European Commission - Statement

Statement by Executive Vice-President Margrethe Vestager at the press conference on Solvency Support Instrument

Brussels, 29 May 2020

In the past few months, everyone in Europe has made extraordinary efforts, to help control the spread of the new coronavirus. We've pulled together, in local communities and all across Europe. Because we all understand that none of us is safe until all of us are safe.

Those efforts have borne fruit. But the European economies are suffering. A lot of people are at risk of losing their jobs. Our lives and livelihoods still depend on us working together – not least, by pooling Europe's resources, to help our economy get through this crisis.

In the past few weeks, the coronavirus has hit many businesses hard. Understandably, because when your doors are closed for customers, your revenues collapse. Member States and the Union have rapidly reacted by setting up massive liquidity schemes. This will not be enough, since the losses are so substantial that most capital reserves will soon be gone. Our best estimate is that Europe's businesses will need 720 billion euros this year, to replace that lost equity. Without it, many otherwise viable businesses will face insolvency. That would put millions of jobs in Europe at risk, and threaten our ability to recover from the crisis.

Our Temporary Framework for state aid already enables Member States to give aid to restore the share capital of businesses. It sets conditions to protect the level playing field in our single market.

But this is a crisis with uneven effects. Some sectors of the economy, and some parts of Europe, have suffered more than others. And although state aid can help to soften the blow, not all Member States have the room in their national budgets to provide companies with support. Indeed, the differences in the size of European economies and budgets risks to fragment further the Single Market.

We are strongly connected in the European economy. If companies in need are not being helped in one part of Europe, this could harm other parts. But it also works the other way round: when companies in certain parts of the continent are being helped, then this has positive spillover effects on Europe as a whole.Because Europe's economies are so deeply intertwined, none of us will recover strongly from this crisis, unless we recover together.

This Wednesday, the Commission put forward our proposal for a recovery package, built on two components: a reinforced Multiannual Financial Framework and a temporary recovery instrument, called "Next Generation EU". *NextGeneration EU* has three major objectives: support for the Member States, support for companies and how to deal with lessons learned from the crisis.

Today, I'd like to present the Solvency Support Instrument. I have worked closely with my colleague, Paolo Gentiloni to develop this instrument. Paolo will be here later today to introduce another part of the recovery package.

The Solvency Support Instrument will enable equity support to businesses all over Europe. It will be focused where businesses are most in need of support as a result of the pandemic. So we focus on Member States and sectors hardest hit and on the Member States, which are least able to offer equity support to businesses.

Let me give you an example, let us say a manufacturing company can no longer borrow to cover its liquidity needs without straining its capital. This manufacturer can possibly turn to an existing investment fund or a new one, set up for this specific purpose of providing equity support. Here the Solvency Support Instrument can provide a guarantee for the fund to cover possible losses. This would give an incentive for the investment fund to take a higher risk and support the manufacturer, even in these uncertain times. This also makes it possible for the investment fund to attract other private investors.

Different Member States' financial markets and different sized companies across these Member States need different solutions. The proposed Regulation, similar to the original EFSI, leaves a lot of freedom for the EIB Group to develop these different solutions. These are tailor-made to the needs of each member state.

We foresee that the EIB group will work through existing entities or newly established intermediaries, specifically for this purpose. These intermediaries can be as equity funds or investment vehicles. They would be mainly set-up by the private sector and needing support to increase their level of solvency investments.

We will make technical assistance available to set up their specific structures fast, to be able to make the support fast

The proposal aims to mobilise 300 billion euros for equity investments in viable businesses through the European Fund for Strategic Investments. Part of the guarantee will already be available this year. The goal is to crowd in significant private investment in equity of companies. This is a temporary instrument, because it is aimed to help out in this crisis.

As I mentioned in the beginning, the need we see is 720 billion EUR. So,the 300 billion euros are not the only answer to the equity gap in the market. Member States are also designing national measures. So, this instrument is first and foremost for those Member States that cannot afford to intervene, as we need to rebalance the Single Market to the benefit of all of us.

The solvency support will come with strings attached: The intermediary funds must be established and operate in the EU and beneficiary companies must be economically viable. The Solvency Support Instrument is about providing solvency support through intermediaries and not about the EU buying equity directly in companies. It will support businesses to prepare for the upcoming challenges hopefully also for opportunities, by being more resilient and making efforts to adapt to the green and digital transitions. In short, to shape a better and future-proof economy.

The investment supported by these instruments need to deliver on the objectives set by the Green Deal and the Digital Agenda. As an example, transport and agricultural sectors shall be encouraged to put in place green transition plans. The same would be required to companies from sectors covered by the EU Emissions Trading System.

With the agreement of European Parliament and the Council, this support can happen already this year. That will enable us to recover strongly together. We have also developed these instruments together in the Commission. And, as said earlier, Paolo will be in the press room later today to present more of this package, and of course to take more question.

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