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Competition State aid brief

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# The use of COVID-19 related State aid measures by EU Member States

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## The role of State aid rules in the COVID-19 crisis

Since March 2020, European governments put in place strict public health measures in an attempt to stem the spread of the COVID-19 pandemic. The European economy is facing a double shock of supply (linked to the drop in production) and demand (linked to the drop in consumption)[1], which led to a decline in European Gross Domestic Product (GDP) of -6.3% in 2020[2].

In the first half of 2021, the EU remains firmly in the grip of the pandemic. Growth in the European economy is set to resume this spring and gather momentum in the summer, with progress in vaccination allowing a gradual thaw in economic activity. Overall, GDP is now expected to grow by 3.7% in 2021 and 3.9% in 2022 in the EU[3].

Since the beginning of the crisis, the use of wide job retention schemes, supported by the EU instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), as well as other types of government interventions, cushioned the impact of the COVID-19 shock on jobs and incomes. In addition, the Commission estimated that the liquidity and fiscal measures taken by Member States have reduced the contraction in EU GDP in 2020 by an estimated 4.5 percentage points[4].

## The State aid Temporary Framework

From the start, the Commission has worked in tandem with Member States by adopting a Temporary Framework[5] to enable Member States to use the full flexibility under State aid rules to provide much needed support to the economy. The European Commission has also adapted the Temporary Framework five times to-date to cater for developing needs and prolonged its application until the end of this year.

In addition to the Temporary Framework, Member States can propose COVID-19 related measures under the Treaty and the General Block-Exemption Regulation (GBER).

## In a nutshell

**From the start, the Commission has worked in tandem with Member States by adopting a Temporary Framework to enable Member States to use the full flexibility under State aid rules to provide much needed support to the economy.**

**This enabled all the 27 Member States to implement large State aid responses.**

**Based on the available State aid data, it seems that the fears of damage to the level playing field – in particular that the wealthier Member States would have out-spent the other Member States – have not materialised so far.**

## An overview of the measures approved by DG Competition

As of today, the Commission has taken more than 470 decisions approving more than 580 national measures notified by 27 Member States., worth a total estimated EUR 3 trillion. More than half of the aid was approved in Germany, around 15% in each Italy and France, around 5% in Spain, and around 2% and below in other Member States. These figures are based on the budgets that Member States notified to the Commission when seeking approval under State aid rules.

## Data collection

All approved aid was assessed to be necessary and proportionate. However, given the large disparities between aid amounts approved in Member States, this naturally raised concerns about the non-levelling of the playing field and an asymmetric recovery. The actual economic impact of the State aid measures depends on their implementation, not on budgets. That is why, in order to have a better overview of the aid provided, the Commission launched two surveys (respectively in September and December 2020) to seek information from Member States on the implementation of coronavirus related State aid measures.

There are a number of important caveats: the information made available to the Commission by Member States may not be

[1] Brodeur, A., Gray, D.M., Islam, A. and Bhuiyan, S., 2020. A Literature Review of the Economics of COVID-19.

[2] Winter 2021 Economic Forecast, European Commision, 2021

[3] *Ibid.*

[4] Communication on the COVID-19 fiscal policy response, European Commission, 2021

[5] Temporary Framework as adopted on 19 March 2020 (C(2020) 1863) and its amendments C(2020) 2215 of 3 April 2020, C(2020) 3156 of 8 May 2020, C(2020) 4509 of 29 June 2020, C(2020) 7127 of 13 October 2020, and C(2021) 564 of 28 January 2021.





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complete or present inconsistencies; the figures represent aid used via different instruments (e.g. direct grants, loans and guarantees) and with different economic effects. In addition, data may be subject to correction from Member States. Therefore, such preliminary data only gives a first insight, should be taken as lower bound values and should not be used to draw definitive conclusions.

## A closer look at the actual implementation

### Overview

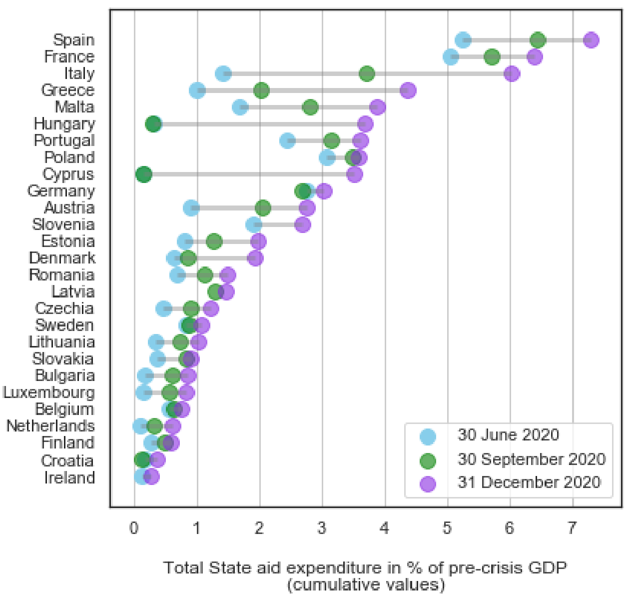
The nominal amounts (Temporary Framework and Treaty measures) actually used as of 31 December 2020 vary widely across Member States.

In the period between mid-March and end of December 2020, of EUR 2.96 trillion in aid approved by then, around EUR 544 billion was actually used. At EU 27 level, this amounts to around 3.9% of EU GDP.

In absolute terms, according to the preliminary data sent by Member States, France has granted more than a fourth of the total aid provided (EUR 155.36 billion), followed by Italy with 19.8% of the total aid provided (EUR 107.9 billion), Germany with 19.1% of the total aid provided (EUR 104.25 billion) and Spain at 16.7% (EUR 90.8 billion).

In relative terms, Spain is the country that has provided to the economy the most as compared to its own GDP (7.3%), followed by France (6.4%). Italy (6.0%), Greece (4.39%), Malta (3.9%), Hungary (3.7%), Portugal (3.6%), Poland (3.6%) and Cyprus (3.5%).

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




Among the Member States most hit by the first wave, data reported may indicate a slow increase from June to the end of the year[6] (in particular France, Spain and Portugal) while on the contrary, some Member States increased significantly their State aid expenditure in the second part of 2020 (Greece, Malta, Hungary, Cyprus, Estonia, Denmark, Lithuania).

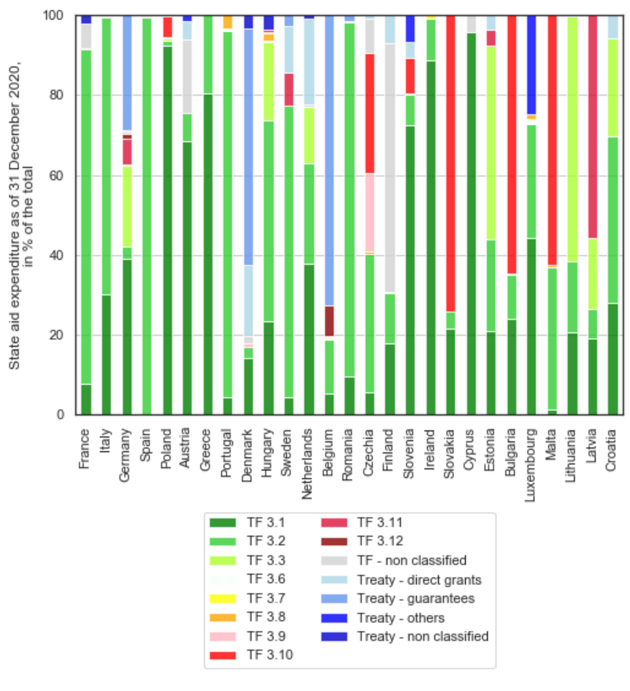
### Member States' State aid strategies differ

Through the Temporary Framework, DG Competition has designed a set of horizontal rules applicable to all Member States, in a fashion that respected the diversity of options preferred by Member States to support their economies.

Member States used primarily sections 3.1. *Limited amounts of aid* (EUR 126.1 billion, *i.e.* 23.2% of the total) and 3.2 *Aid in the form of guarantees on loans* (EUR 321.4 billion, 59.1%) of the Temporary Framework.

Some Member States seem to have made a deliberate choice for 3.1 (*Limited amounts of aid):* Greece, Ireland, Poland, Slovenia; others preferred 3.2 (Aid in the form of guarantees on loans): Spain, France, Hungary, Portugal, Sweden, while Slovakia, Bulgaria and Malta provided support mostly under 3.10 (Aid in form of wage subsidies), Latvia under 3.11 (Recapitalization measures) and Denmark and Belgium directly under the Treaty.

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




Some countries rely heavily on repayable support (*e.g.* Italy, France, Spain, but also Portugal and Romania). In those countries in particular, companies will be faced with the issue of repayment

[6] This is consistent with Bruegel's data collection on Government-guaranteed bank lending: Anderson, J., F. Papadia and N. Véron (2021) 'COVID-19 credit-support programmes in Europe's five largest economies, Working Paper 03/2021, Bruegel

which may trigger a need to restructure the loans in the future (defer repayment, prolong; *etc.*). The possibility introduced in the fifth amendment to the Temporary Framework to convert repayable instruments into non-repayable instruments (up to EUR 1.8 million per undertaking, and until 31 December 2022) aims to remedy this situation.

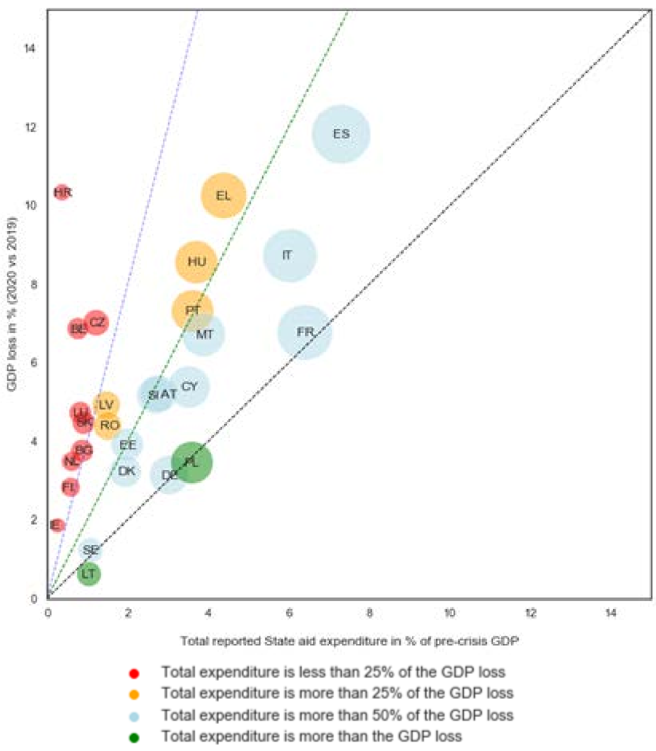
## A limited impact to the level playing field

### The relation between COVID-19 State aid and economic damage to GDP

In Figure 3, we examine how proportionate the State aid responses implemented by Member States were, from a macroeconomic perspective) based on available data. We do so by plotting the total reported SA expenditure in percentage of GDP on the X axis, against the GDP loss (2020 as compared to 2019).

Member States in yellow are the ones for which the expenditure is increasing: these Member States were comparatively less hit by the first outbreak of COVID in March but much more by the second wave: for this reason, they are 'late spenders' in the sense that they did not provided that much State aid in the first half of 2020.

*Figure 3: Relation between COVID-19 State aid expenditure and economic damage to GDP*




This figure appears reassuring as regards the level playing field, because we do not observe Member States that would have completely outspent the others and/or in a manner that would have been disproportionate as compared to the economic damage suffered during the crisis.

These conclusions are of course valid for State aid only and we cannot conclude from this data the impact of Member States spending via non-State aid measures (*e.g.* short-time work schemes, VAT reductions, *etc.*).

## Zombification risk in the EU and how to address it?

The OECD defines zombie firms as firms aged ≥10 years and with an interest coverage ratio greater than one over three consecutive years. Such zombie firms cannot repay their debt, so that their indebtedness increase inexorably over time.

Having a large number of zombie firms in the EU economy would hamper aggregate productivity and crowd out investment (and State support) from healthy firms.

Economic studies and position papers on the subject[7] state that the zombification risk is real, but difficult to solve while providing liquidity and financial support to the economy. Many provisions of the Temporary Framework are already aligned with the recommendation of these studies to mitigate the zombification risk, including the possibility to convert of repayable instruments into direct grants and the exclusion of undertakings previously in difficulty.

## Preliminary conclusions and perspectives

The amounts of State aid provided as of 31 December 2020 are still relatively low compared to the budgets approved by DG Competition. In addition, the spending rate has slowed down in the second half of 2020 for the largest Member States. On the contrary, State aid expenditure increased significantly for Member States hit by COVID-19 outbreaks in the second part of 2020.

Several Member States used extensively the Temporary Framework and Treaty measures to provide targeted support to certain sectors, such as airlines and airports or the manufacturing/export credit sector; others designed more general measures.

Member States still have significant buffers to implement State aid measures under approved schemes. No particular Temporary Framework sections seem to have been exhausted.

DG Competition will continue to monitor the implementation of COVID-19 related State aid measures and adapt its State aid strategy to the evolution of the situation on the internal market. In particular, the transparency and reporting obligations laid down in the Temporary Framework[8] and the State aid decisions will provide DG Competition with additional data.

[7] Group of Thirty (2020), Reviving and Restructuring the Corporate Sector Post-Covid; Agnès Bénassy-Quéré (2020), 2021, l'année des zombis ?; Grégory Claeys, Mia Hoffmann and Guntram Wolff, Bruegel (2020), Corporate insolvencies during COVID-19: keeping calm before the storm

[8] Points 89 to 91 of the State aid Temporary Framework.

## 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.*

*Table 1: Overview*

| Member State | Total COVID-19 State aid expenditure | Total COVID-19 State aid expenditure (TF only) | Total COVID-19 State aid expenditure, in % of 2019 GDP | Total COVID-19 State aid expenditure, in % of the total | Total State aid approved | Total State aid approved, in % of 2019 GDP | Total State aid approved, in % of the total |
|---|---|---|---|---|---|---|---|
| Austria | 10.99 | 10.32 | 2.76% | 2.02% | 45.76 | 11.51% | 1.54% |
| Belgium | 3.64 | 1.00 | 0.77% | 0.67% | 56.08 | 11.78% | 1.89% |
| Bulgaria | 0.53 | 0.53 | 0.87% | 0.10% | 1.58 | 2.57% | 0.05% |
| Croatia | 0.20 | 0.19 | 0.37% | 0.04% | 4.20 | 7.75% | 0.14% |
| Cyprus | 0.79 | 0.79 | 3.52% | 0.14% | 0.44 | 1.98% | 0.01% |
| Czechia | 2.73 | 2.70 | 1.22% | 0.50% | 27.16 | 12.13% | 0.91% |
| Denmark | 6.07 | 1.19 | 1.94% | 1.12% | 19.72 | 6.31% | 0.66% |
| Estonia | 0.56 | 0.54 | 1.99% | 0.10% | 2.16 | 7.68% | 0.07% |
| Finland | 1.40 | 1.30 | 0.58% | 0.26% | 6.60 | 2.74% | 0.22% |
| France | 155.36 | 152.31 | 6.40% | 28.62% | 430.00 | 17.73% | 14.48% |
| Germany | 104.25 | 73.81 | 3.02% | 19.21% | 1588.48 | 46.05% | 53.50% |
| Greece | 8.04 | 8.04 | 4.39% | 1.48% | 13.24 | 7.22% | 0.45% |
| Hungary | 5.41 | 5.22 | 3.70% | 1.00% | 11.22 | 7.68% | 0.38% |
| Ireland | 0.93 | 0.93 | 0.26% | 0.17% | 3.36 | 0.94% | 0.11% |
| Italy | 107.94 | 107.67 | 6.03% | 19.89% | 454.57 | 25.40% | 15.31% |
| Latvia | 0.45 | 0.45 | 1.47% | 0.08% | 0.99 | 3.24% | 0.03% |
| Lithuania | 0.51 | 0.51 | 1.04% | 0.09% | 1.90 | 3.90% | 0.06% |
| Luxembourg | 0.52 | 0.39 | 0.82% | 0.10% | 3.57 | 5.63% | 0.12% |
| Malta | 0.52 | 0.52 | 3.88% | 0.10% | 0.82 | 6.12% | 0.03% |
| Netherlands | 4.93 | 3.83 | 0.61% | 0.91% | 31.24 | 3.86% | 1.05% |
| Poland | 19.15 | 19.11 | 3.60% | 3.53% | 63.31 | 11.89% | 2.13% |
| Portugal | 7.71 | 7.71 | 3.61% | 1.42% | 17.59 | 8.24% | 0.59% |
| Romania | 3.36 | 3.30 | 1.50% | 0.62% | 6.28 | 2.81% | 0.21% |
| Slovakia | 0.85 | 0.85 | 0.91% | 0.16% | 6.46 | 6.88% | 0.22% |
| Slovenia | 1.30 | 1.16 | 2.68% | 0.24% | 8.03 | 16.60% | 0.27% |
| Spain | 90.85 | 90.85 | 7.30% | 16.74% | 149.05 | 11.97% | 5.02% |
| Sweden | 5.11 | 4.37 | 1.08% | 0.94% | 15.50 | 3.27% | 0.52% |
| **Total** | **544.11** | **499.61** | **3.90%** | **100.00%** | **2969.32** | **21.26%** | **100.00%** |

* State aid expenditure as of 31 December 2020, expressed in EUR billions and in nominal amounts

*Table 2: COVID-19 State aid expenditure by Member State*

| Member State | Total COVID-19 State aid expenditure in EUR billion, as of 30 June 2020 | Total COVID-19 State aid expenditure in EUR billion, as of 30 September 2020 | Total COVID-19 State aid expenditure in EUR billion, as of 31 December 2020 |
|---|---|---|---|
| **Austria** | 3.62 | 8.22 | 10.99 |
| **Belgium** | 2.65 | 3.04 | 3.64 |
| **Bulgaria** | 0.10 | 0.37 | 0.53 |
| **Croatia** | 0.10 | 0.07 | 0.20 |
| **Cyprus** | 0.03 | 0.03 | 0.79 |
| **Czechia** | 1.03 | 2.01 | 2.73 |
| **Denmark** | 1.96 | 2.68 | 6.07 |
| **Estonia** | 0.23 | 0.36 | 0.56 |
| **Finland** | 0.65 | 1.21 | 1.40 |
| **France** | 122.97 | 138.61 | 155.36 |
| **Germany** | *n.a.* | 92.52 | 104.25 |
| **Greece** | 1.85 | 3.74 | 8.04 |
| **Hungary** | 0.47 | 0.45 | 5.41 |
| **Ireland** | 0.44 | *n.a.* | 0.93 |
| **Italy** | 25.54 | *66.43* | 107.94 |
| **Latvia** | *n.a.* | 0.39 | 0.45 |
| **Lithuania** | 0.17 | 0.36 | 0.51 |
| **Luxembourg** | 0.10 | 0.36 | 0.52 |
| **Malta** | 0.23 | 0.38 | 0.52 |
| **Netherlands** | 0.85 | 2.68 | 4.93 |
| **Poland** | 16.43 | 18.63 | 19.15 |
| **Portugal** | 5.22 | 6.75 | 7.71 |
| **Romania** | 1.52 | 2.51 | 3.36 |
| **Slovakia** | 0.35 | 0.78 | 0.85 |
| **Slovenia** | 0.92 | *n.a.* | 1.30 |
| **Spain** | 65.46 | 80.38 | 90.85 |
| **Sweden** | 3.90 | 4.19 | 5.11 |
| **Total** | **352.22** | **437.17** | **544.11** |

*Table 3: COVID-19 State aid expenditure by legal base*

| Member State | TF 3.1 | TF 3.2 | TF 3.3 | TF 3.6 | TF 3.7 | TF 3.8 | TF 3.9 | TF 3.10 | TF 3.11 | TF 3.12 | TF - non classified | Treaty - direct grants | Treaty - guarantees | Treaty - others | Treaty - non classified | All legal bases |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Austria** | 7.53 | 0.76 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2.02 | 0.52 | 0.00 | 0.15 | 0.00 | **10.99** |
| **Belgium** | 0.19 | 0.49 | 0.01 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.29 | 0.00 | 0.00 | 2.64 | 0.00 | 0.00 | **3.64** |
| **Bulgaria** | 0.13 | 0.06 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.34 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **0.53** |
| **Croatia** | 0.06 | 0.08 | 0.05 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | **0.20** |
| **Cyprus** | 0.75 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.03 | 0.00 | 0.00 | 0.00 | 0.00 | **0.79** |
| **Czechia** | 0.15 | 0.95 | 0.00 | 0.00 | 0.00 | 0.02 | 0.53 | 0.81 | 0.00 | 0.00 | 0.24 | 0.02 | 0.00 | 0.00 | 0.00 | **2.73** |
| **Denmark** | 0.85 | 0.17 | 0.00 | 0.00 | 0.00 | 0.00 | 0.06 | 0.00 | 0.00 | 0.00 | 0.11 | 1.08 | 3.60 | 0.00 | 0.20 | **6.07** |
| **Estonia** | 0.12 | 0.13 | 0.27 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 | 0.00 | 0.00 | 0.02 | 0.00 | 0.00 | 0.00 | **0.56** |
| **Finland** | 0.25 | 0.18 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.87 | 0.10 | 0.00 | 0.00 | 0.00 | **1.40** |
| **France** | 12.00 | 130.03 | 0.04 | 0.00 | 0.00 | 0.00 | 0.00 | 0.57 | 0.00 | 0.00 | 9.67 | 0.00 | 0.00 | 0.00 | 3.06 | **155.36** |
| **Germany** | 40.82 | 3.21 | 21.11 | 0.03 | 0.00 | 0.02 | 0.00 | 0.01 | 6.93 | 1.22 | 0.47 | 0.58 | 29.79 | 0.00 | 0.07 | **104.25** |
| **Greece** | 6.47 | 1.58 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **8.04** |
| **Hungary** | 1.27 | 2.71 | 1.06 | 0.01 | 0.00 | 0.11 | 0.01 | 0.03 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.19 | **5.41** |
| **Ireland** | 0.82 | 0.10 | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **0.93** |
| **Italy** | 32.63 | 74.84 | 0.08 | 0.01 | 0.00 | 0.00 | 0.00 | 0.11 | 0.00 | 0.00 | 0.00 | 0.20 | 0.00 | 0.00 | 0.07 | **107.94** |
| **Latvia** | 0.09 | 0.03 | 0.08 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **0.45** |
| **Lithuania** | 0.11 | 0.09 | 0.31 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **0.51** |
| **Luxembourg** | 0.23 | 0.15 | 0.00 | 0.01 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.13 | 0.00 | **0.52** |
| **Malta** | 0.01 | 0.18 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.33 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **0.52** |
| **Netherlands** | 1.86 | 1.25 | 0.70 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.04 | 1.06 | 0.00 | 0.00 | 0.04 | **4.93** |
| **Poland** | 17.69 | 0.23 | 0.14 | 0.01 | 0.00 | 0.00 | 0.00 | 1.03 | 0.00 | 0.00 | 0.00 | 0.03 | 0.00 | 0.01 | 0.00 | **19.15** |
| **Portugal** | 0.33 | 7.07 | 0.01 | 0.05 | 0.00 | 0.26 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **7.71** |
| **Romania** | 0.32 | 2.98 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | 0.05 | 0.00 | 0.00 | **3.36** |
| **Slovakia** | 0.18 | 0.04 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.63 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **0.85** |
| **Slovenia** | 0.94 | 0.10 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.12 | 0.00 | 0.00 | 0.00 | 0.05 | 0.00 | 0.09 | 0.00 | **1.30** |
| **Spain** | 0.07 | 90.25 | 0.28 | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 | 0.24 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **90.85** |
| **Sweden** | 0.22 | 3.74 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.41 | 0.00 | 0.00 | 0.60 | 0.14 | 0.00 | 0.00 | **5.11** |
| **Total** | **126.09** | **321.40** | **24.16** | **0.13** | **0.01** | **0.43** | **0.60** | **3.97** | **7.86** | **1.51** | **13.44** | **4.27** | **36.22** | **0.38** | **3.63** | **544.11** |
| *In % of the total* | *23.17%* | *59.07%* | *4.44%* | *0.02%* | *0.002%* | *0.08%* | *0.11%* | *0.73%* | *1.44%* | *0.28%* | *2.47%* | *0.78%* | *6.66%* | *0.07%* | *0.67%* | *100.00%* |

* Total COVID-19 State aid expenditure as of 31 December 2020, expressed in EUR billions and in nominal amounts