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Competition *State aid brief*

Looking back at the State aid COVID Temporary Framework: the take-up of measures in the EU.

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Gradual phase-out of the State aid COVID Temporary Framework

Since the onset of the pandemic, the State aid COVID Temporary Framework has enabled Member States to use the full flexibility foreseen under State aid rules to support businesses in need in a timely, targeted and proportionate way, while preserving the level playing field in the Single Market and maintaining horizontal conditions applicable to everyone. Amended six times to keep it abreast of the various waves of the pandemic, the Temporary Framework has allowed Member States to put in place unprecedented levels of support to keep otherwise profitable companies afloat, being able to choose between a set of different options to better support EU economies.

As announced in May 2022, after over two years, the Commission has decided not to extend the State aid COVID Temporary Framework beyond the expiry date of 30 June 2022, for most of the tools provided. This decision was motivated by the overall improvement of the health crisis in Europe, with a relatively high vaccination rate and the general lifting of restrictive measures. The phase-out of the Temporary Framework is progressive and coordinated so to ensure that businesses will not be cut off suddenly from necessary support. In particular, Member States are allowed to put in place investment and solvency support measures until 31 December 2022 and 31 December 2023 respectively. In addition, the conversion and restructuring of debt instruments, such as loans and guarantees, into other forms of aid, such as direct grants, will be possible until 30 June 2023.

Signs of recovery overshadowed by Russia's war

Despite the signs that the European economy is emerging from the pandemic crisis and setting out for the recovery, the current economic and geopolitical events call for staying vigilant. Following a strong recovery with a GDP growth of 5.4% in 2021, the EU economy is forecast to grow by 2.7% in 2022 and 1.5% in 2023 [1]. Russia's war of aggression against Ukraine, followed by subsequent restrictive measures against Russia and counter measures created a serious disturbance in the European economy with a severe impact on its recovery. EU companies are facing problems such as disruptions in supply chains, blockage in the supply of energy and raw materials and the surge of energy and food prices. The annual inflation rate is expected to soar in 2022, reaching +8.3% at the EU level[2].

This is why in March 2022, the Commission has adopted a Temporary Crisis Framework (TCF)[3], which recognises that the EU economy is experiencing another serious disturbance and provides Member States with the right toolbox to address the consequences of the current crisis, making sure that the right level of support remains available to severely impacted companies and sectors.

The TCF will be in place until 31 December 2022. It has been amended in July 2022, to provide for additional types of aid measures aimed at accelerating the rollout of renewable energy as well as the

In a nutshell

At the end of 2021, Member States granted around €940 billion to companies in the context of the COVID-19 crisis, representing about 3.39% of total EU27 GDP on an annual basis.

64% of the total nominal values of aid granted at the end of 2021 take the form of state-backed credit.

The response put in place by Member States is proportionate to the loss suffered, reassuring about potential concerns on the level-playing field across Member States.

In 2020, Member States' expenditure for non-crisis objectives has remained within the ranges existing pre-pandemic, thus showing that COVID aid was successfully channelled and did not crowd out public financing of important projects that support EU objectives.

[1] Summer 2022 Economic Forecast, European Commission, 2022
[2] Summer 2022 Economic Forecast, European Commission, 2022
[3] Communication from the Commission Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia 2022/C 131 I/01 C/2022/1890 OJ C 131I , 24.3.2022, p. 1–17

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decarbonisation of industries, in line with the REPowerEU[4] objectives. As announced by President Von der Leyen during the 2022 State of the Union speech, the Commission will amend the TCF in October, while preserving a level playing field.

An overview of the measures approved by DG Competition in 2020 and 2021

In 2020 and 2021, the Commission has taken around 1185 decisions and amendment decisions in the context of the COVID-19 pandemic, approving more than 865 national measures notified by 27 Member States[5]. The overall budget that Member States notified to the Commission under such State aid measures is worth a total of nearly €3.1 trillion, representing 11.4% of EU27 annual GDP[6]. More than half of these budgets were approved in Germany, around 15% in Italy and France, 5% in Spain, and around 2% and below in other Member States.

The distribution of aid approved appears to be uneven across Member States and may raise potential concerns on the level-playing field in the EU. However, what is relevant for any consideration related to the level-playing field is the actual take-up of such budgets, as it represents how much of the aid theoretically allocated by the Member States in the COVID-19 crisis has actually reached companies.

Data collected by the Commission

The Commission continuously monitors the actual implementation of COVID-19 State aid measures in the Member States, in order to adapt continuously its State aid strategy to the evolution of the situation in the internal market. For that purpose, the Commission collects data from Member States on State aid measures via different tools that provide a wide range of information on each measure. This includes general information at the moment the Member State notifies to the Commission the intention to implement a new measure, as well as data on the actual amounts granted to companies under each measure (yearly published in the State aid Scoreboard[7]). Moreover, Member States are required to publish the amounts granted at the level of the single undertaking, above a certain threshold, on a comprehensive public State aid database.

In addition to these existing data collection tools, since the beginning of the pandemic DG COMP has been monitoring the deployment of COVID-19 related State aid budgets via surveys addressed to the Member States authorities. So far, four surveys on the use of State aid in the COVID crisis were launched. The results of the first two were synthetised and published in the Competition State aid brief on the use of COVID-19 related State aid measures by EU Member States[8], while the results of the third survey are available in an update of the above-mentioned Competition State aid brief[9]. The fourth survey collects preliminary information on the aid granted in the context of the COVD-19 crisis, since the inception of the pandemic in March 2020 until the end of 2021, covering 6 points in time: 30 June 2020, 30 September 2020, 31 December 2020, 31 March 2021, 30 June 2021 and 31 December 2021.

Data disclosed in this policy brief are based on both the fourth survey and the most recent State aid Scoreboard. There are a number of caveats to these data. While Scoreboard data are the official reporting of the Member States on the amounts actually provided under State aid measures, it comes with a certain time lag. The latest available data refer to the aid granted in 2020. On the contrary, survey data cover until end of 2021, but the information is preliminary as it may not be complete or may present inconsistencies and be subject to corrections by Member States. Moreover, survey figures refer to nominal amounts of aid granted via different instruments (e.g. direct grants, loans and guarantees), while Scoreboard data provide both nominal amounts and aid elements granted by the Member State to the recipient of the aid. The aid element measures the economic advantage passed on to the undertaking and, therefore, depends on the type of instrument used: for grants, the advantage passed on to the beneficiary normally corresponds to the total expenditure. For other aid instruments, such as loans or guarantees, the advantage to the beneficiary and the cost to government is respectively the lower interest rate and the reduced guarantee fee actually paid by the undertaking with respect to the one that should have been paid at market values. As such, the aid element allows comparing volumes of aid granted via different instruments (e.g. direct grants, loans and guarantees), while comparing nominal amounts of measures channelled via different instruments should be taken with caution as different instruments have different economic impacts. All the above considered, survey and Scoreboard data are complementary sources of information.

A closer look at the actual implementation

Overview

The figures presented here exclusively refer to the measures that qualify as State aid. Member States have also supported their economy through generally available measures (e.g. general temporary unemployment schemes, VAT reductions, etc. that are

[4] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions REPowerEU Plan EUR-Lex - 52022DC0230 - EN - EUR-Lex (europa.eu)

[5] These figures do not include the decisions relative to the Pan-European Guarantee Fund: 89

[6] This figure has been computed dividing the total State aid amount approved in 2020 and 2021 by the sum of the EU27 GDP in 2020 and 2021.

[7] Scoreboard (europa.eu)

[8] Competition state aid brief. Issue 1/2021 – March 2021, available at: https://op.europa.eu/en/publication-detail/-/publication/01da5a35-98e2-11eb-b85c-01aa75ed71a1/language-en/format-PDF/source-search

[9] Competition state aid brief. Issue 1/2022 – February 2022, available at: https://op.europa.eu/en/publication-detail/-/publication/e77c8009-9460-11ec-b4e4-01aa75ed71a1

not State aid. Therefore, the overall support of the economy might actually differ from the State aid figures presented here.

Based on data provided by EU27 Member States in the context of the fourth survey, in the period between the onset of the crisis in mid-March 2020 and the end of 2021, of the over €3.1 trillion in aid approved during that period, around 30% (€940 billion) was actually granted to businesses. The overall COVID aid granted over this period represents 3.39% of total EU27 GDP on an annual basis[10].

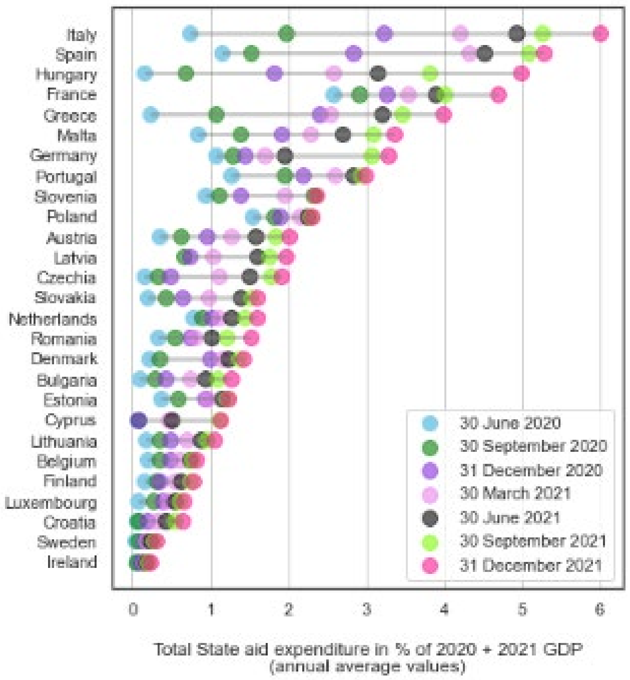
The gap between the amounts committed and the amounts actually deployed shows that Member States had not yet exhausted their support capacity six months before the expiry of the Temporary Framework on 30 June 2022.

The nominal amounts actually provided under COVID-19 measures[11] vary widely across Member States. In absolute terms, according to the data sent by Member States, Germany and France have granted around a fourth of the total aid provided each: Germany granted 24.1% of the total (€226 billion) and France 23.8% (€223 billion). They are followed by Italy with 21.8% (€205 billion) and Spain with 13.1% (€123 billion). These four Member States have collectively granted more than 80% of the total State aid support for COVID-19 measures.

In relative terms, Italy is the country that has provided to the economy the most as compared to its own GDP[12] (6%), followed by Spain (5.3%). Hungary (5%) overtook France (4.7%) in the second semester of 2021, becoming the third largest spender in relative terms. Greece follows France with 4%.

In general, the provision of funds to companies slowed down in the second half of 2021 (+29.1%) if compared to the previous semester of the same year (+38.7%), with the exception of Germany and Romania that spent at an increasing pace in the second semester of 2021. This general trend is in line with the improved epidemiological situation and the ensuing gradual easing of containment measures observed in the second half of 2021, which have considerably weakened the impact of the pandemic on economic activity.

Figure 1: COVID-19 State aid expenditure as compared to GDP



Member States' State aid strategies differ

The Temporary Framework allows Member States to choose among different options to support businesses with State resources[13].

Around 64% of the total nominal values of aid granted (€598 billion) at the end of 2021 take the form of state-backed credit, being either guarantees or subsidised loans. Specifically, aid granted on the basis of section 3.2 - *Aid in the form of guarantees on loans* of the Temporary Framework account for €409 billion (43% of the total), guarantees directly under the Treaty for €129 billion (14% of the total) and aid granted under section 3.3 of the Temporary Framework - *Subsidised interest rates for loans* account for around €61 billion (6% of the total).

Concerning guarantees, Italy (78% of the national total), Romania (78%), Portugal (69%), and France (72%) granted more than half of the total domestic expenditure under section 3.2. Other large users of guarantees on loans under the Temporary Framework are Hungary (47%), Croatia (45%) and Spain (41%). Belgium and the Netherlands provided a large volume of domestic aid in the form of State-guarantees loans approved directly under the Treaty (51% and 45% of national total respectively), followed by Denmark (41%) and Spain (38%). Also Germany provided a large

[10] This is computed by dividing cumulative data on State aid expenditure from the onset of the crisis until year-end 2021 by the sum of 2020 GDP and 2021 GDP.

[11] This includes measured adopted under the Temporary Framework as well COVID-19 measures directly adopted under the Treaty.

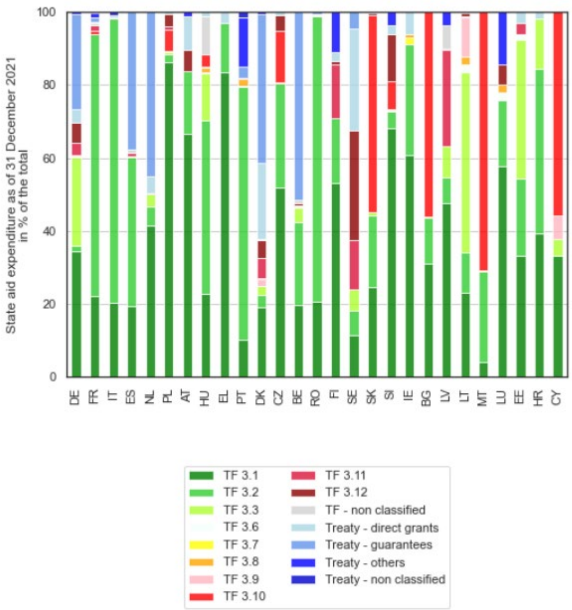
[12] See footnote 10.

[13] The new sections of the Temporary Framework, namely 3.13 on investment support and 3.14 on solvency support, are not included in the survey. These measures are applicable as of the entry into force of the 6th amendment of the Temporary Framework on 18 November 2021 and therefore it was too early to gather data on aid disbursed as of 31 December 2021.

volume of guarantees under the Treaty (€59 billion), corresponding to 26% of its total COVID-19 related aid.

Concerning loans granted at favourable terms, Germany provided around one fourth of its total spending for COVID-19 measures under section 3.3), corresponding to an overall volume of loans worth €54.71 billion. Other Member States that channelled a large share of COVID-19 measures in the form of subsidised loans are Lithuania and Estonia.

Figure 2: COVID-19 State aid expenditure, breakdown by legal basis and Member State



The second most used section of the Temporary Framework is 3.1. *Limited amounts of aid* (€270 billion, *i.e.* 29% of the EU total), which enables Member States to set up schemes where aid can take different forms (direct grants, tax and payment advantages or other forms such as repayable advances, guarantees, loans and equity), provided that it does not exceed a certain threshold per company[14]. The Member States that made wide use of this option are Poland (86% of national total), Greece (84%), Slovenia (68%), Austria (67%), Ireland (61%), Luxembourg (58%), Finland (53%) and Czechia (52%), where section 3.1 measures represent more than half of the total aid provided. In absolute terms, the largest amounts of limited amounts of aid have been provided in Germany (€77.56 billion), followed by France (€49.56 billion), Italy (€41.68 billion) and Spain (€23.93 billion).

The use of repayable forms of support (3.2, 3.3 and a part of the 3.1 measures) is generally less distortive of competition and allows mobilising large volumes of aid with a relatively smaller direct and immediate budgetary cost for the State (subsidised loans), if any at all (guarantees[15]), as compared to direct grants. This explains the widespread use of repayable instruments to channel COVID-19 aid. However, this type of measures exposes the State to credit risk, which may trigger a need to restructure the loans in the future (defer repayment, prolong; *etc.*). The Temporary Framework allows Member States to convert repayable instruments (within the ceilings for limited amounts of aid) into other forms of aid, such as direct grants[16].

The Temporary Framework provides also that Member States can contribute to the uncovered fixed costs of those undertakings for which the COVID-19 outbreak resulted in the suspension or reduction of their business activity (section *3.12 - aid in the form of support for uncovered fixed costs*). At the end of 2021, a total €17 billion was disbursed by the Member States under section 3.12 of the Temporary Framework, most of which was granted in Germany (€12.32 billion). Measures to support uncovered fixed costs represent 30% of the total spending in Sweden.

At the end of 2021, Member States recapitalised undertakings facing financial difficulties due to the COVID-19 outbreak for a total value of €15 billion (section 3.11 - *recapitalisation measures*). Section 3.11 represents 26% of total spending in Latvia, 15% in Finland and 13% Sweden.

Taking stock of the first year of the pandemic: evidence from the State aid Scoreboard

The actual economic advantage passed on to undertakings

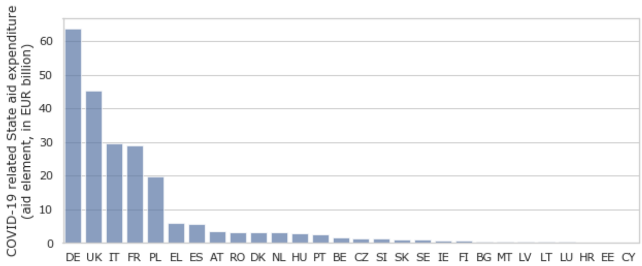
Scoreboard data shed some light on the economic impact of different aid instruments. This is quantified by the aid element of a State aid measure, which is the actual economic advantage passed on to the undertaking. This metric allows for a fair comparison of support measures channelled through different instruments. In absolute values, Germany is the country that has provided the most COVID-19 State aid in 2020, with an amount of €63.66 billion, significantly higher than the ones granted by the other Member States. The United Kingdom follows with €45.33 billion. Italy and France, which chose to channel a large share of COVID-19 aid through repayable instruments, show much lower amounts as aid elements, €29.64 billion and €28.96 billion respectively. The same can be observed for Spain, with €5.68 billion of COVID-19 aid elements disbursed at the end of 2020.

[14] This threshold has increased in the various amendments of the Temporary Framework. At the end of 2021, the fifth amendment of the Temporary Framework was in place, enabling a ceiling of €2.3 million per undertaking.

[15] Guarantees only have a budgetary impact if they are called.

[16] As per point 23ter of the Temporary Framework, Member States can convert debt instruments, such as loans and guarantees, into other forms of aid, such as direct grants, until 30 June 2023.

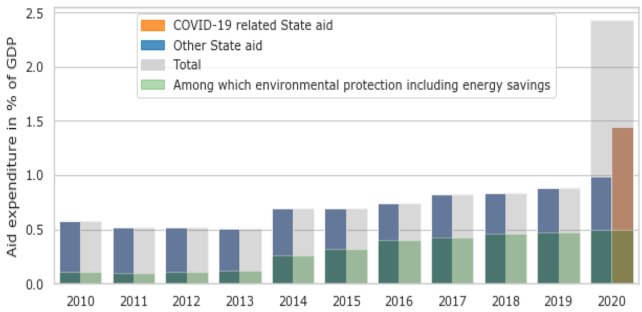
Figure 3: Aid element of COVID-19 State aid expenditure in 2020, by Member State



COVID-19 aid was successfully channelled

In 2020, Member States' expenditure for non-crisis objectives has remained within the ranges existing pre-pandemic. This shows that the COVID-19 aid was successfully channelled, while preserving Member States' ability to finance projects that benefit Europe's competitiveness and support important EU objectives, such as environmental protection and energy savings.

Figure 4: Evolution of total State Aid expenditure in the EU 27 plus the United Kingdom, aid elements, 2010-2020, % of GDP

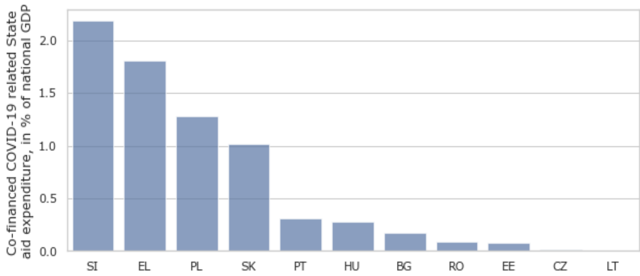


Total co-financed spending hits record high

EU Structural Funds, both existing, unspent resources as well as additional ones [17], have been directed to finance the implementation of several COVID-19 State aid measures in different Member States. In 2020, total spending on co-financed COVID-19 subsidies were worth €12.95 billion, representing more than 1% of national 2020 GDP in Slovenia, Greece, Poland and Slovakia. These unprecedented amounts come on top of spending on non-crisis-related co-financed projects (€17.83 billion), which brings the total co-financed State aid spending to the record level of €30.78 billion in 2020.

Moreover, spending on non-crisis-related co-financed projects increased by 20% in 2020 compared to the previous year. This increase is much larger than the annual increase observed in the two years before (+3% in 2019 and +9% in 2018). This shows that the crowding out of important projects that support EU objectives was averted, and that at the same time Member States were able to support companies in times of acute and unforeseen crisis.

Figure 5: State aid expenditure for COVID-19 measures on co-financed projects (aid elements), in percentage of 2020 GDP, by Member State



A limited impact to the level playing field

The establishment of the Temporary Framework enabled Member States to put in place record levels of support to help companies during the COVID-19 outbreak. Figure 6 puts the State aid responses implemented by Member States in 2020 and 2021 in perspective with the severity of the economic damage suffered, represented by the cumulated real GDP loss rate in 2020 and in 2021[18]. Concerning the amounts of State aid disbursed, since repayable and non-repayable instruments have a different distortive impact on competition, a fair comparison of support measures channelled through different instruments should take into account the aid elements. Figure 6 shows the relation between the real GDP loss rate and the cumulated COVID State aid granted in 2020 and 2021, in aid elements[19].

The majority of Member States granted an overall amount of aid corresponding to more than 50% of the real GDP loss, with 7 of them having spent more than 100%, including Poland, Slovenia, Hungary, Cyprus and Estonia. Ireland and Lithuania are exceptional cases as they experienced a growth of the GDP during the period of interest. The Member States that appear to have spent the least as compared to the scale of the economic shock suffered are Sweden, Belgium, Croatia and Portugal (less than 25% of the GDP loss). Eight Member States, including Spain, France and Italy, just to mention a few, have disbursed between 25% and 50% of the GDP loss.

State aid measures actually implemented by Member States seem to be correlated with the economic damage suffered during the crisis. Moreover, there is no evidence of Member States that would have granted an excessively larger amount compared to the others, thus raising concerns on the level-playing field in the single market.

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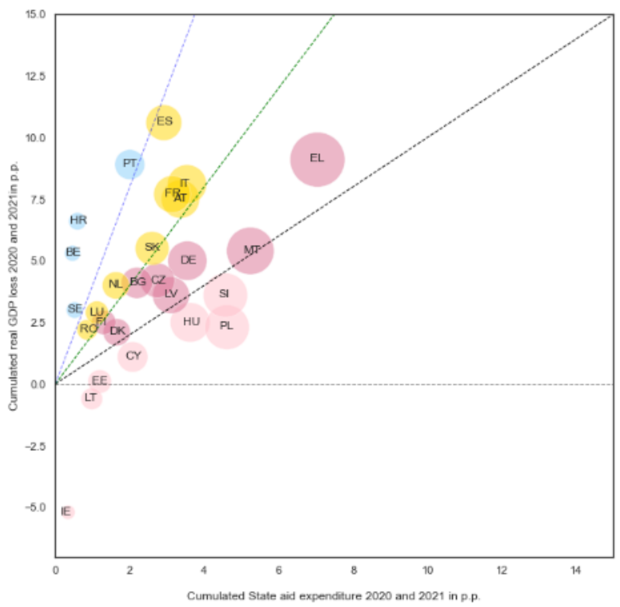
[17] [CORONAVIRUS DASHBOARD: COHESION POLICY RESPONSE | Data | European Structural and Investment Funds (europa.eu)]

[18] The loss rate is the gap between the actual GDP and the trend GDP in percentage of trend GDP. The cumulated loss rate is the sum of the loss rate in 2020 and the loss rate in 2021. Source: Ameco, 2022 Spring Forecast.

[19] Since survey data do not provide aid elements, these have been estimated based on historical Scoreboard data.

These conclusions are of course valid for State aid only. National economic responses to fight the pandemic include also many non-State aid measures (e.g. general temporary unemployment schemes, VAT reductions, *etc.*), which are not accounted for in this analysis and whose impact on the level-playing field is not assessed.

Figure 6: Relation between COVID-19 State aid expenditure (estimated aid elements) and economic damage to GDP



Preliminary conclusions and perspectives

From the onset of the crisis to the end of 2021, Member States committed budgets worth around €3.1 trillion in State aid measures aimed at cushioning the devastating economic effects of the pandemic. Looking at the deployment of these budgets, at the end of 2021 around €940 billion euros was actually granted to companies, representing about 3.39% of EU GDP on an annual basis and around 30% of the budgets approved until then. Six months before the expiry of the Temporary Framework, Member States still had available, on average, about two thirds of their theoretically approved support capacity.

At the end of 2021, in relative terms, Italy is the Member States with the largest take-up of COVID support measures, having provided to companies an amount corresponding to 6% of its own GDP on an annual basis. Spain is the second largest fund provider in relative terms (5.3%), followed by Hungary (5.0%), France (4.7%) and Greece (4%). In general, Member States have disbursed support measures at a decreasing pace in the second half of 2021 if compared to the previous semester of the same year, as expected given the general improvement of the sanitary crisis and hence of the overall economy.

More than half of the total nominal values of aid granted (64% of the total) at the end of 2021 take the form of state-backed credit. Member States have largely made use of repayable forms of support, mostly guarantees but also loans at favourable conditions to a lesser extent, as they allow the provision of large volumes of aid with a relatively low direct and immediate budgetary cost for the State (in the case of subsidized loans), if not zero (in the case of guarantees), contrary to the cost of direct grants. From a competition perspective, State aid provided in the form of credit-based instruments are generally less distortive of competition than direct grants. This is reflected by the relatively low aid element associated to a credit instrument with respect to its nominal value. On the other hand, granting aid in the form of reimbursable instruments exposes the State to credit risk. The Temporary Framework provides for the conversion of small amounts of repayable instruments into other forms of aid, such as direct grants.

The relation between COVID-19 State aid spending and the economic damage suffered in terms of GDP loss shows that the response put in place by Member States is correlated to the loss suffered, reassuring about potential concerns on the level-playing field across Member States.

Evidence from the State aid Scoreboard provides additional insights on the functioning of State aid rules in the first year of the pandemic. In 2020, Member States' expenditure for non-crisis objectives has remained within the ranges existing pre-pandemic. This shows that the massive public support provided in the context of the COVID-19 crisis did not crowd out public financing of important projects that support EU objectives, most notably environmental protection and energy savings, which are by far the non-crisis-related policy objective on which Member States spent the most.

Appendix

In a spirit of transparency, DG Competition provides its data to the public in a statistical appendix: *COVID-19 State aid expenditure - main statistical tables (.xlsx version).*