EUROPEAN COMMISSION

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PUBLIC VERSION

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Subject: State Aid SA. 38994 (2014/N) Liquidity support to Bulgarian banks - Bulgaria

Sir,

I. PROCEDURE

1. On 29 June 2014, Bulgaria notified a liquidity scheme pursuant to which the Republic of Bulgaria will provide State deposits to credit institutions with a maturity of up to 5 months.
2. For reasons of urgency, the Bulgarian authorities exceptionally accept that the Commission decision be adopted in the English language.

II. DESCRIPTION OF THE SCHEME

3. The Scheme is based on Bulgarian Law on the State Budget, adopted on 15 February 2013, in force as of 1 January 2014.
4. The total budget of the Scheme is BGN 3 300 million (ca. EUR 1 650 million).
5. In response to the liquidity crisis in the Bulgarian financial sector, Bulgaria designed the liquidity scheme (the Scheme) to preserve the stability of the financial system.
6. The Scheme allows the Republic of Bulgaria to make State deposits in credit institutions, subject to certain conditions.

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7. The State deposits will have maturity of five months.

8. The State deposits will be remunerated in line with State aid rules and will be at least at the level observed in the market for the same maturity in the period preceding the State intervention by one month.

9. The Scheme is open to credit institutions in need of liquidity support to weather the current liquidity run on the Bulgarian banking system.

10. The Scheme is open to solvent institutions according to the existing rules in place within the applicable CRR/CRD IV framework.

III. POSITION OF BULGARIA

11. The Bulgarian authorities submit that the Scheme constitutes State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union ("**TFEU**"), but are of the view that it is compatible with the internal market on the basis of Article 107(3)(b) TFEU as it is necessary in order to remedy a serious disturbance in the economy of Bulgaria.

12. Bulgaria submitted a letter by the Bulgarian National Bank[1] further supporting the need for the scheme to safeguard the stability of the financial system in Bulgaria and, in particular, the liquidity of the beneficiaries taking part in the Scheme.

13. Bulgaria's understanding is that the Scheme is fully compatible with applicable State aid rules.

14. The Scheme is open to all banks established in Bulgaria.

15. In addition, Bulgaria considers that the Scheme is proportional to the challenge faced, and does not go beyond what is strictly required to achieve that objective.

IV. ASSESSMENT OF THE MEASURE

IV. 1. Existence of State Aid

16. By virtue of Article 107(1) TFEU, "*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.*"

17. The Commission notes that the Scheme concerns the provision of State resources to a certain sector, i.e. the financial sector, which is open to intense international competition. It is therefore capable of affecting trade between Member States and of distorting competition, to the extent that it confers an advantage on participating banks. The Scheme essentially provides banks using the credit line with an advantage by providing loans that would otherwise not be available to them in the prevailing circumstances. The measure is selective because it is only open to the financial sector.

18. The Scheme therefore involves State aid within the meaning of Article 107(1) TFEU.

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[1] Letter of the Bulgarian National Bank of 29 June 2014.

IV.2. Compatibility of the Aid

19. Under the Scheme, Bulgaria intends to provide aid in the form of deposits within banks experiencing liquidity issues.

20. Given the exacerbation of tensions on the liquidity of certain banks that is taking place in Bulgaria, the Commission considers it appropriate to examine the measure under Article 107(3)(b) TFEU.

21. Article 107(3)(b) TFEU empowers the Commission to find that aid is compatible with the internal market if it is intended "*to remedy a serious disturbance in the economy of a Member State*". The Commission acknowledges that a banking liquidity crisis can create a serious disturbance in the economy of a Member State and that measures supporting the provision of liquidity to banks are apt to remedy that disturbance.

22. Therefore, the Commission continues to base its assessment of State aid measures in the banking sector on Article 107(3)(b) TFEU.

23. The Commission accepts the position of the Bulgarian authorities that the approval of the Scheme is necessary for reasons of financial stability. Consequently, the Commission finds that the Scheme aims at remedying a serious disturbance in Bulgaria's economy.

24. The objective of the Scheme is to temporarily offer deposits to banks in Bulgaria in a timely and efficient manner.

25. With regard to the scope of the measure, the Commission notes positively that Bulgaria has limited the size of the Scheme to BGN 3 300 million (ca. EUR 1 650 million) and that the Scheme provides for only 5 months duration of the deposits.

26. Bulgaria commits to provide the Commission individual restructuring or liquidation plans, within two months, for banks which use the measure described in this Decision.

27. The detailed Commitments provided by the Bulgarian authorities[2] are set out in Annex I.

V. CONCLUSIONS ON THE COMPATIBILITY OF THE AID MEASURE

28. With respect to the State deposits in selected banks, the Commission generally considers these as incompatible with the internal market. However, the measures at hand need to be viewed in the context of the prevailing circumstances on the Bulgarian market.

29. The Commission notes that the commitment on advertising is narrower than those it usually seeks in relation to State aid to banks. Rather than a complete prohibition on advertising State aid by the beneficiaries, it is limited to a ban on advertising referring to State support by the beneficiaries of the scheme for the purpose of acquiring new clients and business. However, in the context of a possible bank run on credit institutions in Bulgaria, it is appropriate to allow banks to reassure their depositors. If such circumstances were not present, that degree of freedom could not

[2] Letter from the Finance Minister Peter Chobanov of 29 June 2014

be permitted; if such a situation were not present, the standard ban on advertising would be sought for the scheme to considered compatible. Moreover, the form of the scheme (liquidity, rather than a guarantee) means that any State aid advertising will be relatively limited in the degree that it distorts competition. Finally, the Commission takes positive note of the commitment to prevent beneficiaries from employing any aggressive commercial strategies which would not take place without the support of scheme, which ensures that the narrower scope of the ban will not lead to disproportionate distortions of competition.

30. In the context of the current liquidity crisis experienced in Bulgaria since the 20 June 2014, the Scheme can therefore be considered an appropriate, necessary and proportionate measure to remedy a serious disturbance in Bulgaria's economy. In light of the commitments set out in Annex I, the measure can thus be considered compatible with the internal market pursuant to Article 107(3)(b) TFEU.

31. Bulgaria exceptionally accepts that the present decision be adopted in the English language, for reasons of urgency.

VI. CONCLUSION

The Commission has accordingly decided:

- to consider the aid to be compatible with the internal market

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http://ec.europa.eu/competition/elojade/isef/index.cfm

Your request should be sent by registered letter or fax to:

European Commission
Directorate General for Competition
State aid Registry
B-1049 Brussels
Belgium
Fax (32-2) 296 12 42

Yours faithfully,
For the Commission

Joaquín ALMUNIA
Vice-President

Annex I

Bulgaria commits:

(i) to grant aid measures under the scheme only to solvent credit institutions which have no capital shortfall[3] and require a liquidity support;

(ii) to determine the minimum remuneration level of the State deposits to be at least at the level observed in the market in the period preceding the State intervention by one month;

(iii) to communicate to the Commission, within three months following each deposit granted, the actual interest rate received;

(iv) that any credit institution applying for assistance under the scheme will be required to present a restructuring plan[4] within two months of receiving the deposit;

(v) to suspend any dividend and coupon payments on outstanding instruments, unless those payments stem from a legal obligation, until the recipient has returned in full the State deposit from the scheme.

(vi) to suspend the exercise of any call options or other capital management deals (e.g., buy backs) without prior authorisation of the Commission, until the recipient has returned in full the State deposit from the scheme.

(vii) to an acquisition ban, until the recipient has returned in full the State deposit from the scheme.

(viii) to impose a ban on advertising referring to State support by the beneficiaries of the scheme for the purpose of acquiring new clients and business and to prevent them from employing any aggressive commercial strategies which would not take place without the support of scheme;

[3] "No capital shortfall" according to the most recent Union-wide capital exercise (the 2011 European Banking Authority ("EBA") capital exercise required at least a capitalisation of 9% as defined by EBA) or other equivalent national exercises by the national supervisory authority.

[4] The plan must be prepared on the basis of the parameters established in the Commission Communication on the return to viability and the assessment of the restructuring measures in the financial sector in the current crisis under the State aid rules (the "Restructuring Communication"), OJ C 195, 19.8.2009, p. 9.