite 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 a lack of scale and disclosure practices make SMEs relatively 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 the application of standardised risk-rating tools that require a larger scale to be applied. Moreover, these banks also tend to offer more asset-linked products that reduce the credit risk for the lender. Both categories of banks further offer a package of services to SMEs 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 – contract their activities more easily, and can fall back on more diversified activities and client pools as well as more financing options. Besides these factors, which affect 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, which makes 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 situation and prospects, dysfunctional inter-bank markets and the need to strengthen their capital position to fulfil market and regulatory demands[15]. Empirical evidence for the United Kingdom indicates substantial rise in rejection rates for term loans and overdrafts, showing, 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 created the necessity for governments to act.

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[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).

Governments play a variety of important roles in the financial markets and banking, in particular to response to market failures. They design the regulatory framework and tax 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 the 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 crisis and made government intervention necessary to contain wider disturbance to the EU economies.

When banks fail, not only are shareholders and bondholders negatively affected, but also customers and depositors. Since the costs and benefits of these effects spill-over to the wider economic system, in particular to 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 trigger 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 crisis. 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 2007-09 global financial crisis[18]. Their policies on the application of credit ratings, the usage of credit default swaps and other matters 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 a lack of information) and are 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 intervention. Besides the externalities linked to bank failures, Stiglitz (1993) highlights in total six other distinct types of market failures in financial markets. Some of these 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 in 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 of switching from one bank to another. 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].

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

[19] Stiglitz (1993), pp. 114-144.

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

[21] Boot (2000), pp. 7-25.

In their policies, some governments have tried to address the negative consequences of the two main market failures affecting SMEs. First, to limit the distortion in SME credit markets due to limited risk-taking, some governments have extended guarantee schemes to SMEs (e.g. Germany, Luxembourg, etc.). Second, to prevent failing banks from ceasing 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 have extended loans 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 the European Investment Bank Group (EIB)[23]. In 2012, the EU Member States further increased the capital of the EIB by 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 so-called 'EU SME Access to finance initiative' allocated t.o 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, which expanded their activities or set up new ones.

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

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 of or even the entire banking sector and tend to increase the likelihood that other healthier banks will also fail to meet the regulatory and supervisory requirements or market demands without State aid, which was also the case during the financial and economic crises. The level of concentration of ailing banks further undermines financial stability and their contribution to financing the real economy, including lending to SMEs. As a consequence - at a time when 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 means 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 potentially wider and more severe economic disruptions. A bank must in principle first employ all available alternatives to improve its financial conditions, before its government steps 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 into 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.

[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 specialises in providing risk-financing to SMEs.

[24] European Commission and EIB (2013).

1.2.1. Internal

As the name suggests, these measures employ internally generated funds to **strengthen the capital** position of banks, ranging from reducing dividend payments to shareholders, to using of a larger part of or 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 on debt, which benefits from a preferential tax treatment as well as from an implicit government guarantee. The Banking Communication of July 2013[25] 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 by 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 SMEs[26] and other exposures[27]. In addition, banks get 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 combination, these measures are expected to impact lending to SMEs, most likely by increasing of costs without necessarily increasing volume, unless the rate of return on additional lending to SME proves profitable.

1.2.2. External measures- 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 requirements. 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.

[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%. See 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).

Unless the SME's activities are sold and reduced afterwards, a sale is likely to have more or less similar consequences as a capital issuance, which also generates extra capital but leaves the activities untouched. In turn, when the sale price is below the net asset value, the restructuring is likely to have the opposite consequence.

Finally, the **liability structure** of banks is likely to change. In times of economic adversity, banks are considered to be more prone to risks, which are reflected in a higher and steeper risk-premium curve. This motivates banks not only to reduce the maturity of their funding, but also to buy back debt papers in issues 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 measures - 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 in general focus on liquidity support, while governments[28] provide both liquidity and capital support. Depending on the amount of funds and the necessary measures to ensure the long-term viability of a bank or to resolve the ailing bank in an orderly fashion, 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 lending to SMEs. The overall impact on lending to SMEs 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 with capital support against, in general, lower required returns than the capital markets demand. Banks that are **recapitalised** are, nevertheless, not allowed to price according to this cost-price advantage. The rates of the State aid-receiving banks 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 ensure that the financial sector's capital shortages are not passed-on to other economic sectors[32], the aided bank might still be reluctant to use the funds obtained for lending activities because of the uncertainty and expectations of

[28] In addition to taxpayers' money, the State aid provided by governments consists 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 scheme (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." See 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).

further deterioration. Given the European Commission's intention to minimise the amount of State aid granted to banks and to ensure that the aid is repaid, aided banks may be obliged to 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 by financial markets. Overall lending targets are likely to increase when targets are set for lending to SMEs, but these 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 value. But when these assets are sold at market value, there would be no need for 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 lending to SMEs 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 hand, 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, is more straightforward. Hence, the liquidity support is for banks that have long-term viability, and is not conditional on 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. Thus, while liquidity had been a restricting factor on the expansion of lending to SMEs, the guarantees would allow them to obtain the necessary funds for the expansion.

The granting of **guarantees for lending to SMEs** is the most immediate form of support to foster bank lending to SMEs. In contrast to the recapitalisation, asset relief and the liability measures described above, the guarantees on SME loans are mostly granted to the SMEs themselves rather than to the bank. There are thus no conditions attached for the bank that provides the loan. In turn, the bank still benefits from burden-sharing and lower

[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), Kommunalkredit (SA.32745), LBBW (C17/2009), RBS (N422/2009) and WestLB (N555/2009), (http://ec.europa.eu/competition/elojade/isef/index.cfm?clear=1&policy_area_id=3). See 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).

capital charges. SME guarantees can cover up to 80% of the outstanding loan[35] and most governments' secured paper has a zero risk weight[36] .

Finally, when the bank is considered not to be viable in the long-term, it can obtain support but then has to be **resolved and liquidated in an orderly fashion**. Resolution without State aid at that moment would 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 is strictly necessary, the bank should not engage in new activities and the pricing policy should encourage customers to find alternatives. The costs of lending for the 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 measures – Central Banks

The monetary policy of the Eurosystem as well as most central banks of non-euro area EU countries targets stable prices. These are defined in terms of 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 experienced shrinking demand fuelling deflation risks. Central banks countered this by decreasing their policy rates. In order to ensure that these lower rates would also be passed on to interbank and financial markets as well as to 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 rate. When passed on, lower interest rates also lower the costs of SME loans. Moreover, there are also measures directly enhancing the lending capacity of banks. In 2014, the ECB launched targeted longer-term refinancing operations (TLTROs)[38], aiming to increase, inter alia, 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 for some forms of emergency liquidity assistance (ELA)[39].

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[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).

[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, is fully collateralised, is 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. See 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

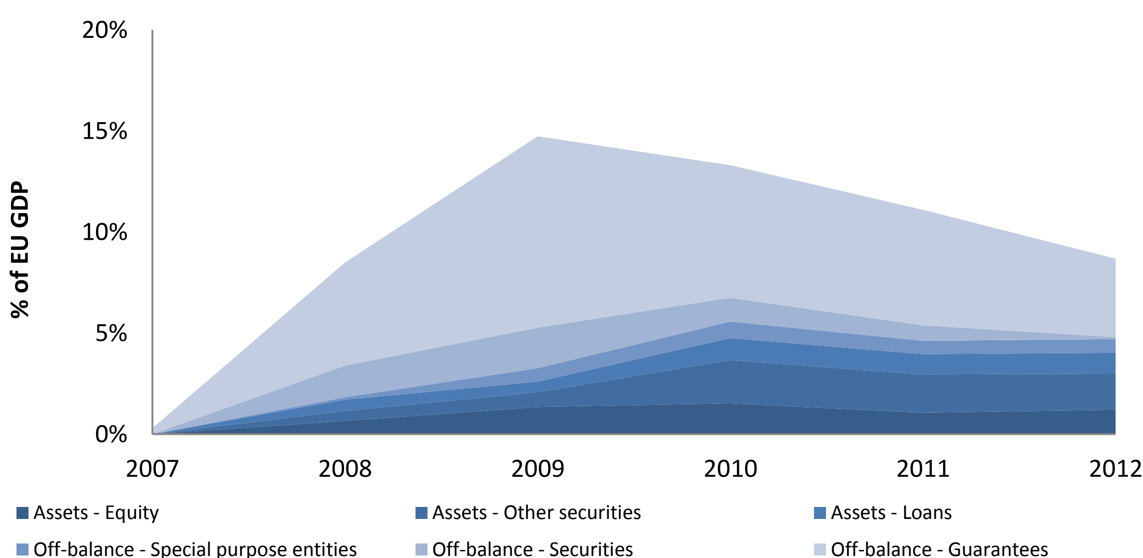
- The existing legislation and communications provide a sufficient legal basis on which to make State aid to banks conditional on lending to SMEs.
- Article 107 (3) (b) TFEU provides the necessary discretion to approve SME-lending targets to prevent a so-called 'credit crunch' and hence disturbance to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

2.1. EU bank State aid policy and conditionality

To understand the potential impact of State aid rules on individual banks and lending to SMEs with a focus on conditionality, this chapter carries out a qualitative analysis based on State aid case studies. The impact of this conditionality is then tested in a quantitative analysis 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 bank liquidity support on the other (see Figure 2). This 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.

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



Note: 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: Authors' own configuration based on data from Eurostat, October 2013 (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 are present: i) granting of an economic advantage, ii) transfer of State resources, iii) favouring of a certain undertaking (selectivity), iv) distortion of competition and v) an adverse effect on trade between Member States[41].

Therefore, we assume that the State measures under scrutiny fall within the realm of the application of Article 107 (3) (b) TFEU[42], empowering the Commission to determine whether or not an aid can be seen as compatible with the Common Market. 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

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

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,

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;

(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.

Bold font introduced by the authors for emphasis.

[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] For a comprehensive account of the relevant jurisprudence, see *Schweda* in Heidenhain, European State Aid Law (2009), § 14, para 3 et. seq.

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

In July 2013, the Commission published the Banking Communication[47], which consolidates most of the previous ones and sets out the updated 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-overs to other banks as well as ensuring that lending to the real economy continues. In addition, the Commission wants to limit the distortion of the competitive environment, minimise the required tax payers' money and retain the single market.

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[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. In 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.

[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).

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]:

- The restructuring plan should contain an in-depth assessment of the bank's problems.
- The plan should be 'sufficiently flexible' and the 'timing realistic'.
- Sooner or later there should 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 2007-09 global financial crisis and the subsequent 2010-12 euro-area sovereign debt crisis forced EU Member States to undertake bold actions. After a long period with 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 control over the bank to the government. 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 sub-optimal allocation of funds and operational inefficiencies are the consequence of political self-interest. State banks should contribute to curing market failures by maximising social welfare[51].
- Second, governments also carve out impaired and toxic bank assets. A**sset 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. Asset relief measures contribute to re-gaining access to liquidity, deleveraging and reducing capital

[48] Community guidelines on State aid for rescuing and restructuring firms in difficulty, OJ C 244, 01.10.2004, pp. 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).

[49] According to Lannoo and Napoli (2010):

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.

[50] Barth et al. (2012) and La Porta et al. (2002).

[51] Atkinson et al (1980).

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). In most cases, however, 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].

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, Article 7 (4) of the Procedural Regulation No. 659/1999[54] is quite clear:

> 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]

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[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 (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).

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-à-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]. Both types of conditions, however, 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.

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:

> 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:

> 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.

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[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, however, that 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.

[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 P.Thyri, "Gemeinschaftsrechtliche Grundlagen der Krisenbewältigung" in Hummer (ed.), *Die Finanzkrise aus internationaler und österreichischer Sicht* (2011), p. 79, 89 et seq.

It has been recognised that 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.
- 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, p. 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.

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

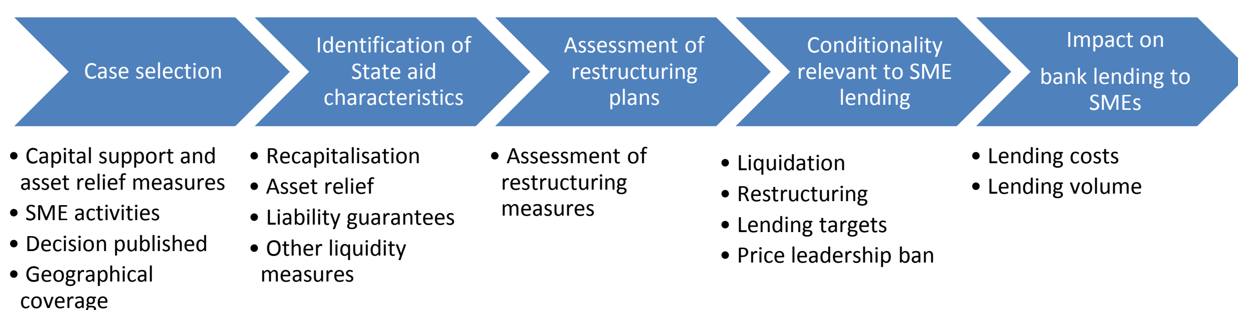
[62] Please find further information in Table 21 in the Annex to this study.

In brief, the legal justification for this finding is based on 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's-Directorate General for Competition. The decision texts contain, inter alia, the motivation and the specific conditions under which State aid is allowed.

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



Source: Authors' own configuration.

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 that received capital support and asset relief measures as defined in section 2.1.2; ii) EU banks that are active in lending to SMEs or have certain exposures to SMEs;[63] iii) cases for which information is publicly available as of February 2014; and iv) cases allowed a wide variety of EU countries to be represented[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), the 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

[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.

system, and SMEs' access to credit). The cases are selected out of a group of 92 banks[65] that have received State aid and are obliged to meet 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 analysis primarily focuses on the recapitalisation and asset relief measures.

Third, the conditions that 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 dividends, 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 particular are identified. These conditions focus primarily on refocusing activities on lending to SMEs or divestments. Moreover, the scope of possible lending targets and price leadership bans are assessed.

The fifth and final phase assesses the consequences of the conditions on SME lending by banks. The analysis focuses on the volume and cost of bank loans. Hence, we analyse whether the potential impact of conditionality on the cost and amount of bank loans offered to SMEs is positive or negative, and, if possible, the magnitude of the consequences on bank lending to SMEs.

For the assessment more information from budgets of national governments, courts 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 lending to SMEs 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 as a shared of the two countries' GDP. For Belgium, Dexia[66] received aid amounting to 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; Fortis[67] benefited from a recapitalisation of up to EUR 4.7 billion between 2008 and 2010; and KBC[68] enjoyed a recapitalisation of EUR 7 billion and other asset relief measures on a CDOs

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[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).

[66] See case NR 5 in Annex Table 21.

[67] See case NR 6 in Annex Table 21.

[68] See case NR 7 in Annex Table 21.

portfolio between 2008 and 2009. For Ireland, between 2009 and 2010, Anglo Irish Bank[69] was recapitalised with a total amount of EUR 59 billion; Bank of Ireland[70] received a recapitalisation amount of over EUR 5.3 billion; EBS[71] received EUR 13.9 billion; and Irish Nationwide Building Society[72] 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 refocusing on core activities, divesting from risky exposures, break-up, merger, or selling off to other healthier banks, or outright nationalisation, liquidation and resolution. Other conditions, including bans on price leadership, advertising, coupon/dividend and bonuses, have been used together with requirements to improve risk measurement and management. Undoubtedly, these conditions would impact fundamentally banks' behaviour, 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 can be identified:

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

[69] See case NR 32 in Annex Table 21.
[70] See case NR 33 in Annex Table 21.
[71] See case NR 34 in Annex Table 21.
[72] See case NR 36 in Annex Table 21.

		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 column refer to the numbering of cases in Annex Table 21 (first column), which provides more information on the individual State aid cases.

Source: Authors.

Nearly all banks receiving State aid had to restructure their activities or liquidate as part of the restructuring plan, to become viable in the long-term and/or to limit the distortion of competition. Of the 46 aided banks analysed, only Fortis in Belgium and BPCE in France[73] did not have to refocus or liquidate. The problems at Fortis were mainly caused by a very expensive acquisition of Dutch ABN Amro. Fortis was acquired by the governments of Belgium, the Netherlands and Luxembourg, which 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 stopped initiating 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 Castilla[75] and CajaSur[76] were sold in an auction. The impact of liquidation on bank lending to SMEs primarily depends 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

[73] See case NR 28 in Annex Table 21.
[74] See case NR 14 in Annex Table 21.
[75] See case NR 20 in Annex Table 21.
[76] See case NR 21 in Annex Table 21.

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 suffer more harm, because the distressed bank cannot undertake new business.

However, most banks had to refocus 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. KBC[77] was, for instance, required explicitly to maintain its lending policy to the real economy in countries where it has retail and SME exposures, but no specific target on volume or pricing was specified. It was left to 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 sizeable increase in loans to these two categories.

In several State aid cases the refocusing on activities that support the real economy has been extended with targets on volume and prices to SMEs. For example, French BPCE[78] 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 of increasing the required capital if the 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 Ireland[79] 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 Group[80] 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 impact of some conditions on lending to SMEs, such as the ones discussed above. However, it is probably not realistic to imagine that in a transition period, when aided banks are embarking on a restructuring phase to shore up their capital and to divest from risky exposures, that banks will increase their exposure to SMEs immediately. In fact, new exposure 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 the bank returns to viability. To ensure that this benefit materialises, 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, e.g. some 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 aided banks from using the obtained State aid to gain market share at the expense of non-aided banks. For example, the German Sparkasse Köln Bonn[81] 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, and 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 concerning the impact of conditionality. This is partially due to the fact that not all support programmes were finished at the time this analysis was performed, which makes it difficult

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[77] See case NR 7 in Annex Table 21.

[78] See case NR 28 in Annex Table 21.

[79] See case NR 33 in Annex Table 21.

[80] See case NR 35 in Annex Table 21.

[81] See case NR 13 in Annex Table 21.

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 respect to the conditions laid down in the restructuring plan. But the reporting is not disclosed, although it could be used to draw lessons for future cases.

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

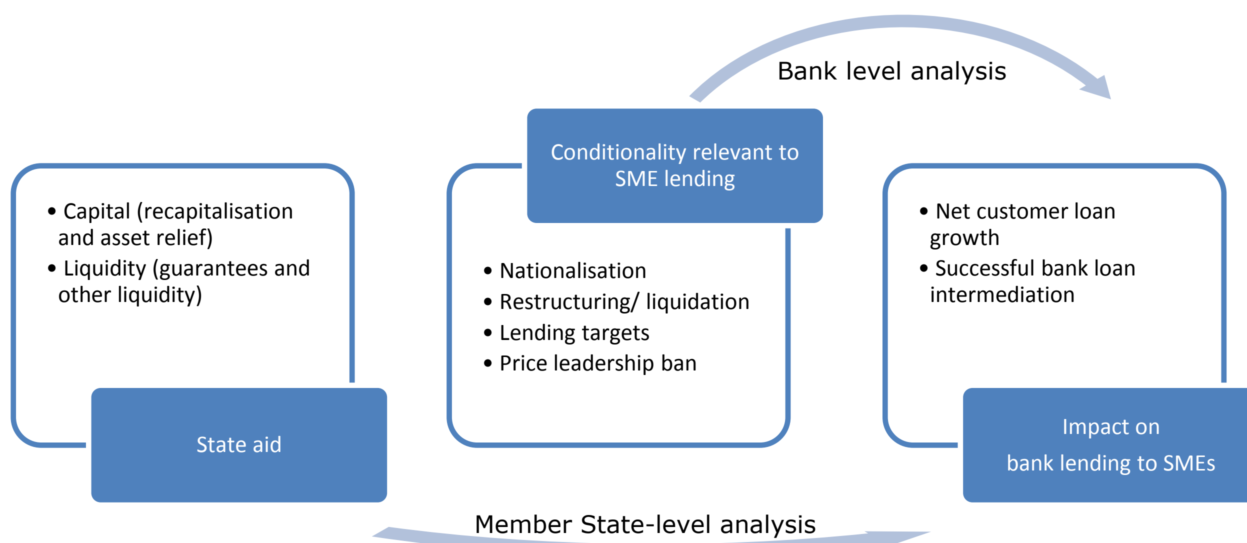
KEY FINDINGS

- Data on lending to SMEs during the financial and sovereign debt crises are relatively scarce.
- SME bank loan intermediation met with a wide variety of success in the different EU countries.
- Bank loan intermediation to SMEs in the post-financial crisis period 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 it 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 evidence 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 a distressed environment.

We followed a twofold approach. First, we tested the SME lending at Member State level, links with banks' conditions and State aid in EU Member States explored in the qualitative analyses. Second, we tested State aid to banks in the EU and potential link with SME lending evolution at bank level. Figure 4 visualises the tested channels by which State aid could (or could not) influence lending to SMEs.

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



Source: Authors' own configuration.

The Member State level analysis concentrates on both the 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 that are active in the banking sector.

3.1. Member State-level quantitative analysis

The 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 into the extent to which 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: i) demand by SMEs, ii) supply by banks, iii) government support and iv) economic performance.

First, the *demand by SMEs* 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 a percentage of net interest income* (**RISK**) and *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 a percentage of total assets* (**RECAP**), *guarantees and other liquidity measures as a percentage of bank assets* (**GUARANT**) and *guaranteed loans as a 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 to which economic prosperity determines successful intermediation for bank loans to SMEs.

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 e.g. 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 obtain more quantitative information on lending to SMEs. For example, in July 2014, the Dutch central bank published data for the first time on lending to SMEs in 2013, i.e. enterprises with a turnover of up to EUR 50 million[82]. 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 receiving 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 form 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 include demand data (SMEs), supply data (banks), macroeconomic 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. For the remaining countries, only data from the **bi-annual survey of the European Commission**[85] are available.

The dependent variable SUCCESS and independent variable APPLY are calculated using **SME access to finance data**. These data are obtained from the Survey on Access to Finance of Small and Medium-sized Enterprises (SAFE). Since the first half of 2009, the European Central Bank has published 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 each individual Member State. The SAFE database is the limiting factor.

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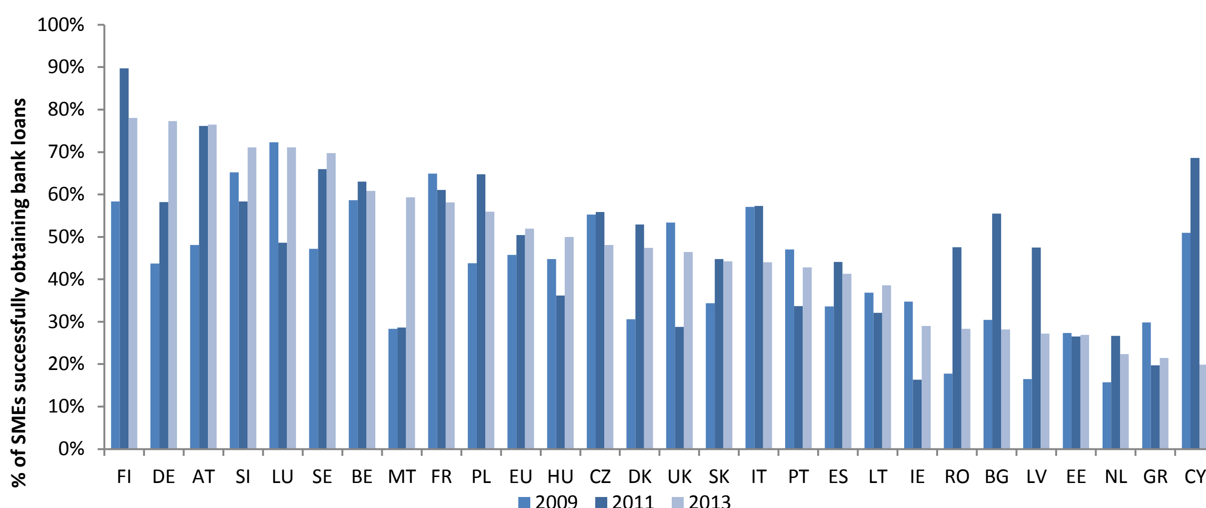
[83] The loans of 85% of the SMEs with a bank loan (i.e. up to EUR 250,000) represent only 11% of the total outstanding loans to SMEs.

[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 (SUCCESS), 2009-13

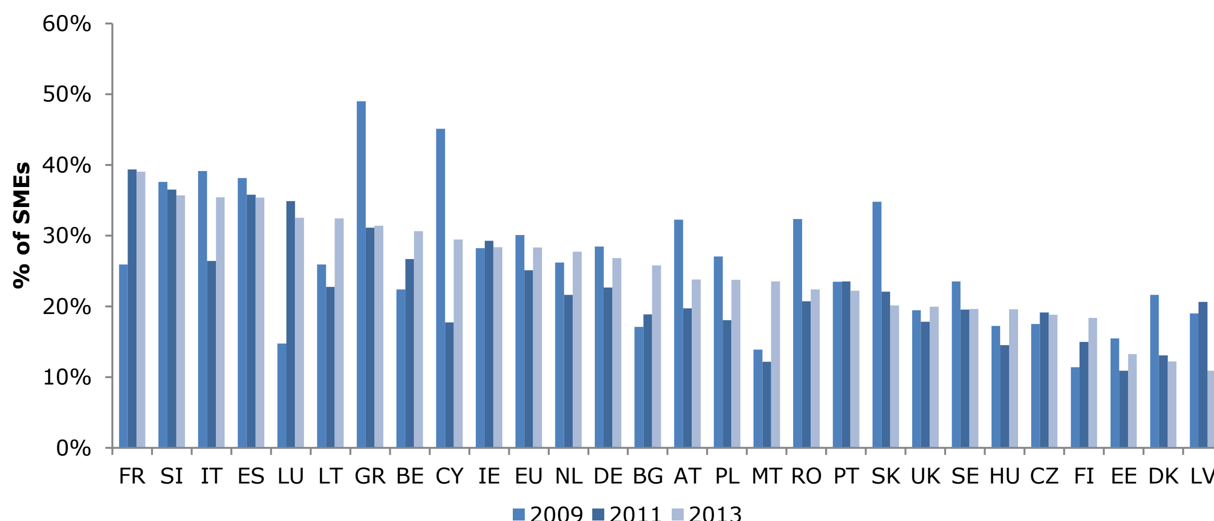


Notes: The weighted figures are representing the SMEs that responded positively to the question whether they obtained the bank loan in the past 6 months that they would like to have against, for them, acceptable costs as share of SMEs that applied for or would like to apply for but did not because of 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 purposes, 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, 2009-13



Notes: The weighted figures represent 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

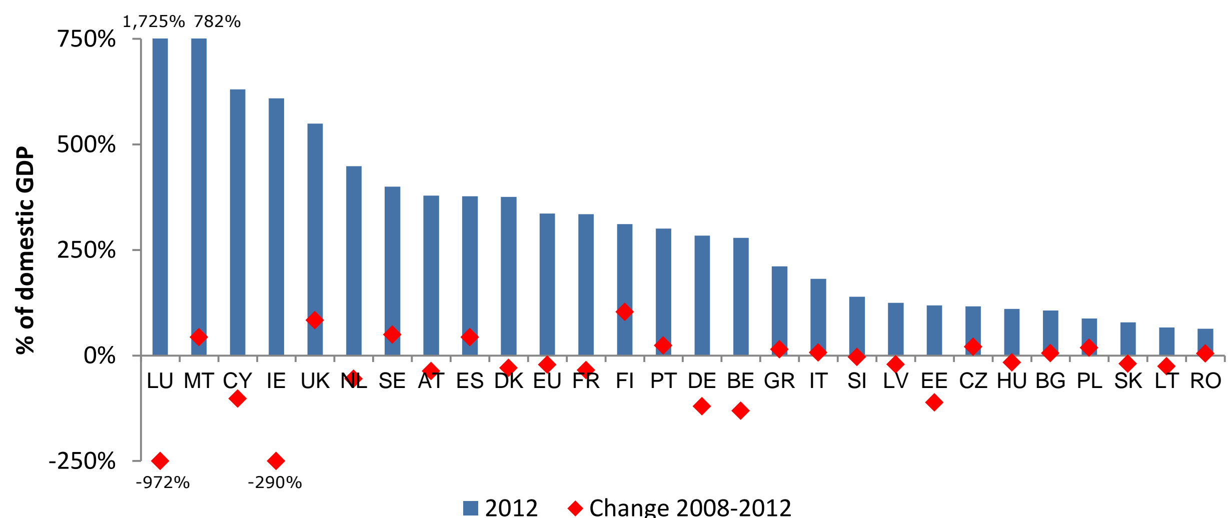
apply, on average, for a bank loan in the first six months preceding the surveys conducted in early 2009, 2011 and 2013. The application ranged from 10.9% in Estonia (2011) and Latvia (2013) and 49.0% in Greece (2009).

The **bank data** are obtained from the **consolidated banking database** (**CBD**)[86] of the European Central Bank (ECB). The database provides aggregates and consolidated bank balance sheets and profitability statistics 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 their economies 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 economies. 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 size of the banking sector in individual member states 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 to more than 10% of GDP were used.

Figure 7: Total bank assets as a share of GDP, 2008-12



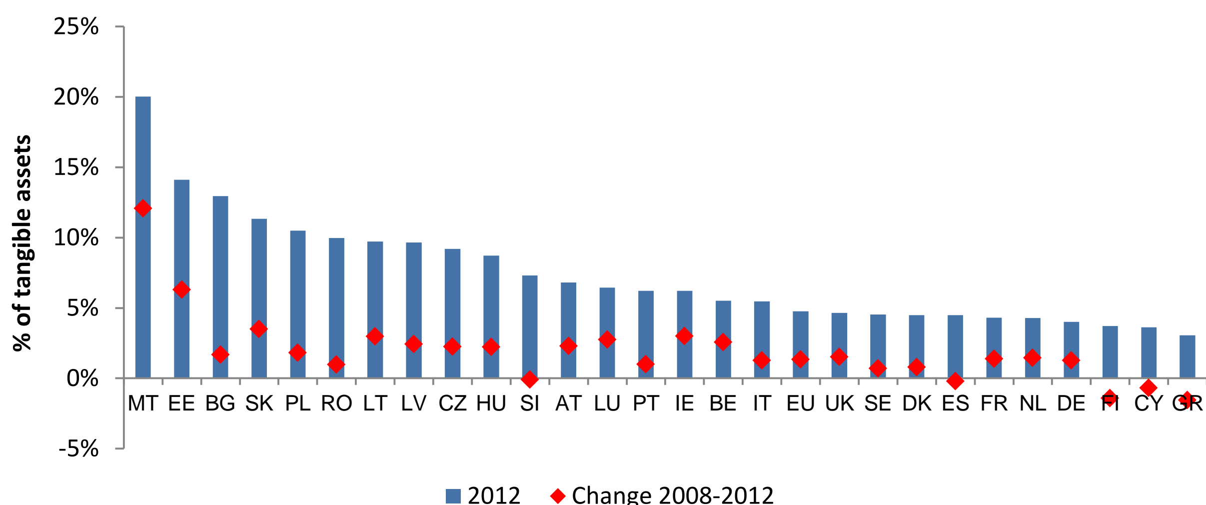
Note: The dark blue bars show the total assets of the banking sector as a share of domestic GDP in 2012. In turn, the markers in red show the change since 2008.
Source: European Central Bank (2013) (http://www.ecb.europa.eu/stats/money/consolidated/html/index.en.html).

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 State aid used, the capital position was further slightly improved by retained earnings and capital issuance (see Figure 8).

[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 a share of total assets minus intangible assets.

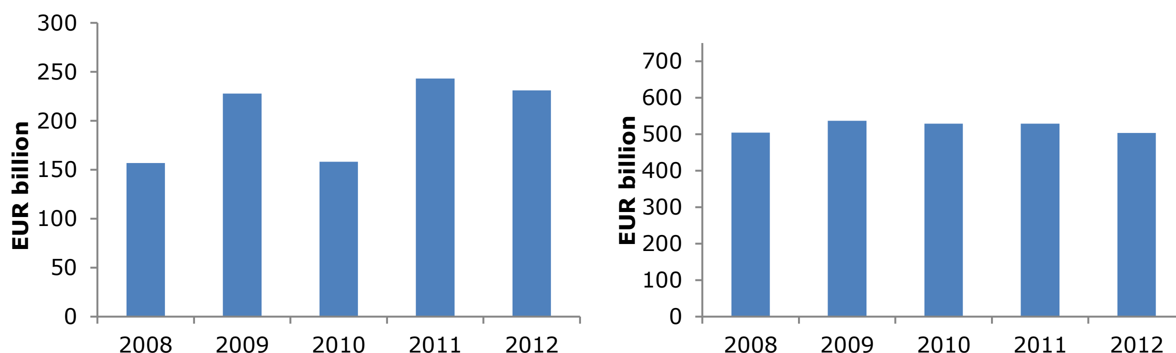
Figure 8: Tangible equity as share of total assets, 2008-12



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 2007-09 global financial crisis and euro-area sovereign debt crisis (see Figure 9).

Figure 9: Total impairments and net interest income of EU27 banks, 2008-12



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** are obtained from the European Commission databases. The Directorate General for Competition regularly publishes 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 the 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 to more than 5% of GDP. In turn, there were also seven countries in which banks used neither liquidity nor capital support[88], while in Finland (almost) no liquidity support was drawn and in Lithuania no capital support was used.

Data on the annual **SME loan guarantees** are obtained from the European Mutual Guarantee Association (AECM). The figures in Annex Table 16 on guarantees used in the EU show that between 2007 and 2012, on average, EUR 26 billion in counter-, co- and guarantees were granted through national guarantee schemes (SMEGUAR). However, 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. The SME guarantees are mostly granted in Italy and France, which 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 billion[89] 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 throughout the period assessed.

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

Source: Authors' own calculations based on data from European Central Bank, European Commission and AECM.

[88] Banks in Bulgaria, Czech Republic, Estonia, Malta, Poland, Romania and Slovakia did not 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 data for 2013. The guarantees are assumed to be zero when the country was excluded from 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).

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 in the Annex). Moreover, there is also a strong correlation between State guarantees and impairment costs (RISK).

Table 4: Correlation matrix of 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: Authors' own calculations based on data from European Central Bank, European Commission and AECM.

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 variables.[91] The findings are based on GMM 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 bank loan intermediation to SMEs in the post-financial crisis period fell behind in countries in which the financial sector used relatively

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

more State aid. Hence, both the capital **(RECAP)** and liquidity support (**GUARANT**) have a negative relationship vis-à-vis successful bank loan intermediation. The results are significant at a 1% level and support the hypothesis that Member States with ailing banking sectors have more problems in bank loan intermediation. Nevertheless, 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 relationship between credit guarantees in both the individual and combined regressions is negative and significant from zero at the 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 greater the risk, 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 broad external 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 it needs 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 one 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 an 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 or the purpose of the loan.

Table 5: Results of 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: Authors' own calculations based on data from European Central Bank, European Commission and AECM.

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 used to explain the loan growth include 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, which also includes other loans to non-financial corporations and households, is used as the **dependent variable** since there is hardly 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 macroeconomic data for the sample period suggest that the share of corporate loans as percentage 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 14 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 the growth rate of national central bank assets as a share of GDP (**CBASSGDP**). The second group includes **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), in order 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**), there is also the case in which the 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 conditions on lending** in general and

[92] ECB figures "2.1 Loans and deposits by sector", http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&sfl3=4&BS_ITEM=A20&sfl4=3&DATA_TYPE=1&sfl5=3&BS_SUFFIX=E&node=bbn3155

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 Member 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).

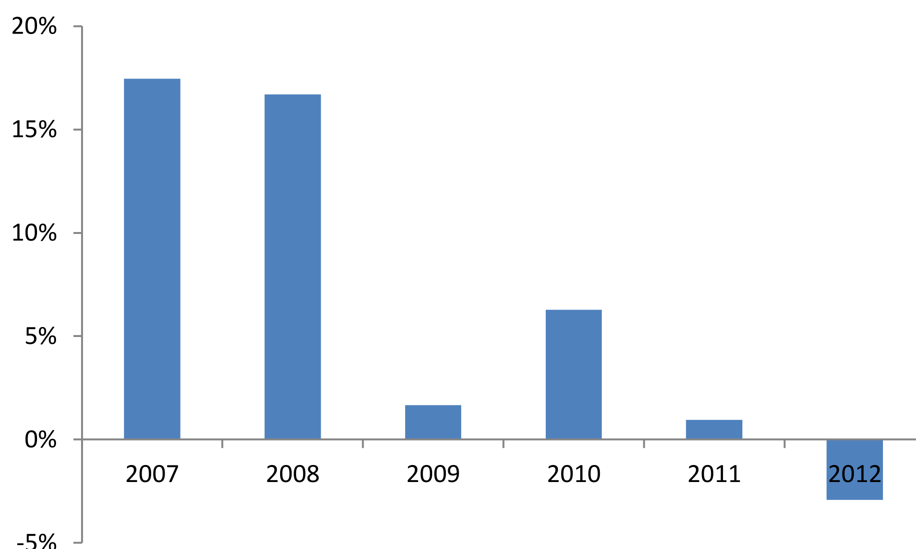
The methodology uses the Generalised Method of Moments (**GMM**) which accommodates the analysis under a dynamic panel-data model.

3.2.2. Data

The database contains 798 bank-year observations for 122 large banking groups, some of which 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 resulted 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



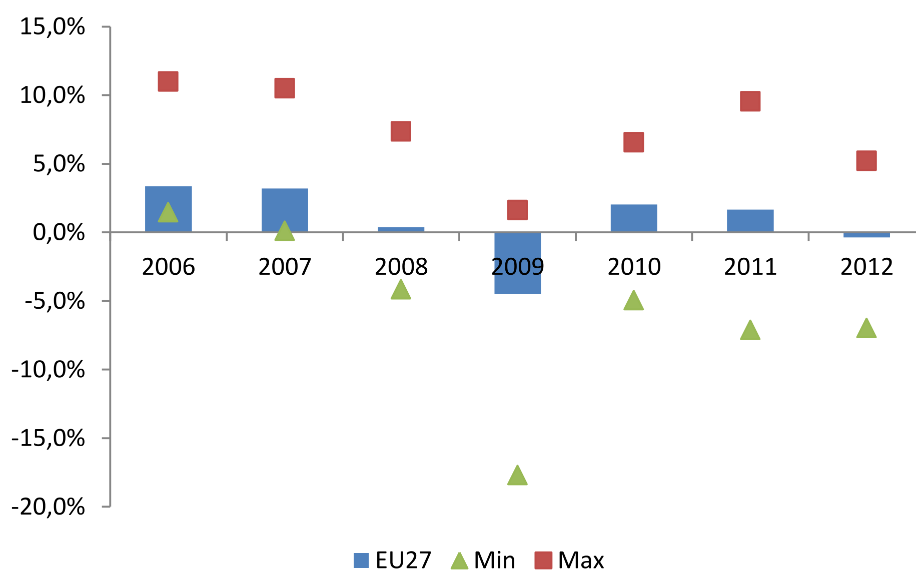
Note: The figure shows the unweighted average of the y-o-y net customer loan growth between 2007 and 2012.
Data source: CEPS database of banking statistics.

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, the economy declined again in 2012 (see Figure 11).

Figure 11: Real economic growth EU27, 2006-2012



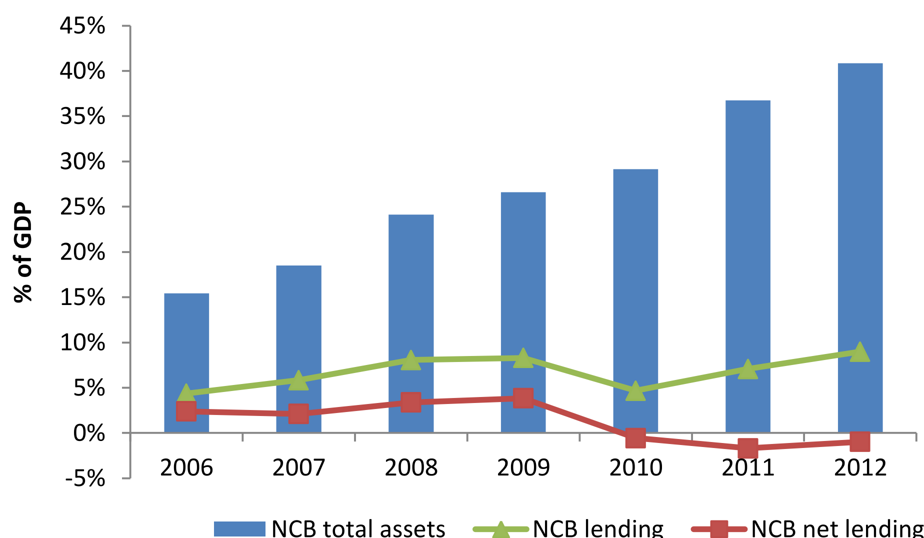
Source: Ameco (2014).

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 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 the 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 stored 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

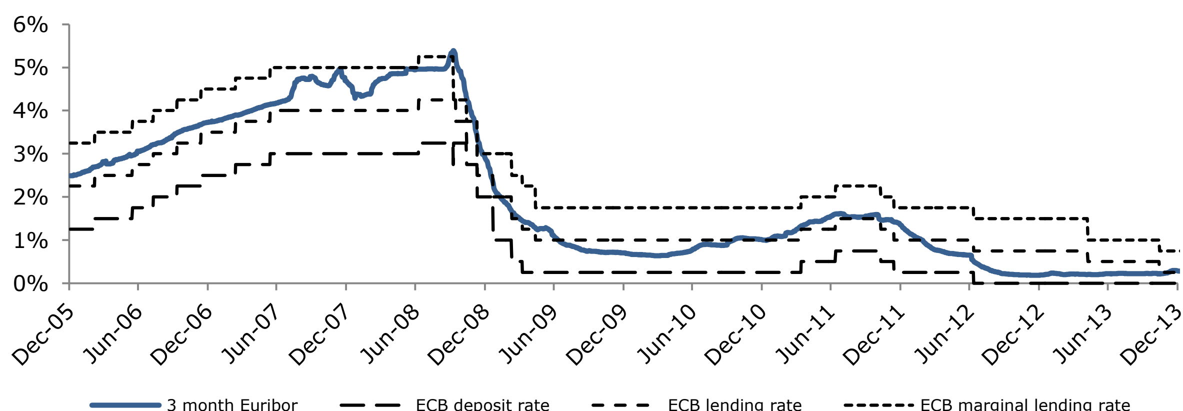


Note: The presented figures are aggregates for the 22 home-country national central banks of the banks included in the CEPS-FIPP banking database.

Source: Authors' own configuration based on data from annual reports of 22 national central banks (2013).

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: Authors' own configuration based on 2014 data from European Central Bank and European Banking Federation.

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 database of banking statistics, compiled by the Financial Institutions and Prudential Policy (FIPP) research unit at CEPS, has been used for several important publications in recent years (see Ayadi et al., 2011 and 2012 and Ayadi & de Groen, 2014). 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 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

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).

Source: Authors' own calculations based on data from European Commission and CEPS' database of banking statistics.

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 a 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 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 EU[94]. However, also the variance of this indicator is high and the share of regulatory capital as a 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: Authors' own calculations based on data from European Banking Federation, European Commission, EU central banks and CEPS' database of banking statistics.

None of the independent variables in the baseline model is 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 (GENLOANTGT)

[94] Article 501, OJ L 176 of 27.6.2013.http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:FULL:EN:PDF.

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 obligation to SMEs also had specified lending target to other customers.

Table 8: Correlation matrix of 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: Authors' own calculations based on data from European Banking Federation, European Commission, EU central banks and CEPS' database of banking statistics.

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 acquisitions[95] 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

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

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 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 relatively extreme levels of capital that benefit from the diminishing increase to scale (REGCAPSQR). The results are not conclusive with any 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 was also reflected in a, significant at 10%, negative relationship 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 significantly higher loan growth. Although 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 tend 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 into 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, although 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 from the European Banking Authority, which has published 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. Nevertheless, it can provide an indication of the relevance of using customer loans as a 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 greater impact on the growth of the overall customer loans than SME loans. The current publicly available data do not allow one to verify whether the SME loan growth is different than the growth of non-SME loans. 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									
	LOANGRTH (T-	-0.26**	-0.22*	-0.25**	-0.24*	-0.24*	-0.23*	-0.22*	-0.22*	-0.22*	-0.22*
Macro	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
	REGCAPSOR (T-	-0.25	0.35	0.17	0.30	0.36	0.19	0.36	0.37	0.32	0.34
	MRKTFUND (T-	-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	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations		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	0.18	0.17

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

Source: Authors' own calculations based on data from European Central Bank, European Commission and AECM.

4. CONCLUSIONS AND POLICY RECOMMENDATIONS

KEY FINDINGS

- Lending to SMEs can be legally justified as a condition to receive State aid.
- Better SME bank loan intermediation can be observed in countries where less State aid has been used.
- More data on bank loans to SMEs and the implementation of restructuring plans are needed in order to produce more robust analysis.
- There is 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 been taken with the objective of alleviating the funding constraints on bank lending to SMEs. The new capital requirements Regulation (CRR) 2012/648/EU[97] introduced a preferential risk weight for SMEs (Article 501) aimed to reduce 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 the 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 with 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 to seriously focus on the real economy and dedicate more of their resources to lending to SMEs mostly located in their geographical perimeters in the near future. However, although a few banks have posted positive outcomes with respect to their contribution to SMEs, it is premature to assess with

[97] Article 501, OJ L 176 of 27.6.2013http://eulex.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.

full certainty whether aided banks have complied (and continue to comply) with these 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, however, are 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 has a lower performance, while the opposite is true for countries with better macroeconomic 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 it 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 a 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 by minimum SME-lending targets posted significantly lower growth in total customer loans than did 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 a price leader in standard products in general, quoted lower loan growth rates. While for banks with price-leadership bans in SME products, the results were ambiguous, but also not significant. However, although inclusive, sounder banks that display more liquid funds, very high levels 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 lending to SMEs generally consumes extra capital, even when the loans are partially guaranteed and lower risk weights apply because of the opaque nature of this 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 company.

The **policy recommendations** drawn from these analyses suggest that aided banks must continue to be closely monitored by the relevant authorities to ensure that 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 on the radar screen as banks' behaviour changes when there is a wide-ranging industry restructuring. Overall, the lack of significance of the economic results on the links between State aid, conditionality and lending to SMEs would invite further research on the implications of State aid on the business models of banks and future behaviour when it comes to lending to SMEs. The study explored the links during the crisis 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 lending to SMEs in the EU. The best safeguard for the smooth-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 brief 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 loan growth to SMEs. 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, particularly 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 CRDIV, 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. However, 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 advise on the validity on SME loan requests 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 lending to SMEs 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 surveys on access to finance for SMEs conducted by the ECB and European Commission only started after the financial crisis erupted, 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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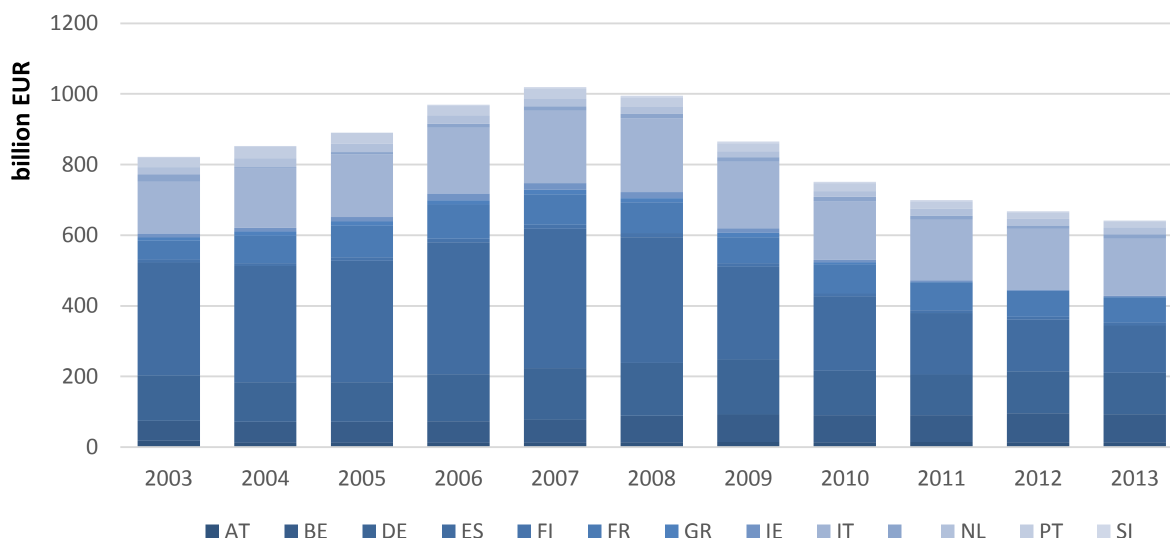
ANNEX: DETAILED TABLES AND FIGURES SUPPORTING THE ANALYSIS

Table 10: Definitions of Member State-level indicators

	Variable	Definition	Frequency	Source
Dependent Variable	SUCCESS	SMEs that obtained the bank loan they requested in the past 6 months as a share of the SMEs that applied (or would have liked to apply but did not because of fear of possible rejection). For comparison purposes, the "Don't Know" and "No Answer" responses have been omitted from the analysis.	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 purposes, "Don't Know" and "No Answer" responses have been omitted from the analysis.	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 a 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 the financial crisis as a 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 a share of total banking assets. The guarantees are assumed to be zero when the country was excluded from the AECM list.	Annual	AECM Statistics and ECB CBD
Macro	GDP	Growth in real Gross Domestic Product (GDP).	Annual	AMECO database DG ECFIN

Source: Authors.

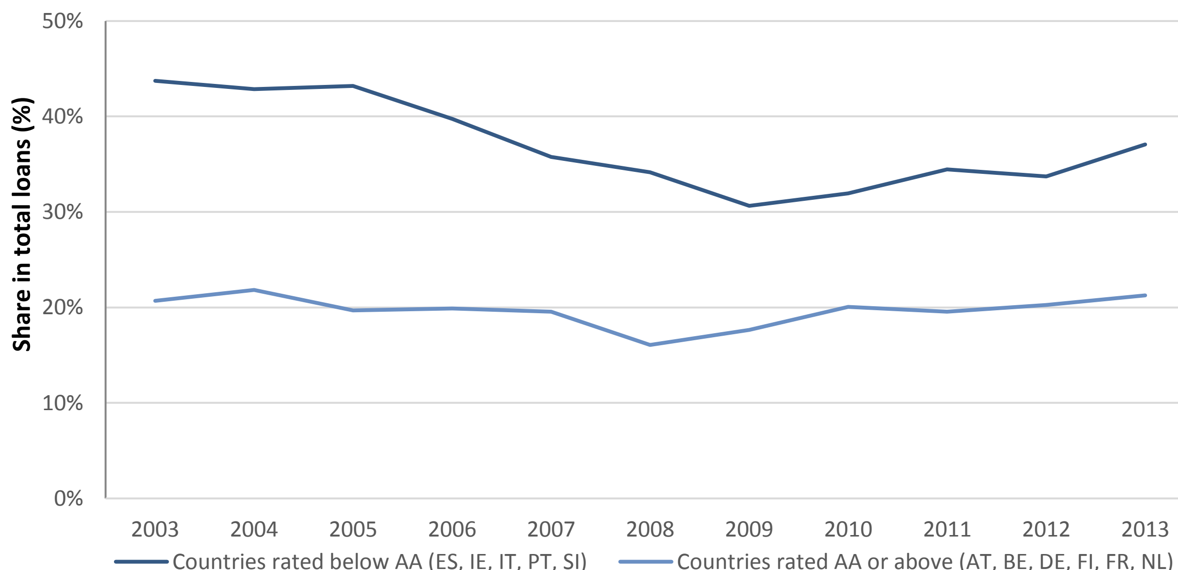
Figure 14: New issuance of SME loans, 2003-13



Notes: The figure above shows the cumulative annual amounts of new loans issued up to EUR 1 million – an amount that is considered to be representative of 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 were available from 2003 to 2013 were included.

Source: European Central Bank http://sdw.ecb.europa.eu/browse.do?node=9484373.

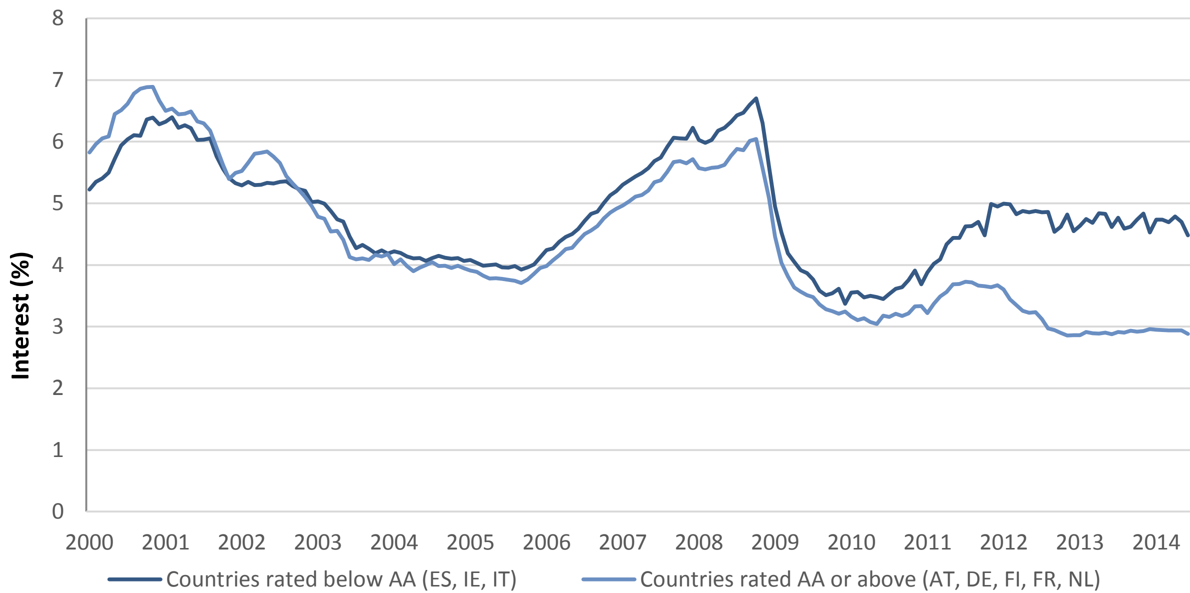
Figure 15: Share of new SME loans in total new bank loans, 2003-13



Notes: The figure above shows the weighted average shares of loans up to EUR 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 EUR 1 million 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.

Sources: European Central Bank http://sdw.ecb.europa.eu/browse.do?node=9484373 and Standard & Poor's Rating Services http://www.standardandpoors.com/ratings/sovereigns/ratings-list/en/us/?subSectorCode=39§orId=1221186707758&subSectorId=1221187348494.

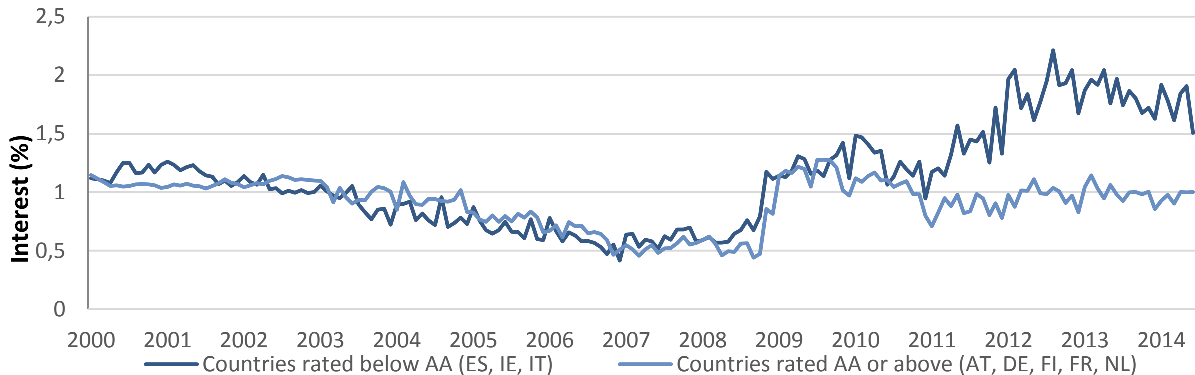
Figure 16: Average interest rates new SME loans, 2000-14



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.

Sources: European Central Bank http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&sfl2=4&sfl3=4&MATURITY_ORIG=A&sfl5=4&BS_COUNT_SECTOR=2240&node=9484266 and Standard & Poor's Rating Services www.standardandpoors.com/ratings/sovereigns/ratings_list/en/us/?subSectorCode=39§orId=1221186707758&subSectorId=1221187348494.

Figure 17: Average interest mark-up new SME loans, 2000-14



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.

Sources: European Central Bank http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&sfl2=4&sfl3=4&MATURITY_ORIG=A&sfl5=4&BS_COUNT_SECTOR=2240&node=9484266) and Standard & Poor's Rating Services 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	SMEs	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: SMEs are defined as 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 EUR 43 million, while the remaining enterprises are considered large. 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 EUR 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 EUR 10 million; and the remaining SMEs are medium enterprises. The figures are for 2011 and expressed in thousands unless otherwise stated.

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	SMEs	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 EUR billion unless stated otherwise.

Source: Eurostat (2012), http://appsso.eurostat.ec.europa.eu/nui/show.do?query=BOOKMARK_DS-297817_QID_40E427A6_UID_F171EB0&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__97817NACE_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__MP_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 description of the CEPS database of banking statistics

Country	Total assets (EUR bn) 2012	Total customer loans (EUR bn) 2012	Banking groups 2012	Observations 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.

Data Source: CEPS' database of financial statistics.

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
	REGCAPSQR	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: Authors.

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

NR	Bank name (Country code - Case number(s))	State aid measures	Implications for the banks and banking system	Implications for 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 for the banks and banking system	Implications for 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.

[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.

NR	Bank name (Country code - Case number(s))	State aid measures	Implications for the banks and banking system	Implications for SMEs access to credit
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 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.	The bank committed to focus on SME-customers in Tirol within its corporate banking activities.
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.

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

[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.

NR	Bank name (Country code - Case number(s))	State aid measures	Implications for the banks and banking system	Implications for SMEs access to credit
5	Dexia/Belfius (C9/2009[109], SA.30521[110], SA.33751[111], SA.33760[112], SA.34440[113])	October 2008: A EUR 5.4 billion recapitalisation, refinancing guarantees amounting to EUR 135 billion July 2009: Impaired asset measures worth EUR 3.2 billion.	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 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.	The SME activities in Belgium were carved out of Dexia, when Dexia Belgium (now called Belfius) was sold to the Belgian state.
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	With the sale of Fortis Belgium to BNP Paribas, the bank is expected to continue funding SMEs where it operates.

[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.
[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.

NR	Bank name (Country code - Case number(s))	State aid measures	Implications for the banks and banking system	Implications for SMEs access to credit
			distressed assets, continued as Ageas.	
7	KBC (BE - N602/2008[116], C18/2009[117], SA.29833[118])	December 2008: A recapitalisation of 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.	KBC will remain a combined bank and insurance provider and will retain activities which are 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.	KBC had to maintain its lending policy to the real economy in countries where it has retail 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 *defacto* 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.

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

[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 for the banks and banking system	Implications for SMEs access to credit
9	Bayerische Landesbank (DE - N615/2008[120], SA.28487[121])	November 2008: A recapitalisation of EUR 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).	Substantial changes to the business model, including risk reduction, a stronger focus on 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.	Bayerische Landesbank was committed to providing credit in the domestic economy, in 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 for the banks and banking system	Implications for 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 4.3%. Further focal spheres of Norddeutsche Landesbank's business activities lie in the

[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 for the banks and banking system	Implications for SMEs access to credit
				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], N555/2009[134],	May 2009: A recapitalisation of EUR 3 billion and an asset relief measure with an	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 to be resolved. On 30 June 2012, all assets and	The aid was notified as to remedy a serious disturbance in the economy. Refocus on the home market but no specific condition in favour to SMEs. Though, the halt in engaging in new

[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.

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

NR	Bank name (Country code - Case number(s))	State aid measures	Implications for the banks and banking system	Implications for SMEs access to credit
	SA.29510[135], SA.29590[136])	expected loss of EUR 3 billion.	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.	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

[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 for the banks and banking system	Implications for 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).

[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 for the banks and banking system	Implications for SMEs access to credit
18	Bankia / BFA (ES - SA.34820[141], SA.35253[142], SA.35369[143])	June 2010: A 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. June 2012: A liquidity guarantee amounting up to EUR 19 billion is provided.	By 2017, the balance sheet of the bank will be 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.	Lending conditions remained tight and credit to 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. 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

[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.

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				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	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	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 for the banks and banking system	Implications for SMEs access to credit
		guarantee worth EUR 2.5 billion.	Liberta.	
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.

[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 for the banks and banking system	Implications for SMEs access to credit
23	Catalunya Banc (former CatalunyaCaixa) (ES - SA.33103[149], SA.33735[150])	July 2010: Recapitalisation of EUR 1.25 billion. September 2011: Recapitalisation of EUR 1.7 billion.	Other than the balance sheet reduction, the 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.	The activities of Catalunya bank are centred on 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 is 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 for the banks and banking system	Implications for 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 activities were merged with those of Banesco's	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 for the banks and banking system	Implications for SMEs access to credit
			subsidiary Etcheverría 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 for the banks and banking system	Implications for 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 re-pricing 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 for the banks and banking system	Implications for 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.	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.

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	NN35/2010[168], SA.32057[169], SA.32504[170], SA.33296[171])	August 2010: 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 arrangements/reductions for directors and	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 for the banks and banking system	Implications for SMEs access to credit
		13.1 billion.	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 remuneration.	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 for the banks and banking system	Implications for SMEs access to credit
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 rate.

[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 for the banks and banking system	Implications for SMEs access to credit
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 billion. March 2009: An asset	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 activities will be divested. The bank also had to make number of divestments, develop a	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 exposure to higher risk asset classes. ING was encouraged to take some government guarantees

[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 for the banks and banking system	Implications for SMEs access to credit
		relief measure worth up to EUR 5 billion.	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.	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 the sale of the insurance business, and remaining	In 2013, the CGD Group retained its orientation to the funding of the Portuguese economy. This was particularly noticeable in the SME segment. Moreover CDG also changed its approach to

[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 for the banks and banking system	Implications for SMEs access to credit
			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.	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 million, equivalent to	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 assets was put into administration.	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 for the banks and banking system	Implications for SMEs access to credit
		EUR 11 million.		
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 SME banking operations, Rainbow (Commission	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 loan applications were declined. In 2013, reports

[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 for the banks and banking system	Implications for SMEs access to credit
			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.	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: Authors with the assistance of Ibtihel Sassi from HEC Montréal and based on all state aid decisions taken by the European Commission http://ec.europa.eu/competition/state_aid/register/.

NOTES

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