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The current, exceptional, measures by governments to support the financial stability of EU banks and insurance companies have had obvious benefits. They have helped avoid the meltdown of the financial system. They have also helped re-open the markets and put them on the path towards normality, as demonstrated by the gradual improvement in the macro-financial situation.

But when three trillion euros are put into one sector of the economy, and distributed unevenly between Member States and between banks that compete with each other, there is a need to look at the impact on competition, both in the short term and the longer term.

In the short term national schemes can have spillover effects on banks in other Member States. Immediate support to individual institutions with different risk profiles can also have an undue impact on competition between banks who received aid and their competitors who have not. In the longer term, return to normal functioning of competitive markets may require on the one hand, significant restructuring to enable specific banks to return to viability without state support and on the other, clear exit strategies for sound banks from national schemes.

The scale of the support means that we have had to tailor our State aid legislation and to enforce common rules of the game in order to:

- ensure a level playing field between national measures, so that one Member State does not export its problems to others,
- avoid large movements of funds between Member States in search of the highest level of protection, and
- put in place mechanisms that minimise distortions of competition, so as to avoid disrupting the Single Market and to prepare for the return to normal market functioning.

From the early days of the crisis the medium- and longer term perspective has been built in to our policy on reviewing State aid. Preserving a competitive environment within the Single Market has been our main objective. Protecting and preserving competitive markets and financial stability are complementary objectives. Competition policy is there to support financial stability and to create the right conditions for stable financial markets immediately and in the medium and long run.

We are witnessing an extraordinary effort to create the regulation and institutions necessary to prevent future crises. Once in place, regulatory reform will be instrumental in creating safer and more stable financial markets. But we face a "time inconsistency problem". Regulatory change takes time, even with the current exceptional commitment of all stakeholders.

But we need to build in a realistic assessment of the competitive consequences of both State support and new regulatory architecture, because it is now that the future landscape of the European financial sector is being shaped. I am strongly convinced that the winners coming out of this crisis should be those banks that have the right business strategies, and not those relying on continuing or implicit public support.

Since October last year we have adopted four Communications setting out our approach to State aid for the banking sector in the current crisis. In sum, we look at:

The *price* which banks need to pay for State support. In consultation with Member States and the European Central Bank we have aimed to ensure that there are common pricing standards for State guarantees on liabilities. As regards recapitalisations, we have laid down rules determining their price, depending on the risk profile of the bank and the quality of the capital provided.

We also require step-up clauses so that the banks are incentivised to seek capital on the private markets when this becomes available. For impaired asset measures we provide rules on asset eligibility and valuation. The primary task of asset valuation is at the national level, and validated by the appropriate supervisory authority. However, each individual case is checked by the Commission with the help of external experts. The complexity of asset eligibility and valuation is illustrated by the fact that to date the Commission has given final approval for very few impaired asset measures, and is still investigating others.

The need for *restructuring*. Those banks that have received large amounts of aid and that have unsustainable business models will have to *restructure* in order to return to long term viability without relying on State support. Only viable financial institutions can ensure that a vibrant EU banking sector emerges from the crisis to serve Europe's citizens and businesses. Therefore, banks in need of restructuring have to demonstrate *strategies to achieve long term viability* under adverse economic conditions: they will have to be based on rigorous stress testing of the businesses. In some cases, divestments will not be needed but in many cases they will be essential, either to ensure viability of core businesses or to reflect the negative competitive impact of aid on key market segments.

However, we also need to be realistic about divestments, for example with respect to the likelihood of finding buyers and the time period for divestiture.

Additionally, banks that have received large amounts of aid and that have unsustainable business models, and their capital holders, should *contribute to the cost of restructuring* as much as possible with their own resources. This creates appropriate incentives for future behaviour. An appropriate price for State support ensures that the aid cannot be used to finance activities such as acquisitions which are not linked to the restructuring process. Similarly, aid should not be used to pay interest to holders of hybrid capital instruments when a bank in receipt of aid is making losses, unless this remuneration is essential to attract new capital.

And finally, we need to create conditions which foster the development of competitive markets after the crisis.

While some banks may have been too big to fail, none are too big to restructure. And where restructuring is necessary, decisions need to be taken now, in order to chart the roadmap of the bank to viability without state support. This may be achievable over two to three years, but we do not exclude a restructuring period covering up to five years. At the same time, banks which do not need fundamental restructuring, because their basic business models are sound, also need to chart their way back to normal market operations without state support. This puts an emphasis on the need to develop exit strategies from national support schemes.

Exit strategies in general will be discussed by the Finance Ministers in a few days. Exit from State aid to banks is only one aspect of a broader debate involving exit from fiscal and monetary stimuli. We are already thinking about how to design exit from State aid measures, for when the conditions for a sustainable recovery of private markets are met. This requires close inter-institutional discussions and coordination across policy areas.

Thank you for your attention.