

EUROPEAN INVESTMENT BANK GROUP'S REACTION TO THE ECONOMIC CRISIS CAUSED BY COVID-19

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ABSTRACT

This paper is devoted to the European Investment Bank Group's measures for limiting the negative effects of the COVID-19 pandemic on the economies of the European Union Member States. The repurposing by the European Investment Bank of part of its existing mandates and own resources to support existing and new operations in need of financing to mitigate the impact of the crisis has been studied. The European Investment Fund and European Investment Bank additional budgets and enhanced terms for several of their existing mandates with the European Commission have been analyzed. The Pan-European Guarantee Fund established by the European Investment Bank Group and several EU Member States has been presented. Indicators have been analyzed assessing the effectiveness of the European Investment Bank Group response to the COVID-19 crisis. Conclusions from the analysis of the results of the actions taken by the European Investment Bank in response to the economic crisis caused by the COVID-19 pandemic have been drawn. Recommendations have been made to improve the EIB's measures to limit the negative effects of the COVID-19 pandemic on the European economy.

***Keywords:** European Investment Bank, European Investment Fund, Covid-19 crisis, Pan-European Guarantee Fund*

INTRODUCTION

The rapid spread of the coronavirus is putting a heavy strain on both public health and the economy [4]. In its response to the coronavirus pandemic the EIB is providing support to address urgent needs of the economy and national authorities within and outside the European Union [3].

As European businesses struggled to get financing in the wake of the COVID-19 outbreak, the EIB Group stepped up to ensure that financing was available wherever possible [5].

The EIB has been working in various directions during the pandemic:

- the Bank has supported the health sector and vaccine research and has financed BioNTech, one of the vaccine makers;

- it has joined the EU-backed Team Europe effort to tackle the pandemic in the European Union's neighbouring countries and in states around the world;
- together with the European Investment Fund the EIB has given support to SMEs.
- the Bank is investing in a green and inclusive recovery in Europe and in developing countries [7].

The main objective of this paper is to examine the measures taken by the EIB for limiting the negative impact of the COVID-19 pandemic on the economy of the European Union.

EIB GROUP FINANCIAL RESPONSE

The EIB Group has taken measures in cooperation with the European Commission and national partners in support of European companies, health expenditure, and the EU economy as a whole [4].

The EIB Group with 22 EU Member States created EGF - a 25 billion euro fund in response to COVID-19. This guarantee fund enables the EIB Group in partnership with local lenders and national promotional institutions to scale up its support to small and medium-sized companies in the real economy by mobilising up to 200 billion euro. EGF is now operational, following guarantees by EU Member States accounting for at least 60% of EIB's capital. As of May 2021, EGF has already approved 11.7 billion euro, almost half the fund's target for 2021, in support of European businesses struggling with the economic crisis of the COVID-19 pandemic. The initiatives financed are expected to generate 93.9 billion euro in funding for the EU economy [2].

The EIB Group has also proposed a financing package that will go towards bridging loans, credit holidays and other measures designed to alleviate liquidity and working capital constraints for SMEs and mid-caps. The EIB Group will work through financial intermediaries in the Member States and in partnership with national promotional banks. The financing package consists of:

- Dedicated guarantee schemes based on existing programmes for immediate deployment. A 1 billion euro guarantee tranche will mobilise up to 8 billion euro of SME financing.
- Dedicated liquidity lines to banks to ensure additional working capital support for SMEs and mid-caps of 10 billion euro;
- Dedicated asset-backed securities purchasing programmes to allow banks to transfer risk on portfolios of SME loans, mobilising another 10 billion euro of support.

All these actions can be implemented quickly to ease liquidity shortages and will be executed in partnership with national promotional banks wherever feasible [2].

The EIB Group has announced details of a comprehensive response to the coronavirus pandemic outside the EU that will provide up to 6.54 billion euro in the coming months. This financing is part of the Team Europe response and supported by guarantees from the EU budget. It will both strengthen urgent health investment and accelerate long-standing support for private sector investment that reflects financing needs in more than 100 countries around the world.

The EIB Group will also provide 1.7 billion euro to support the social and economic recovery of the Western Balkans from the COVID-19 pandemic, as part of a 3.3 billion euro financial support package for the region. The immediate fast-tracked support will help to sustain jobs and livelihoods in sectors most threatened by the economic and social impacts of the coronavirus and will be followed by additional long-term health and business financing as needed [2].

The EIB's main contribution to the fight against infectious diseases and COVID-19 is through the provision of Venture Debt under the Investment Plan for Europe and the InnovFin Infectious Diseases Finance Facility of the Horizon 2020 programme. The Infectious Diseases Finance Facility is an example of successful EC-EIB collaboration in the face of a health crisis. Through it, the EIB has supported 12 companies with total lending of 241 million euro for developing cures and vaccines against various infectious diseases. Under the Investment Plan for Europe, the EIB has further supported 36 highly innovative biotech and med-tech companies, making available some 1 billion euro in total. Through its venture capital operations, the EIF supports a broad spectrum of innovative companies active in the life science field [4].

ANALYSIS OF THE RESULTS OF THE EIB GROUP RESPONSE TO THE COVID-19 CRISIS

The mobilisation of flagship COVID-19 initiatives exceeded 90% at the end of June 2021. Overall including the EGF, EIB COVID-19 amounts stood at 46.7 billion euro approved, 37.2 billion euro signed (80% of approvals) and 22.6 billion euro disbursed (48% of signatures). By 30 June 2021, 92% of the 5 billion euro top-up facility has been approved. Sub-operations approved under the COVID-19 programme loan for multi-beneficiary intermediated loans have used up 95% of the budget, while those for asset-backed securities have used 92% of the budget [1].

The total number of operations has been 298 in the European Union and 71 global operations as of 31 July 2022. The total financing for EIB COVID-19 projects amounts to 53,267 million euro approved including top-ups to 80 existing

operations for a total of 6,656 million euro and 48,077 million euro signed at the end of July 2022 [3].

Table 1. *Monthly share of COVID-19 disbursements of total EIB disbursements (%)*

Period	Share of COVID-19 disbursements of total EIB disbursements
Mar 2020	0
Apr 2020	0
May 2020	13
Jun 2020	30
Jul 2020	43
Aug 2020	12
Sep 2020	39
Oct 2020	38
Nov 2020	9
Dec 2020	35
Jan 2021	49
Feb 2021	48
Mar 2021	47
Apr 2021	62
May 2021	94
Jun 2021	89

Source: EIB

Disbursement rates have been high in the early stages of the economic crisis caused by the COVID-19 pandemic, and specifically the second and third quarter of 2020, when demand for liquidity from SMEs and intermediaries was strong. Since then, disbursement rates have slowed down, except for the month of December 2020, when disbursements reached their highest level, and more recently in May and June 2021. In the second quarter of 2021 COVID-19 operations represented the vast majority of EIB disbursements (Table 1), notably thanks to operations under EGF, which represented 65% of all COVID-19 disbursements in the same quarter.

Table 2. *Distribution of total financing from EIB COVID-19 operations in the EU as of 31 July 2022 by country*

Country	In million euro	Share of total volume of financing (%)
Sweden	528.15	0.99
Bulgaria	185	0.35
Czech Republic	550.23	1.03
Austria	1045.75	1.96
Denmark	274.38	0.52
Germany	1989.48	3.73
Poland	2811.38	5.28
Netherlands	795.05	1.49
Portugal	1652.45	3.1
Romania	1576.65	2.96
Italy	11 516.30	21.62
Hungary	683.5	1.28
Malta	10	0.02
Estonia	308.6	0.58
Cyprus	0	0
Slovenia	30	0.06
Latvia	305.3	0.57
Croatia	230	0.43
Belgium	1133.63	2.13
Ireland	119.25	0.22
Greece	2628.5	4.93
France	3528.87	6.62
Slovakia	209.4	0.39
Finland	811	1.52
Spain	12 323.63	23.14
Luxembourg	48.95	0.09
Lithuania	164.96	0.31

Source: EIB

Spain is the beneficiary receiving the largest amount of funding to deal with the effects of the COVID-19 pandemic on its economy, followed by Italy, France and Poland. Bulgaria has received 185 million euro.

Table 3. *Distribution of total financing from EIB COVID-19 operations in the EU as of 31 July 2022 by country (as % of GDP)*

Country	% of GDP
Sweden	0.1114
Bulgaria	0.3021
Czech Republic	0.2457
Austria	0.2630
Denmark	0.0877
Germany	0.0577
Poland	0.5281
Netherlands	0.0981
Portugal	0.7747
Romania	0.7059
Italy	0.6435
Hungary	0.4680
Malta	0.0747
Estonia	1.0977
Cyprus	0
Slovenia	0.0620
Latvia	1.0022
Croatia	0.4241
Belgium	0.2381
Ireland	0.0335
Greece	1.4331
France	0.1455
Slovakia	0.2231
Finland	0.3371
Spain	0.99
Luxembourg	0.0771
Lithuania	0.3381

Source: EIB

Financing from EIB COVID-19 operations as a percentage of GDP has been highest for Greece. Next on this indicator are Estonia and Latvia. For Bulgaria this percentage is 0.3021%.

Table 4. *Disbursements as share of signatures for COVID-19 EIB operations signed during the period Q1 2020 to mid-2021 by country (%)*

Country	Disbursements as share of signatures
Sweden	91
Bulgaria	100
Czech Republic	77
Austria	90
Denmark	85
Germany	56
Poland	52
Netherlands	53
Portugal	42
Romania	33
Italy	43
Hungary	44
Malta	0
Estonia	0
Cyprus	0
Slovenia	0
Latvia	38
Croatia	10
Belgium	31
Ireland	0
Greece	9
France	28
Slovakia	41
Finland	0
Spain	42
Luxembourg	0
Lithuania	0
EU countries	16
Outside EU	51

Source: EIB

Significant disparities are observed among EU members regarding disbursements as share of signatures for COVID-19 EIB operations. 100% of the signed amounts have been disbursed in Bulgaria.

Table 5. Disbursements as share of signatures for COVID-19 EIB operations signed during the period Q1 2020 to mid-2021 by product (%)

Product	Disbursements as share of signatures
Loan	47
Public sector loan	47
Multi-beneficiary intermediated loan	37
Framework loan	37
MBIL - Loan for SMES, Mid-caps	41
Corporate loan	54
L4SMEs (Granular ABS - Senior/Mezzanine)	91
Mid-Cap loan	23
Risk capital	64
Captive fund or IP / SME VC	45
Thematic finance	31
Equity fund (Climate and infrastructure)	28
Venture Loan (incl. quasi equity)	36
Guarantee	17
RS – Delinked	0
RS - Linked Full Delegation	0

Source: EIB

The most significant product mobilised as part of the EIB's crisis response in terms of signed volumes and relative share in the portfolio are multi-beneficiary intermediated loans (MBILs) for SMEs and mid-caps. Their disbursement rate for COVID-19 operations is 41% as shown in Table 5.

Table 6. Distribution of EIB COVID-19 operations by activity area as of 31 July 2022 (%)

Activity area	Share of total EIB COVID-19 operations
SME and mid-caps	68
Health	13
Transport	7
Industry	6
Services	4
Urban development	2

Source: EIB

The data in Table 6 show that the vast majority of EIB COVID-19 operations are directed towards small and medium enterprises and mid-caps and the health sector.

CONCLUSION

The EIB Group's immediate response was set up in a quick and agile manner. It helped address the liquidity pressure faced by its clients. Delays have reduced the EGF relevance as an emergency tool, but it remains relevant to help firms develop in the medium to long-term. The EIB should consider establishing a crisis mechanism to address future emergency needs faster and should assess the feasibility of scaling up its subordinated support to small firms [6].

The conclusions that can be drawn from the analysis of the results of the EIB Group measures in response to the economic crisis caused by the COVID-19 pandemic are:

- disbursement rates have been higher at the beginning of the crisis and have slowed down afterwards;
- Bulgaria has received 185 million euro, which represents 0.35% of total financing from EIB COVID-19 operations in at the end of July 2022;
- as a percentage of GDP financing from EIB operations for Bulgaria has been 0.3021%;
- 100% of the signed amounts of COVID-19 operations have been disbursed in Bulgaria.

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