EUROPEAN COMMISSION

Brussels, 17.12.2009
C(2009)10285 final

Subject: State Aid N674/2009 – Finland
Prolongation of the guarantee scheme for banks' funding in Finland

Sir,

I. PROCEDURE

1. On 3 December 2009, Finland notified a request to prolong and amend its guarantee scheme for banks' funding (hereafter "the scheme"). The original measure was approved on 13 November 2008 in State aid case N567/2008[1] (hereafter "the original decision"). On 28 January 2009 Finland notified changes to the scheme, which were approved by the Commission on 5 February 2009 in State aid case N44/2009[2], and the measure was prolonged on 30 April 2009 in State aid case N 239/2009[3] (both hereafter "the amended decisions").

II. DESCRIPTION

The Scheme

2. In response to the ongoing exceptional turbulences in world financial markets, Finland brought forward the scheme, which has the objective to support the short- and medium-term financing needs of banks and mortgage institutions, as a means to restore stability to the financial system and to remedy a serious disturbance in the economy of Finland.
3. Under the original scheme, Finland made temporarily available a State guarantee for the issuance of new short- and medium-term debts. The eligible instruments had a maturity longer than 90 days but less than 5 years.
4. By the notification of the prolongation, the Finnish authorities propose to prolong the scheme for six months and to alter the minimum maturity of the instruments from 90 days to twelve months. Therefore, under the prolonged scheme, the State guarantee will no longer cover banks' short-term financing, but only instruments which have a minimum maturity of twelve months[4]. As a consequence, Finland intends to decrease the overall budget of the scheme as well, which will be EUR 17 billion.

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1 OJ C 309, 4.12.2008
2 OJ C 112, 16.5.2009
3 OJ C 143, 24.6.2009
4 Please see also the Decision in State aid case N567/2009 paragraph 5.

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5. Consequently, the instruments covered by the extended scheme will have a maturity between twelve months and five years. A maximum of one-third of the total amount of the budget of the scheme (i.e. approximately EUR 5.66 billion) can be used to cover guaranteed instruments with terms over three years and up to five years.
6. All other conditions of the scheme remain unchanged.
7. Pursuant to point 24 of the Commission Decision of 13 November 2009, Finland has also submitted the biannual monitoring report. According to the information provided, there were no guarantees approved under the scheme in the period from May 2009 to December 2009.

III. POSITION OF FINLAND

8. In line with the original decision the Finnish authorities claim that the guarantee scheme is compatible with the internal market because it is still necessary to remedy a serious disturbance in the Finnish economy pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union (TFEU)[5].
9. According to the Finnish authorities, the Finnish economy has encountered serious disturbance which, given the uncertain global economic outlook, may persist and possibly even deepen in the near future.
10. Although market funding conditions have generally improved in the course of 2009, the Finnish banks' access to medium-term funding is still on fragile basis and the situation may worsen quickly on any negative news. But renewed difficulties in banks' access to market funding would cause serious repercussions for households' and firms' ability to refinance their own obligations. In order to avoid strengthening the negative feedback loop between the real economy and the financial sector, the scheme is needed for the time being.
11. At the same time, short-term financing for banks has improved in Finland. According to the Finnish authorities, the Finnish banks can currently get short-term financing from the markets and the Central Bank at a reasonable price. Furthermore, there are no indications at the moment that there would be any changes to this. Consequently, Finland intends no longer to guarantee short-term financing (up to 12 months) and hence reduces the overall budget of the scheme from EUR 50 billion to EUR 17 billion.
12. As a consequence, the scheme will continue to cover unsecured bonds and other non-subordinated debt instruments, which have a maturity of between one year and five years, and mortgage-backed bonds with a maturity up to five years issued by mortgage banks.
13. A letter from the Suomen Pankki (Bank of Finland) confirms that the notified measure is required to ensure financial stability.
14. In addition, regarding the reporting commitment in the paragraph 24 of the original decision, Finland commits to include data on the cost of comparable (nature, volume, rating, currency, etc.) non-guaranteed and guaranteed debt issuances.

IV. ASSESSMENT

15. In its decision of 13 November 2008, the Commission concluded that the guarantee scheme constitutes State aid within the meaning of Article 107(1) TFEU. However it

[5] With effect from 1 December 2009, Articles 87 and 88 of the EC Treaty have become Articles 107 and 107, respectively, of the TFEU. The two sets of provisions are, in substance, identical. For the purposes of this Decision, references to Articles 107 and 108 of the TFEU should be understood as references to Articles 87 and 88, respectively, of the EC Treaty where appropriate.

found that the measures were compatible with the internal market under Article 107(3)(b) TFEU, because they were apt to remedy a serious distortion of the Finnish economy. To this end, the Commission had assessed the appropriateness, necessity and proportionality of the measure.

16. The Commission observes that the extension of the scheme is a response to the financial difficulties that Finland, as most Member States, continues to experience. Since the objective of the measure is to provide medium-term financing to financial institutions which have difficulties obtaining funds on the financial markets, it is important to ensure the availability of the guarantee scheme as long as the global financial crisis continues.

17. As markets have not returned to entirely normal functioning and as the measure is necessary to ensure financial stability as confirmed by the Bank of Finland, the Commission considers that the prolongation of the scheme for a further six months is appropriate and necessary to remedy a possible disturbance of the Finnish economy.

18. Moreover, the Commission positively notes that Finland has adapted the scheme due to changes in the financial markets and consequently decreased the budget. Finland is able to do so by adapting its scheme to the observed funding needs of the banks and ceasing to grant guarantees for instruments with a maturity of less than twelve months.

19. On the basis of the above, the notified prolongation of the scheme does not alter the Commission's previous assessment of compatibility in the decisions of 13 November 2008 and 5 February 2009 and the prolongation decision of 30 April 2009.

20. In assessing the request for the prolongation of this guarantee scheme, the Commission has to balance its positive effects for financial stability with the distortions of competition and the delay in the return to a normal functioning of the financial markets that the prolongation entails. Guarantee schemes should contain minimum exit incentives, and a gradual alignment to market conditions should take place in order to minimise negative spill-over effects on competitors and other Member States.

21. The evolution of the market situation and the reduction of the risk premium for unguaranteed debt have brought about a first step towards an alignment with market conditions, whilst providing an exit incentive for the sounder institutions. While more convergence towards market conditions may be necessary to further reduce distortions across banks in the internal market and avoid the risk of State aid dependence, the still fragile recovery suggests that banks should retain for the time being the possibility of accessing government guarantees schemes under the present conditions

22. On balance, the Commission considers that the prolongation until 30 June 2010 of the State guarantee scheme under the present conditions is compatible with the internal market.

23. The Commission recalls that, as indicated in the Annex to the Restructuring Communication[6], any restructuring plan should contain all State aid received as individual aid or under a scheme during the restructuring period and all such aid needs to be justified as satisfying all criteria prescribed by the Restructuring Communication (i.e. return to viability, own contribution by the beneficiary and limitation of competition distortion). Accordingly, once a Member State is under an

[6] OJ C 195, 19.08.2009

obligation to submit a restructuring plan for a certain aid beneficiary[7], the Commission needs to take a view in its final decision as to whether any aid granted during the restructuring period satisfies the criteria required for the authorisation of restructuring aid[8]. To this end an individual *ex ante* notification is necessary.

24. The Commission furthermore recalls that according to paragraph 16 of the Restructuring Communication, if aid not initially foreseen in a notified restructuring plan is necessary for the restoration of viability, this additional aid cannot be granted under an approved scheme but needs to be subject to individual ex ante notification and any such further aid will be taken into account in the Commission's final decision on that bank.

V. DECISION

The Commission concludes that the notified prolongation of the Finnish guarantee scheme does not alter its previous assessments in the decision of 13 November 2008 in State aid case N 567/2008 and in the decisions of 5 February 2009 and of 30 April 2009 in cases N 44/2009 and N 239/2009, respectively, that the scheme is compatible with the internal market. The Commission has accordingly decided not to raise objections.

The Commission recalls that, according to the commitment of the Finnish authorities, the measure is limited in duration until 30 June 2010.

The Commission notes that Finland accepts that the decision be adopted in the English language.

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http://ec.europa.eu/community_law/state_aids/state_aids_texts_en.htm.

Your request specifying the relevant information should be sent by registered letter or fax to:

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Directorate-General for Competition
State Aid Greffe
Rue de la Loi/Wetstraat, 200
B-1049 Brussels
Fax No: +32-2-296 12 42

Yours faithfully,
For the Commission

Neelie KROES
Member of the Commission

7 Point 8 of the Restructuring Communication.

8 See Decision of 18 November 2009, *Restructuring of Lloyds Banking Group*, point 197.