The Solvency Support Instrument

#EUbudget, #EUSolidarity, #StrongerTogether

Economic backdrop: needs assessment

- ❑ Unprecedented economic shock: **2020 EU-GDP –7.4%** & only partial recovery in 2021 of 6.1%
- ❑ Significant **equity repair needs** (€720 billion-1.2 trillion in 2020): 35-50% of firms with 20+ employees to experience financing shortfalls by end 2020
- ❑ Total EU public & private **investment gaps of at least €1.5 trillion** in 2020-2021, including:
  - ✓ **Investment shortfall caused by crisis**
  - ✓ Needs to deliver **green & digital transitions**, strategic investment for **critical value chains**

Single market threatened: uneven depth of recession depending on economic structures and capacity to absorb and respond to the economic shock

Deep interlinkages between EU economies: all European industrial sectors rely on complex supply chains spread across several Member States

Lessons learned from 2008-09 financial crisis: reforms and investment essential for recovery and long-term growth

Common EU response with investment focus needed

Why a Solvency Support Instrument?

- Equity repair needs. The coronavirus pandemic has left many otherwise strong companies at risk of short- to medium-term financial difficulties.
- Uneven economic effects of the crisis & uneven capacity of state support
- Single Market & Strong interconnectedness of European economy: Need for an EU-wide instrument
- Need for speed and flexibility

Solvency Support Instrument

To be used for:
Equity or equity-type support to viable companies of all sizes from all economic sectors.

Mechanism:
An EU budget guarantee of €66 billion to the European Investment Bank Group in order to mobilise **more than €300 billion** investment (via financial intermediaries, e.g. independently managed funds or Special Purpose Vehicles).

Budget:
€33 billion in current prices (5bn from current MFF, 28bn NGEU)

Focus:
Demand driven and available to all Member States, focus on companies in Member States and sectors most hit by COVID-19 and Member States which are less able to intervene through national state aid.

Conditions for support

To benefit from the Solvency Support Instrument companies must be:

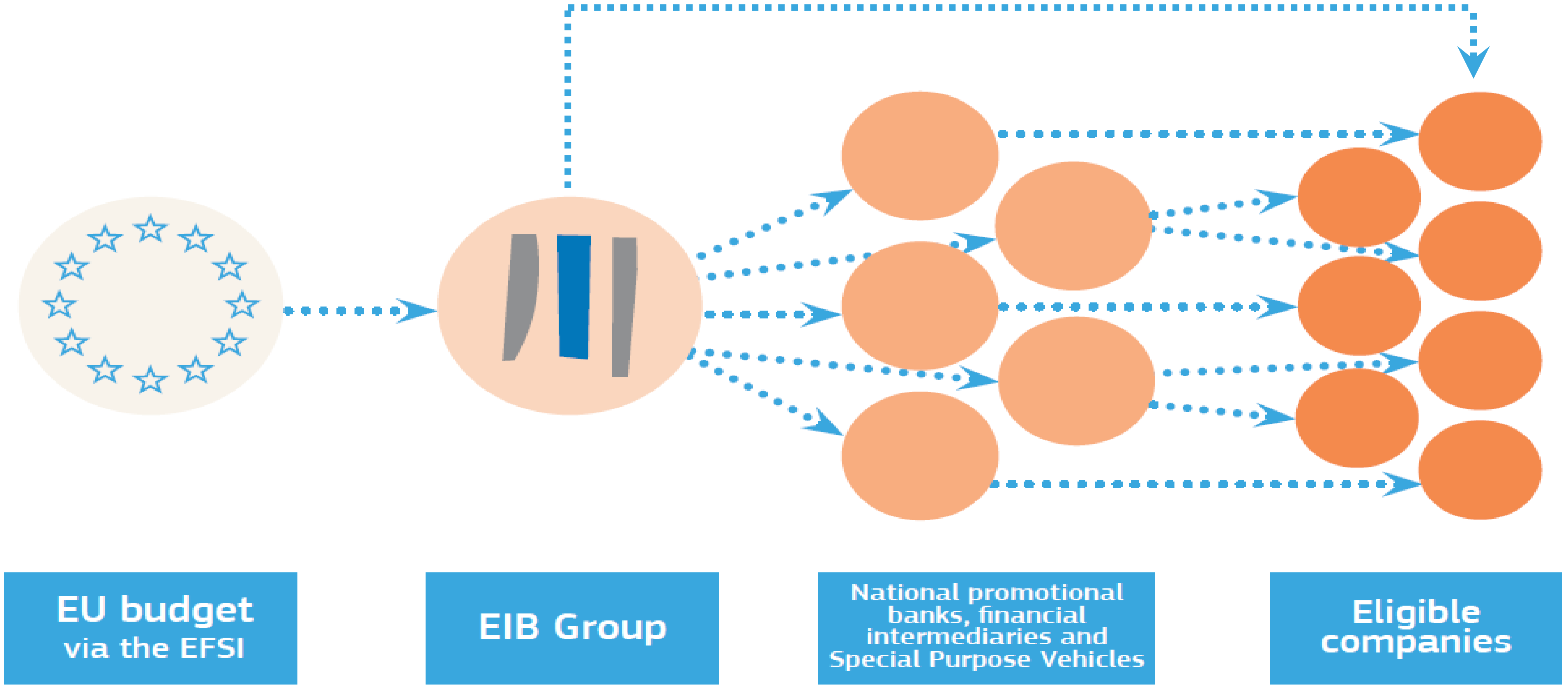
- Established and operating in the EU
- Economically viable
- Hit by the pandemic and unable to secure sufficient financing themselves through the market
- No financial difficulties at the end of 2019, according to the EU State aid rules

How does it work /1

- Solvency support will form a third window under the European Fund for Strategic Investments (EFSI), and existing instrument.
- The EIB Group will use the EU guarantee to finance companies directly, or through intermediaries, or reduce the risk for private investors of investing in funds or eligible companies, hence mobilising private resources to their support.
- The EIB Group will do so by investing in, guaranteeing or financing:
  - equity funds,
  - special purpose vehicles,
  - investment platforms,
  - national promotional banks or institutions
  - direct investments or other relevant arrangements.

How does it work /2

- The delivery mechanism of EFSI remains in place



Role of the Member States

- To aid the roll-out of the Instrument, Member States can:

  1. establish national special purpose vehicles that could apply for support under the solvency support window;

  2. invest in line with State aid rules alongside the EIB Group guarantee or investment either directly or via a national promotional bank or institution into funds or special purpose vehicles;

  3. facilitate the creation of equity funds or special purpose vehicles by engaging with institutional investors.

Geographic focus

- In line with the current EFSI Regulation, **no geographic quotas** will be established. Demand-driven, BUT
- It is proposed that the EFSI Steering Board defines specific geographic focus criteria for the solvency support window based on the following principles:
  - majority of EFSI financing under the solvency support window is utilised to support eligible companies in Member States and sectors economically most hit by the Covid-19 pandemic and
  - majority of EFSI financing under the solvency support window is utilised to support eligible companies in Member States where the availability of State solvency support is more limited.
- Could be updated over time, whilst avoiding that support from the Instrument would be concentrated in a limited number of Member States.

Timeline, next steps

- 29 May 2020: Commission proposal published
- Legislative process (Council and Parliament Regulation)
- Amendment of EFSI Agreement with EIB
- By end 2022: at least 60% of operations to be approved
- By end 2024: end of investment period - approval of operations by EIB/EIF
- By end 2026: all financing operations signed by EIB/EIF

More details

- Solvency Support Instrument proposal (COM(2020)404):

  Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) 2015/1017 as regards creation of a Solvency Support Instrument

  http://www.cc.cec/sg/vista/home?documentDetails&DocRef=COM/2020/404&ComCat=SPINE

- SSI factsheet:

  https://ec.europa.eu/info/sites/info/files/economy-finance/ssi-factsheet.pdf

- SSI Q&A:

  https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_946

- Annex to the MFF communication, SSI described on p. 7-8:

  https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/1_en_annexe_autre_acte_part1_v11.pdf

Key questions for exchange of views

(if need differentiate by MS, sector, size of companies)

1. Market situation, outlook and key priorities
2. Additionality of EU guarantee / conditions
3. Type of products (eg equity and quasi-equity for solvency support)
4. Needs/incentives for companies (eg regulatory or financial)
5. Needs/incentives for investors (public/private)
6. Needs/incentives for fund managers