

The Financial Crisis and Financial Nationalism

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Summary

The financial crisis has necessitated many interventions to support financial systems and resume intermediation. By nature, these measures are distortive, directly—as they support intermediaries in non-market ways, and indirectly—as they distort intermediation and resource allocation. Measures also have international repercussions, most notably when governments extend guarantees to intermediaries—that distort financial and capital flows, and through capital and other support measures—that often favor national institutions and have a bias towards local lending. Implications for competitiveness conditions are not obvious, however. Competition in the financial sector is a complex issue to begin with. And support during periods of financial stress can enhance competition as it avoids the elimination of (non-systemic) institutions essential to contestability. Nevertheless, state support has led to many distortions and probably undermined competitive conditions. Greater efforts to harmonize support measures across countries can help level the playing field, avoid major distortions and thereby help maintain competitive conditions. There also is a need for improved coordination when exiting from these interventions. Many distortions remain unavoidable in the short-run, however, with adverse consequence for competition. For the medium term, given an ever tighter integrated global financial system, there is a need for greater cooperation and coordination across countries, also to avoid an escalation of nationalism. Existing approaches—aimed at greater convergence and coordination—will likely be deficient, as they do not avoid the (necessary) ad-hoc and distortive interventions in times of stress and take too much time to put in place. Multilateral mechanisms with strong commitment and ex-post enforcement powers are needed, but these are largely lacking—except for arrangements in closely integrated regions and even these are incomplete. A new medium term approach is therefore necessary. I argue that an International Bank Charter (with dedicated regulator, lender of last resort, deposit insurance and recapitalization funds) specifically for large, international active banks offers the best approach to assure a level playing field and fair competition.

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1. Introduction

The financial crisis has necessitated many interventions to support financial systems and resume financial intermediation. By nature, these measures are distortive, directly—as they support financial intermediaries in non-market ways, and indirectly—as they can distort financial intermediation and resource allocation. Measures also have international repercussions, most notably when governments extend guarantees to financial intermediaries—that distort financial and capital flows, and through capital and other support measures—that often favor national institutions and have a bias towards local lending.

Implications for (international) competition are not obvious, however. Competition in the financial sector is a complex issue to begin with. And support during financial distress periods can avoid the elimination of (non-systemic) institutions which may be essential to competition—today and in the future—and to maintain contestability. Nevertheless and especially given the tightly integrated regional and global financial systems, there is a need to avoid large distortions and an escalation of these forms of nationalism. This in turns calls for greater cooperation and coordination across countries. There also is a need for improved coordination when exiting from these interventions.

Except for arrangements in closely integrated regions, however, global mechanisms with strong commitment are lacking. Much of this arises from the weak framework for regulating, supervising and restructuring large cross-border financial institutions. While the ad-hoc and distortive interventions triggered by financial turmoil are unavoidably in the short-run, for the medium term, a new approach is necessary. I argue that an International Bank Charter (with dedicated regulator, lender of last resort, and deposit insurance and recapitalization funds) specifically for large international active banks offers the best approach, possibly global, but at least on a regional basis. Only then is there scope for a concurrent, credible competition policy regime.

The structure of the paper is as follows. It first briefly reviews the causes of the financial crisis and the sources of cross-border spillovers, and government responses in advanced countries to date. The next section discusses the repercussions of the various interventions on competition, the policy issues and actions taken, and the resulting effects on international competitiveness. It sets the stage for the possible reforms regarding cross-border banking by reviewing financial reforms options that will facilitate better competition policy. After quickly reviewing a first best solution—a world financial regulator cum competition policy agency, it evaluates several other options for regulating and supervising large, complex, globally active financial institutions. It discusses the advantages and disadvantages of each from a competition point of view, stressing that these options are difficult to rank. The last section concludes.

2. International dimensions of the crisis and state of affairs

I briefly review the causes and the channels for the crisis, including the international spillovers, to help put interventions into perspective and make sure the solutions for competition policy address the deeper causes and not the symptoms. This will help identify those interventions with side effects on other countries, some of which may have been anti-competitive. It will also help to identify the nature of international coordination issues and the need and scope for more general reforms.

Causes of the crisis

Although the debate on the relative importance will continue for some time, its various causes are well documented elsewhere (Calomiris, 2008). The causes concern both those common to past financial crises as well as new elements. The similarities include that the crisis was preceded by a period of high credit growth, rapid asset price appreciation, notably house prices, and accompanied by large capital flows to some countries. These patterns were not limited to just the US, but also occurred in many other markets at the forefront of the crisis (UK, Iceland, Eastern Europe). And the buildup of risks occurred in a context of relatively benign global macro economic conditions, including low real interest rates.

Differences in this crisis include more opaqueness, and a greater (perceived) lack of information. Another new aspect is the greater financial complexity and more interconnection among asset classes and parts of financial system, including increased international financial integration and heightened importance of global financial players. Increased leverage of many financial institutions and much use of short-term/wholesale funding sources, made liquidity more pertinent to the evolution of the crisis. And, varying by market, specific weaknesses existed in regulation (e.g., SIVs), supervision (e.g., mortgage markets at US state level), conflict of interests (e.g., at rating agencies), and perverse incentives (e.g., in the originate-and-distribute model). A different, yet common across many markets, element is the increased household sector debt and leverage, notably but not exclusively in housing.

Evolution of financial crisis and cross-border spillovers

As in any financial crisis, there have been besides the underlying causes, triggers, and amplification mechanisms. As is well noted, the catalyst was an overextended US housing and mortgage markets. While it emerged in the US subprime, the crisis quickly broadened to the larger US housing market and spilled over into other US financial markets (e.g., other asset backed). Surprising was the degree and speed of global spillovers, which happened in several phases. The first phase was largely limited to banks with direct exposures to the US market and affected a few selected financial markets, sometimes related with liquidity runs. The second phase of international spillovers was transmitted through liquidity shortages, freezing of credit markets, and stock markets declines, and affected many more markets (UK Sterling, Euro, and Swiss Franc). The third phase of international spillovers occurred in October 2008 through large solvency concerns affecting systemically important global financial institutions, leading to massive sell-offs, risking a financial meltdown. The fourth phase of global spillover was, and

continues to be, through the real sector consequences of economic slowdowns around the world, triggered in part by financial retrenchments.

Interventions triggered by the financial crisis

In the third phase, starting in the Fall of 2008 and ongoing, a number of advanced countries' governments intervened in their financial systems. As asset prices plunged across markets, the risks of cascading institutional failures and financial meltdown prompted authorities in a wide range of advanced countries to act in mid-October, marking an overdue transition from concerns about liquidity to solvency. The principal forms of intervention were: (i) liquidity provision through collateralized lending and other schemes; (ii) support for short-term wholesale funding markets; (iii) (more extensive) guarantees of retail deposits and other liabilities; (iv) purchases or exchanges of non-performing or illiquid assets; and (v) capital injections to banks.

The amounts involved with these interventions have been very large, and on the basis of already announced commitments and past experiences, will increase further.¹ Table 1, for the G-20 and a few other countries, shows that advanced countries were most affected, while most emerging market countries included in the Table have had less need for capital or other forms of financial sector support.² Especially liquidity provided and guarantees extended were large, amounting to double digit fractions of GDP on average for the group of advanced countries. Capital support has been about 2 percentage points. Asset purchases to date have been about the same, 2.5 percentage points of corresponding GDPs. Besides the large direct fiscal costs, captured by the figures, there are many contingent costs, hard to quantify, such as the insurance schemes for assets or increased deposit insurance limits.

While these numbers need to be scaled by the size of the problems, or at least by the size of respective financial systems, and while there are differences among countries in terms of the level and forms of support, there are no clear patterns. Also, while modalities for support have varied, the overall approaches are largely similar and are loosely based on what can be called the UK approach.

National effects

The interventions have generally had the aimed effects, namely stabilizing financial systems and regaining some measure of confidence in the system. By nature, however these measures are distortive, directly—as they support financial institutions in non-market ways, or indirectly—as they can skew and distort resource allocation. A clear example of the (purposely) distortive nature in financial intermediation is intervention by central banks, notably the US Federal Reserve, in a number of (short-term) markets, either directly (e.g., through the purchases of

¹ There is a great difficulty identifying and classifying these interventions and the numbers should therefore be seen as a approximate.

² A number of other emerging markets have had to extend large support to their financial sectors (and also have faced balance-of-payments crises). IMF 2009 provides more details for a larger set of countries.

government bonds), or indirectly (e.g., through the various liquidity facilities which aim to support specific financial markets, such as the commercial paper market).

Another financial intermediation example is the provision of a guarantee scheme for money market funds in the US following the large outflows after one fund “broke the buck” (its net asset value fell below one dollar, i.e., below par). The guarantee in turn led to deposit outflows at commercial banks, which prompted an increase in deposit insurance coverage. Another example of distortions between financial institutions and the fiscal is the extension of guarantees in the case of Ireland to the largest size banks. Prior to the extension of guarantees, the CDS-spreads for the large Irish commercial banks were very high. Post guarantees, bank CDS-spreads declined sharply, while the sovereign spread increased. Measures like these, now numerous in many advanced countries today, distort asset prices and financial flows.

The indirect distortions affecting the real sector are more difficult to document, but there are many programs that provide suggestive examples. In many countries, programs have been put in place to support more lending to SMEs (Table 2). But also large firms have been targeted for public support. In Japan, for example, in April 2009, parliament passed a law to allow for the recapitalization of (larger) non-financial firms using public funds through preferred share purchase by the (state-owned) Development Bank of Japan.³ In US, France, and Italy car companies are being (indirectly) supported. In several countries, there were (largely informal) requirements for local lending as part of financial sector support. All of this has, directly and indirectly, affected international competition in various markets, financial and real (i.e., inefficient zombie firms may be created, driving out efficient firms).

Furthermore, the increased direct state-ownership and the large indirect role of the state in the financial sector risk distorting financial intermediation in a deeper and potentially longer-lasting way. The perverse (long-term) consequences of state-owned banks are well-documented and, while in most countries the institutional environment should prevent the worst effects, distorted outcomes may still arise. In addition, there are many other (sometimes unintended) consequences of the interventions. One such in the US is the effect of caps on remuneration, which is affecting incentives, not only of those financial institutions now supported through public funds but also of others. These types of rules, and the more general larger role of the state, can affect the quality of financial intermediation.

International effects

While the large government interventions were necessary and often unavoidable, they have led to unintended effects on other countries, creating large distortions in international capital flows and financial intermediation in the short-term. Liquidity support provided the first manifestation. Actions in the US initially focused on providing domestic support, even though interbank market prices suggested significant dollar funding pressures for European banks and emerging markets. For mature markets, it took several weeks to act on these stresses. And, even after ad-hoc

³ The main eligibility criteria are (i) firms that employ more than 5000 people; (ii) firms whose sales contract more than 20% within one quarter or 15% within half year.

bilateral swap lines between central banks were set up and their scope gradually increased, market prices continued to suggest problems remained. The response was slower and amounts provided more limited in the case of emerging markets. With US dollar central bank swap lines provided only to a handful of countries, liquidity shortages were keenly felt by many emerging markets. Large external financial support from various sources has been necessary for several emerging markets as they were hit by deleveraging process, but the real consequences had already been incurred.

Guarantees on deposits and other liabilities issued by individual countries provide another example. These have led to beggar thy neighbor effects as, starting with Ireland, they forced other countries to follow with similar measures. Some advanced countries, especially those closely integrated (such as the EU/EMU) quickly coordinated policies, e.g., adopted uniform minimum deposit guarantee coverage. The rapid spread of guarantees led to further financial turmoil in other markets. Many emerging markets not able to match guarantees suffered from capital outflows as depositors and other creditors sought the safe havens. Distribution of risks sharply changed over time and across circumstances. The CDS spreads for many banks, for example, fell as governments provided guarantees, while many sovereign CDS spreads countries increased. Furthermore, policy measures aiming to encourage lending often had a bias toward local lending, putting international operations at a disadvantage.

Countries were also quick to “ring-fence” assets in their jurisdictions when cross-border entities showed signs of failing, reflecting the absence of clear burden sharing mechanisms for banks with international operations. Examples of defensive “asset grabs” were: the decision by UK supervisors, fearing an imminent collapse of Icelandic bank branches (under the authority of Icelandic supervisors, who did not provide a commitment to fulfill UK bank liabilities), to resort to the Anti-terrorism, Crime and Security Act to ring-fence Icelandic bank assets within the UK; and the German initiative to freeze Lehman’s assets to assure the availability of cash to satisfy depositors before they could be attached to the parent under US bankruptcy proceedings. Such actions in part also constituted anti-competitive behavior in that they tended to favor local interests.

Most government interventions to date have been at national levels. Although there were some coordinated actions (e.g., those among Belgium, Netherlands and Luxembourg, and with some involvement of France, to resolve Dexia and Fortis), these largely remained driven by pure national interests (as suggested by the fact that the intervened entities were often broken up along national markets, and in line with support). The main exception was the coordinated (although only after some serious disruptions) provision of liquidity support. And, in the Euro-area, central bank actions are, by design, (nearly) fully coordinated among Eurosystem members.⁴

Current state and short and medium term international repercussions

While the relatively comprehensive actions over the last half year have provided some sense of stability, the crisis is still evolving, with rapid slowdowns spreading through financial and

⁴ Some minor differences still exist among members, for example, in the registration of collateral.

economic channels. Continued turmoil means extraordinary government interventions will continue and the (international) rules of the game will remain in flux. The coverage and scope of interventions and other policy measures will evolve depending on effectiveness and conditions and support amounts will likely increase further. As circumstances evolve, governments will (need to) adjust the rules, such as how to treat shareholders and creditors when restructuring large financial institutions, creating further uncertainty. If political support diminishes, support may become (even) more nationally-oriented and distortions increase further.

While serious risks remain calling for more interventions, it is also generally agreed that distortions should be removed as quickly as possible to return to a sustainable system in line with a new financial architecture. As the crisis abates, governments need to plan for exit, also given fiscal constraints. These are difficult, and largely unprecedented processes, especially so in the context of highly integrated financial systems. It is clear, however, that lack of coordination can create (new) distortions. If the unwinding of interventions is not coordinated internationally, it can aggravate still weak confidence, create new distortions, and potentially be anti-competitive. Especially for the removal of guarantees, governments would do well to coordinate to avoid large capital movements. Yet, while more coordination would be desirable, in practice it is difficult.

3. State intervention and competition: conceptual issues, approaches and options.

Before analyzing the effects of state intervention, it is important to review the general conceptual and empirical issues related to competition in the financial sector. I then consider how state intervention can hurt, but also enhance competition, different than in other sectors (see also OECD, 2009 and EU, 2009).

Competition in the financial sector: general issues

When considering the effects of state interventions, it is important to keep in mind that the issue of competition in the financial sector is quite complicated and different from that in many other sectors. Because of network externalities, sunk costs, economies of scale and scope, switching costs, substitution and complementary among financial services, etc., standard principles of competition (policy) do not easily apply to financial services provision. This in turn means that measures such as market structure do not easily map into a degree of competition (for a review, see Claessens 2009).

Because of these methodological challenges, combined with lack of adequate data, the degree of competition is hard to determine empirically in the financial sector. When attempts have been made to properly measure the degree of competition, a few regularities have been found, notably the degree of contestability, the (perverse) effects of state-owned banks, and the beneficial effects of foreign banks entering markets. But much remains unknown on what drives competition, especially in a dynamic context, and the gains and costs of greater competition. For example, financial institutions create natural entry barriers by investing in technology so as to better process and overcome information asymmetries. This in turn has effects on competition, but also on consumer welfare that can be at odds with (static) competition. Furthermore, a link

has often been made between competition and financial stability in the conduct of (prudential) regulation and supervision. Whether this link exists and for what reasons, however, is debatable.⁵ Nevertheless, this view has affected policy making and still does so. More generally, finance can suffer from many market failures, calling, at least in theory, for extensive government interventions.

State intervention for systemic reasons and competition: conceptual issues

The complexity, stability and market failures elements should affect how one considers the effects of any public policy, including forms of state intervention in financial crises, on (international) financial sector competition. During times of financial turmoil and crises, coordination failures and adverse impact of a failing financial system on the real economy justifiably call for government interventions. While few doubt the need for government intervention, (continued) interventions do create distortions, not only domestically but also across borders, leading to various competition effects (see Fingleton, 2009, Lyons, 2009, and Vickers, 2008 for recent reviews). What does support mean for competitive conditions? What is the balance between support and competition? Does support lead to, besides weaker market discipline, unfair competition or can it actually enhance competition? Does it vary by forms of government support, by circumstances? Are there ways to mitigate potential anti-competitiveness effects?

On the positive side, support for individual financial institutions especially those that are systemic can have beneficial effects on other financial institutions, and thereby on competition. This is because those financial institutions that themselves are not systemic can benefit as otherwise they could have risked insolvency. Since these non-systemic financial institutions may be important to overall competition—perhaps more so than the systemic financial institutions themselves, intervention during this period can help with competition, in the short-run but especially in longer run. This is also so at the international level: support from one state for banks in its jurisdictions can enhance other countries' financial systems and overall international financial system's stability. It could thereby lead to better preconditions for competition internationally. Whether it will depends in part on how the support is being provided across financial institutions and markets.

As noted, most of the support measures did not start from a deliberate government policy and were adopted in the middle of the crisis, with little time for consultation, nationally, let alone internationally. Nevertheless, as the crisis progressed and countries subsequently adopted support measures, a greater commonality among measures materialized—in part as countries faced being left behind in the various dimensions. This was reinforced by attempts by some international agencies and groups to harmonize various interventions to reestablish a level playing field. The

⁵ For one, conceptually is not obvious that greater competition leads to instability, either in a static or dynamic sense. Financial intermediation may benefit from new technology spurred by competition since it allows for greater risk-sharing. And empirically, evidence on the link has indeed been found both ways. Second, it is not obvious that restricting competition is the first best way to reduce instability; rather prudential regulation and supervision should be used.

overall general principles behind these attempts are similar. More extended retail guarantees need to cover all deposits uniformly within a jurisdiction and preferably across jurisdictions. This is especially critical where financial markets are closely integrated. Also, guarantees for interbank lending, bond issues and other wholesale funding have to be clearly stated and be available for all financial institutions. Capital injections should bring capital up to recognized standards at all institutions (with buffers for future losses), as undercapitalized institutions may undermine competition. And general programs for purchasing assets should not discriminate between institutions or nationality.

The premise underlying these principles is presumably that, as long as these interventions are applied to all (national) financial institutions and all forms of financial intermediation equally, there need not be negative consequences for competition. This is not necessarily so, however. Solvent financial institutions, for example, do not benefit (as much) from guarantees. At the same time, these interventions, in part as they are anticipated, condition market behavior. This happens not only through the channel of moral hazard, which relates to excessive risktaking of inefficiencies at the individual institution level, but also affects markets' general conduct, since not necessarily the least efficient firms exit and the best survive, and creative destruction is suppressed.

As such, even when applied evenly, interventions in times of financial stress can have overall negative effects on competition. Furthermore, political economy issues are important to consider. In practice, financial sector regulations and interventions are not always aimed at first best outcomes—the influences of political economy and vested interests are especially large in finance, even in advanced countries. As such, separating good from bad regulations and interventions can be very hard, and the premise may have to be that a more liberalized financial system with little state intervention is closest to first best, even in financial crises.⁶

Competition approaches regarding impact of state interventions and coordination attempts

As the various support measures for individual financial institutions attracted much attention of regional and international organizations, they have led to actions to reduce their distortive impact. The competitiveness impact of specific cases have been most discussed in the context of the EU, not surprising given on one hand its tight financial integration and extensive cross-border financial services provision, and on the other hand the existence of an institutional environment for formally investigating competition policy issues—the DG for Competition Policy. In its most colloquial form, the EU view on aid to the financial sector has been phrased as follows (open letter of the DG to the Financial Times, April 22, 2009): “We are applying the tried and tested code of good economic governance that the EC Treaty’s state aid rules represent to ensure four things: 1) that banks receive sufficient support to avoid financial meltdown; 2) that Member States’ cures for their own banks do not put those banks in an artificially advantageous competitive position that would kill off banks in other Member States; 3) that banks are

⁶ Clearly, opinions vary with, some observers seeing the financial crisis as due to massive government failures, including moral hazard, and others seeing it as a combination of market failures, with obviously very different policy implications.

restructured to ensure their future long-term viability so that the mistakes of the past are not repeated, that taxpayers' money does not disappear down a black hole and that lending to the real economy is secured; 4) that the Single Market is preserved, with no discriminatory conditions attached to aid and no barriers to entry for cross-border banking. This is because the Single Market is crucial to ensuring Europe's economic recovery.”

Reflective of this view, and triggered by the many state interventions, the EC has issued a number of communications aimed both at forcing similarity in interventions among countries and inducing practices that are closer to market principles.⁷ These communications, for example, state that government guarantees for new bank borrowings need to be priced in line with the currency specific risk-free rate plus a spread related to the CDS spread for the particular bank in the period before the financial crisis. Another communication states that capital injections need to carry yields that relate as well to the safe interest rate and the risks involved (e.g., whether it involves common or preferred equity). These and other communications, such as on deposit insurance (for more detail see Annex 1) have reduced some of the intra-EU distortions.

The WTO has also made some statements on the effects of the financial crisis on competition (WTO, 2009). And the G20 adopted in its two communiqués broad language to indicate its members are committed to prevent financial protectionism, albeit it has not adopted any further specific guidelines. While these rulings will help to reduce some of the distortions, however, by nature they remain imperfect.

Decisions regarding state specific interventions

The DG for Competition Policy has also made decisions on 49 specific cases (see Table 3). In some cases, it has asked for financial measures. In only a few cases, has it asked for some operational restructuring conditions, such as a spin-off of branches, specific units or other actions. In most cases, however, it has not taken any action, i.e., it has allowed the state aid or intervention to continue as proposed.⁸

The fact that there were often no “actions” decisions does not necessarily mean that the EC judged that there were no, general or specific, anti-competitive implications. Rather the judgment might have been that these possible anti-competitive effects were necessary given the risks of economic and financial consequences of not intervening at a time of financial turmoil. This choice is somewhat akin to the balance of payments exception in the General Agreement on Trade in Service (GATS). GATS explicitly includes a balance of payments safeguard that allows the member to impose temporary restrictions that suspend its commitments - on a nondiscriminatory basis - in the event of “serious balance-of-payments and external financial

⁷ See EU (2008), and EU(2009a-2009c). Note further that there already existed EU-rules aimed at avoiding distortions from state interventions. For example, EU (2004). See also Rossi and Sansonetti (2007).

⁸ Obviously, there would have been a back and forth between the various interested parties—financial institutions and government—with the Commission before a decision was announced. As such, the terms are likely to have been adjusted prior to the decision if the Commission had objections.

difficulties or the threat thereof.” Indeed, the Commission’s general stated approach to government support for banks and other financial institutions is consistent with this.

Evaluation of approaches

The need to balance these various objectives is repeated in the rulings and statements made by the DG or individuals from the DG (e.g., Neven, 2009). It suggests that direct effects of state aid on competition have played less of a role in its ruling. And to the extent that competition was a key question for the EC-DG, it has been the effect on intra-EU competition, not on local competition that has occupied it, consistent with its mandate.

Nevertheless, the EC-DG decisions have been critiqued, both by private market participants, academics and public sector officials. The former is not surprising, as some have obviously been adversely affected by decisions. The academics’ views have varied (e.g., Vives 2009). The criticisms from public sector have (obviously) been more muted. Nevertheless some (for example, Bundesbank President Axel Weber, as reported by Atkins, 2009) have, for example, judged that the EC-DG requirements for state supported financial institutions have had a bias towards hiving off financial institutions’ international, cross-border but intra-EU operations, thereby undermining the objective of creating a single market in the EU. This has led to some further reactions (see for example, Clapman, 2009, Stark, 2009).

A final judgment on the competitiveness impact of the various state interventions is hard to make and will have to await some further analysis. The premise nevertheless is that these state interventions have reinforced the position of those incumbents that already favored (national) preferences. As such, although unavoidable, the interventions have been anti-competitive. Going forward, a method has to be found that allows competition policy to be conducted with less regard for systemic stability to avoid these outcomes.

4. Broader problems of cross-border banking

The various interventions raise many international competition issues (the national issues are not discussed here, even though many are obviously similar).⁹ Some of the international competition issues relate to the still poorly developed rules and mechanisms for dealing with large financial institutions which activities span many markets and activities. The crisis has made even clearer the lack of sound mechanisms to deal with these institutions. This is most evident in the resolution of global banks headquartered in relatively small countries but with balance sheets that can exceed their home-country’s GDP (as is the case for Belgium, Hong Kong, Iceland, Luxembourg, the Netherlands, Switzerland, and the UK, to name a few countries in that position). Few single countries can deal with such institutions on their own, yet they affect many markets. But the tension also exists for banks that are relatively smaller as (authorities in)

⁹ In the UK, the Office of Fair Trading has issued opinions in a few cases, such as in the context of the Lloyds takeover of HBOS, but these were subsequently found to be overruled by the public interest of systemic stability (see Vickers 2008 and Lyons 2009 for discussions).

countries have preferences for national champions, which end up distorting ex-ante and ex-post. And coordination issues arise in general with regards to cross-border banking, with Central and Eastern Europe a clear current case in point.¹⁰

Clearly, in this crisis, and even more so in the future—as financial institutions may keep getting larger—and more complex, a better method has to be found to handle these institutions. Solutions have to be found in a broad reform of the international financial architecture, which is a large agenda with many public good aspects. It also importantly depends on other, more national-oriented financial sector reforms currently being discussed (for an overview of needed financial reforms see IMF, 2009a). This need for reforms has long been acknowledged in an international context, and specifically in the context of EU's and even more so Euro's closely integrated financial markets.

Reforms underway include greater convergence in financial sector regulation and supervision practices across countries. The major international standards (such as Basel II) are already attempts to create greater uniformity in rules, especially for international active banks. And the Financial Sector Assessment Program of the World Bank and IMF is a means to check the implementation of rules and adequacy of practices, and thus assure greater convergence in practices. These reforms will help reduce coordination problems and create a more level playing field. These general issues will not be discussed here. But what will be discussed are the current approaches to cross-border banks and some specific solutions needed to deal with large cross-border banks, given their large externalities and adverse competitive effects during times of financial stress under the current system.

Cross-border activities: current approaches

The current approach is largely based on the home-host principle which says that home countries have to supervise the branches and subsidiaries of their banks in foreign countries (see Basle Committee on Banking Supervision, BCBS, 2006). Yet, many, including BCBS itself, have recognized that this principle is not sufficient, particularly in light of rapid internationalization. Fundamentally, a foreign subsidiary of a major international bank may be significant in the market in which it operates but be of little significant for the banking group as a whole. Conversely, a subsidiary that is significant for a banking group may not be significant for a host country, for example, if it is located in a major financial centre. Potential conflicts also exist in terms of management within the banking or financial group. These differences in interests can adversely affect host and home markets, and thereby overall international financial stability and competition.

¹⁰ Banks in Western Europe are at risk due to their exposure in Eastern Europe, much of it in the form of wholly-owned subsidiaries. Exposures are very large, for example, lending by Austrian banks to Central and Eastern Europe amounts to 80% of its GDP. Given strong interbank linkages within Western Europe, defaults of a limited number of banks would have strong domino effects across a wide range of countries. Yet, coordinated solutions appear very difficult to organize. For example, calls for pan-European recapitalization funds have repeatedly been rejected in recent months.

The convergence process will remove some of these conflicts of interests. There will remain, however, severe economic, legal, political and other limits to convergence in rules and practices (see Caprio et al. 2006, for a collection of papers on this topic). Similarly, while many improvements are possible to the home-host principle—and some are being implemented, these will in practice be fraught with significant limitations, especially for relative large local entities in host markets. And it remains the case, similar to within a domestic context, that many of the precise channels through which international spillovers and contagion occur are not always well understood.

Possible other options

As such, it is likely that international financial instability will continue to trigger ad-hoc government interventions. In essence, the problem of interventions boils down to coordination problems. There is both limited ex-ante coordination in dealing with cross-border financial institutions and there are poor mechanisms for burden sharing ex-post, when cross-border institutions risk failing.¹¹ Various solutions have been proposed over the years, each with their own advantages and problems. They vary from centralization, a new regime, enhanced coordination, to increased convergence in rules and practices.

World Financial Authority. The very first best would be an international financial regulator, perhaps called a World Financial Authority (WFA) that would regulate and supervise all, or at least all large financial institutions. This was perhaps first proposed by Eatwell and Taylor in 1998, and it has an analogue to the World Trade Organization (WTO).¹² It is the obvious solution to any coordination issues, and thus reduces the anti-competitive effects of ad-hoc government interventions during financial crises. It could also be complemented by greater powers of the WTO on competition in the financial sector and trade in financial services.

At the same time, this model is very demanding to be fully consistent in all dimensions. The international financial regulator would need to be complemented by lender of last resort liquidity facilities, an international deposit insurance and recapitalization fund, similar to the requirements in a domestic context (see Boot 2006 for the EU case). This WFA would also be difficult to govern as its objectives would be hard to establish. And it is unlikely to materialize in the near future. The experiences of the EU suggest that, even after moving towards very close financial, economic and political integration, adopting a common, single regulatory and supervisory authority is very hard.

¹¹ While poor regulation and supervision also give rise to negative externalities, these are not the subject of discussion here. To some extent these can be addressed through the various convergence processes (standards, FSAP, regional integration). And, while also imperfect, countries do have the option to exclude financial institutions from some countries from their own markets on prudential grounds.

¹² The idea was first mentioned in a working paper of 1998, and then published in their book of 2000.

Three other solutions not first, but perhaps second or third best are: an international bank charter, increased harmonization in rules and convergence in practices without increased coordination, and increased coordination with less or no harmonization or convergence.

International Bank Charter. One approach closely related to the first best, but perhaps more feasible in the medium term, is to establish a separate regime for large, internationally active financial institutions, with some elements of voluntarism. Under this “International Bank Charter” (IBC) model international active banks would only be globally chartered and under the supervision of a single regulator. The European bank charter that has been proposed some time ago (Cihak and Decressin, 2007; see also Decressin, Faruqee and Fonteyne, 2007), and possibly similar charters, could be the equivalent of this on a regional basis.¹³

Under this model, there would also be an international regulatory and supervisory body. The set of actions available to this body would again be the regular licensing, regulatory and intervention tools of any national financial regulator. Complementary measures needed are again common liquidity support and lender of last resort facility, shared intervention resources with fiscal backup, and an International Deposit Insurance Corporation, perhaps supplemented by a recapitalization fund, both receiving fees from the banks. The IBC banks could operate around the world (or at least in sponsoring countries) without any further permission, regulations or needs for reporting and compliance.¹⁴ This model would avoid the messy constellation of home and host supervision. Importantly, it assures coordinated actions, especially of those actions aimed at containing and resolving a crisis. With coordination assured, ad-hoc and distortive interventions by governments would be avoided, and a more competitive landscape would result.

Decentralized, but converged approaches. One “third” best could be a decentralized approach, i.e., where actions are not coordinated, but frameworks are adapted, with the expectation to mimic outcomes similar to those under a first or second best regime. This would at the minimum involve more convergence in five areas (see further FSF, 2009). One, the rules and regulations governing international active banks. Second, clarity on who will supervise what aspects of international banks, with in particular the coverage of branches and subsidiaries and treatment regarding off-shore financial centers to be clarified. Third, consistency in the rules for lender of last resort, liquidity support, deposit insurance and other forms of safety net. Fourth, internationally consistent resolution regimes (e.g., foreign creditors should be treated equivalently to domestic counterparts, collateral security to be recognized across legal jurisdictions, modalities for (prompt) corrective action, including areas such as the scope and threshold of public intervention, especially for large, complex cross-border financial institutions). Fifth, ex-ante agreed upon rules on burden sharing and resolution in case of failures

¹³ Technically, European banks can already establish themselves as a European Company (“Societas Europaea”), but there would not be a corresponding shift in regulation and supervision.

¹⁴ One key issue is the degree of “voluntarisms”: should international banks be allowed to choose themselves or should they be forced to be subject to the international regime? Obviously there can be adverse selection here: weaker banks may not be interested to subject themselves to presumably a stronger international regime. Required participation may therefore be the better approach. But then there need to be clear and common criteria, say banks above a certain cutoff in terms of size of international operations (although that may not be a sufficient criteria, since, especially in times of financial turmoil, even small banks can have negative externalities).

that require bail-outs or pay-out, including more common recovery procedures for impaired assets and uniform approaches regarding state ownership in intervened institutions.

Common rules alone will not be enough as differences in practices can still arise, in part because of competition among regulators (Dell’Ariccia and Marquez, 2006). Participation by many countries in rulemaking will increase legitimacy and facilitate the enforcement of rules. Practices, however, still need to be assessed. The existing apparatus for assessing policy implementation (such as FSAPs) need to be sharpened and procedures improved, their voluntary nature reassessed, and modalities for raising concerns clarified.

In principle, this could reduce many of the current problems, create a more level playing field and thereby improve competitive conditions. It will not be enough to mimic the first best solution, however, since it does not consider the many externalities at the international level (Schinasi, 2005). Just as proper regulation and supervision of individual financial institutions does not guarantee systemic stability, similarly (proper) national regulation and supervision does not guarantee international financial stability and efficiency. Coordination issues at the international level, both among private sector participants and between national authorities, are simply too plentiful. The key for this model to work is probably that the ex-ante agreed rules on burden sharing are binding ex-post, very hard obviously (Freixas, 2003; see also Goodhart and Schoenmaker, 2006). As such, the model will not easily assure a fully competitive, level-playing field among countries.

Enhanced coordination, including through colleges. Another, substitutionary or complementary model is to rely on more coordination of actions, even in the absence of (further) convergence of rules. This is the model, for example, for the EU as laid out in the most recent De Larosière report (2009). Under this model, some body would have the power to legally bind mediate between national supervisors, adopt binding technical decisions in regards to specific financial institutions, and play a strong coordinating role, especially in financial crises. When backed up by appropriate legal changes, this structure could presumably overcome many of the ex-post coordination issues, even in the presence of national structures and rules that are still quite different.

The current approach of adopting supervisory college for large financial institutions (now 28) is a decentralized form of this model, albeit with its own limitations, such as limits on information sharing (due to confidentiality but also pure power plays). Importantly, since colleges are designed to concern themselves only with individual financial institutions, they will not explicitly consider overall international financial system stability. The risks may be, however, that these measures create a false sense of security, with the possibility of financial crises remaining.

5. Conclusions

The state interventions necessitated by the financial crisis have led to many distortions, directly—as they support financial intermediaries in non-market ways, and indirectly—as they can distort financial intermediation and resource allocation. Measures also have had international

repercussions, most notably when governments extend guarantees to financial intermediaries—that distort capital flows, and through capital and other support measures—that often favor national institutions and have a bias towards local lending.

Implications for competition are not obvious, however. Competition in the financial sector is a complex issue to begin with. And support during financial stress periods can enhance competition as it avoids the elimination of (non-systemic) institutions essential to contestability. Efforts to harmonize support measures across countries can help leveling the playing field, avoid major distortions and thereby help maintain competitive conditions.

Nevertheless, and given the tightly integrated global financial system, there is a greater need for cooperation and coordination across countries to avoid large distortions and an escalation of these forms of nationalisms. There also is a need for coordination when exiting from these interventions. Except for arrangements in closely integrated regions, however, global mechanisms with strong commitment are lacking. While unavoidably in the short-run, for the medium term, a new approach is necessary to avoid the ad-hoc and distortive interventions. There is especially a need for improved mechanisms to deal with cross-border banks and other large financial institutions, which few single countries can deal with on their own, yet they affect many markets and which keep getting larger and more complex.

To address this, I present a number of options. A first best approach—called a world financial regulator—is unlikely to be attainable in the short-run. I argue that an International Bank Charter (with dedicated regulator, lender of last resort, and deposit insurance and recapitalization funds) specifically for large international active banks offers the second best approach. Other options—such as increased convergence in rules and policies and enhanced coordination in actions—are obviously difficult to rank. But, over the medium term, any of these approaches can help with assuring competitive conditions, even in times of financial stress.

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Annex 1: Commission (DG for Competition Policy) Guidance on State Interventions¹⁵

A. Summary of Guidance on Measures for Banks in Crisis—13 October 2008

The Commission's guidance indicates how the Commission intends to apply EC Treaty state aid rules to state support schemes and individual assistance for financial institutions in the current crisis. Specific conditions include:

- Non-discriminatory access in order to protect the functioning of the Single Market by making sure that eligibility for a support scheme is not based on nationality
- State commitments to be limited in time in such a way that it is ensured that support can be provided as long as it is necessary to cope with the current turmoil in financial markets but will be reviewed and adjusted or terminated as soon as improved market conditions so permit
- State support to be clearly defined and limited in scope to what is necessary to address the acute crisis in financial markets while excluding unjustified benefits for shareholders of financial institutions at the taxpayer's expense
- An appropriate contribution of the private sector by way of an adequate remuneration for the introduction of general support schemes (such as a guarantee scheme) and the coverage by the private sector of at least a significant part of the cost of assistance granted
- Sufficient behavioral rules for beneficiaries that prevent an abuse of state support, like for example expansion and aggressive market strategies on the back of a state guarantee
- An appropriate follow-up by structural adjustment measures for the financial sector as a whole and/or by restructuring individual financial institutions that had to rely on state intervention.

The communication covers specifically conditions for guarantees:

- In the context of systemic crisis, general guarantees protecting retail deposits (and the debt held by retail clients) can be a legitimate component of the public policy.
- Guarantees should not include subordinated debt or indiscriminate coverage of all liabilities.
- The scheme must be based on an adequate remuneration by the beneficiary financial institutions individually and/or financial sector at large.
- If the guarantee has to be activated, a further significant private sector contribution could consist in the coverage of at least a considerable part of the outstanding liabilities incurred by the beneficiary undertaking.
- A general guarantee scheme needs to be seen as a temporary emergency measure to address the acute symptoms of the current crises in the financial markets, by this way distortions of competition can be avoided. So, a guarantee scheme needs to be accompanied by necessary

¹⁵ Based on EU (2009a-2009c).

adjustment measures for the sector as a whole and/or by the restructuring or liquidation of individual beneficiaries.

B. Summary of Guidance on Bank Recapitalization—8 December 2008 (document of 15 January 2009)

The guidance takes account of the fact that the credit crunch is now beginning to affect the real economy and that financially sound banks may need state capital to ensure an adequate level loans to companies. The Communication complements and refines the broader guidance document adopted on 13 October 2008, to ensure Member States had rapid guidance on the adequate pricing of state capital injections into banks designed to stabilize the banks themselves.

The guidance defines common objectives of recapitalization: 1. Restoring financial stability 2. Ensuring lending to the real economy 3. Dealing with the systemic risk of insolvency.

The conditions are as follows:

- Recapitalization by one Member State of its own banks should not give those banks an undue competitive advantage over banks in other Member States.
- Public recapitalization, in particular its remuneration, should not have the effect of putting banks that do not have recourse to public funding, but seek additional capital on the market, in a significantly less competitive position.
- Where State capital injections are on equal terms with significant participation (30 % or more) of private investors, the Commission will accept the remuneration set in the deal.
- For temporary recapitalizations of fundamentally sound banks, the remuneration for State recapitalizations cannot be as high as current market levels (about 15 %) and the total expected return on recapitalization to the State should not be too distant from current market prices.
- Riskier banks will have to pay a higher rate of remuneration. The pricing mechanism needs to carry a sufficient incentive to keep the duration of state involvement to a minimum, for example through a remuneration rate that increases over time.

The guidance refers to the *Eurosystem* recommendations of 20 November 2008, on entry-level price of recapitalizations. These recommendations were:

- Required rate of return by government on capitalization instruments for fundamentally sound banks to be determined on the basis of a price corridor, with the required rate of return on subordinated debt representing a lower bound; and the required rate of return on ordinary shares representing an upper bound
- Using mean or median values of the relevant parameters (government bond yields, CDS spreads, equity risk premia) to determine a corridor with an average required rate of return of 7% on preferred shares with features similar to those of subordinated debt and an average required rate of return of 9.3% on ordinary shares relating to Euro Area banks.

C. Summary of Guidance on Treatment of Impaired Assets—26 February 2009

Principles to be followed for asset relief measure are as follows:

- Management, staff and clients associated with bad and good assets should be separated to avoid conflict of interest and manage bad assets to maximize value over time.
- Generally, banks should bear the losses associated with impaired assets to the maximum extent. Where it is not possible to achieve full burden sharing ex ante, the bank contribute to the loss or risk coverage at a later stage (min.10%) and a clause of residual loss sharing, through which the bank participates to a percentage (min.10%).
- Whenever possible, assets should be valued on the basis of current market value, which can be as low as zero. The transfer value can be above the current market prices in order to achieve the relief effect, but should be based on underlying long term economic value.
- Asset relief measures are open to all banks that need them—whether fundamentally sound or not. But only assets on balance sheet by the end of 2008 can be eligible.

Other specific conditions to be followed are:

- full transparency and disclosure of impairments prior to government intervention;
- coordinated approach to the identification of assets eligible for asset relief measures through development of eligible categories of assets ("baskets");
- coordinated approach to valuation of assets ex-ante, based on common principles such as valuation based on real economic value (rather than market value), implemented by independent experts and certified by bank supervisors;
- validation by the Commission of the valuation of the assets, in the framework of the State aid procedures on the basis of uniform assessment criteria;
- adequate burden-sharing of the costs related to impaired asset between the shareholders, the creditors and the State;
- adequate remuneration for the State, at least equivalent to the cost of State capital;
- coverage of the losses incurred from the valuation of the assets at real-economic-value by the bank benefiting from the scheme;
- aligning incentives for banks to participate in asset relief with public policy objectives, through an enrolment window limited to six months during which the banks would be able to come forward with impaired assets;
- management of assets subject to relief so as to avoid conflicts of interests;
- appropriate restructuring including measures to remedy competition distortion, following a case by case assessment and taking into account the total aid received through recapitalization, guarantees or asset relief, with a view to the long-term viability and normal functioning of the European banking industry.

Table 1. Headline Support for the Financial Sector and Upfront Financing Need

(As of April 15, 2009; in percent of 2008 GDP)

	Capital Injection	Purchase of Assets and Lending by Treasury	Central Bank Support Provided with Treasury Backing	Liquidity Provision and Other Support by Central Bank 1/	Guarantees 2/	Total	Upfront Government Financing 3/
	(A)	(B)	(C)	(D)	(E)	(A+B+C+D+E)	
Advanced North America							
Canada	0.0	8.8	0.0	1.6	13.4	23.7	8.8
United States	3.9	1.3	1.1	42.1	31.3	79.6	6.3 4/
Advanced Europe							
Austria	5.3	0.0	0.0	0.0	30.0	35.3	5.3
Belgium	4.7	0.0	0.0	0.0	26.2	30.9	4.7
France	1.2	1.3	0.0	0.0	16.4	19.0	1.5 5/
Germany	3.8	0.4	0.0	0.0	18.0	22.2	3.7
Greece	2.1	3.3	0.0	0.0	6.2	11.6	5.4
Ireland	5.3	0.0	0.0	0.0	257	263	5.3
Italy	1.3	0.0	0.0	2.5	0.0	3.8	1.3 6/
Netherlands	3.4	2.8	0.0	0.0	33.7	39.8	6.2
Norway	2.0	15.8	0.0	0.0	0.0	17.8	15.8
Portugal	2.4	0.0	0.0	0.0	12.0	14.4	2.4
Spain	0.0	4.6	0.0	0.0	18.3	22.8	4.6
Sweden	2.1	5.3	0.0	15.3	47.3	70.0	5.8 7/
Switzerland	1.1	0.0	0.0	10.9	0.0	12.1	1.1
United Kingdom	3.9	13.8	12.9	0.0	51.2	81.8	20.2 8/
Advanced Asia and Pacific							
Australia	0.0	0.7	0.0	0.0	N/A	0.7	0.7
Japan	2.4	11.3	0.0	1.2	7.3	22.1	0.8 9/
Korea	2.7	5.4	0.0	0.3	13.8	22.2	0.4 10/
Emerging Economies							
Argentina	0.0	0.9	0.0	0.0	0.0	0.9	0.0 11/
Brazil	0.0	0.0	0.0	1.5	0.0	1.5	0.0
China	0.5	0.0	0.0	0.0	0.0	0.5	0.0 12/
India	0.0	0.0	0.0	5.6	0.0	5.6	0.0
Indonesia 13/	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Hungary	1.1	0.0	0.0	4.7	1.1	6.9	1.1
Poland	0.4	0.0	0.0	0.0	3.2	3.6	0.4
Russia	0.3	0.5	3.2	3.2	0.5	7.7	0.8 14/
Saudi Arabia	0.6	0.6	0.0	8.2	N/A	9.4	1.2
Turkey	0.0	0.0	0.0	0.2	0.0	0.2	0.0
Average (PPP GDP Weights)							
G-20	1.9	2.5	1.0	12.4	14.3	32.1	3.4
G-20 EU	2.7	3.8	3.2	0.5	22.1	32.3	6.7
Advanced Economies	2.9	4.0	1.3	18.8	22.8	49.8	5.3
Emerging Economies	0.2	0.1	0.4	1.6	0.1	2.4	0.1

Source: IMF, 2009 FAD-MCM database on public interventions. See the IMF Paper: "The State of Public Finances", Chapter II. for details.

1/ This table includes operations of new special facilities designed to address the current crisis and does not include the operations of the regular liquidity facilities provided by central banks. Outstanding amounts under the latter have increased substantially, and their maturity has been lengthened in recent months in many cases.

2/ Excludes deposit insurance provided by deposit insurance agencies.

3/ This includes only those components of A, B and C that require upfront government outlays.

4/ Upfront financing is USD 900 bn (6.3 percent of GDP), consisting of TARP (700 bn) and GSE support (200 bn). Guarantees on housing GSEs are excluded. For details, see the IMF Companion Paper: "The State of Public Finances", Chapter II.

5/ Support to the country's strategic companies is recorded under (B); of which E14 bn euro will be financed by a state-owned bank, Caisse des Depots and Consignations, not requiring upfront Treasury financing.

6/ The amount in Column D corresponds to the temporary swap of government securities held by the Bank of Italy for assets held by Italian banks. This operation is unrelated to the conduct of monetary policy which is the responsibility of the ECB.

7/ A part of the capital injection (SEK50 bn) will be undertaken by the Stabilization Fund.

8/ Costs to nationalize Northern Rock and Bradford & Bingley recorded under (B), entail no upfront government financing.

9/ Budget provides JPY 3,900 bn to support capital injection by a special corporation and lending and purchase of commercial paper by policy-based financing institutions of the BoJ.

10/ KRW 76.7 trillion support for recapitalization and purchase of assets needs upfront financing of KRW 3.5 trillion.

11/ Direct lending to the agricultural and manufacturing sectors and consumer loans are likely to be financed through Anses, and would not require upfront government financing.

12/ Capital injection is mostly financed by Central Huijin Fund, and would not require upfront government financing.

13/ Extensive intervention plans that are difficult to quantify have also been introduced recently.

14/ Asset purchase will be financed from National Wealth Fund; and the government will inject 200 bn rubles to deposit insurance fund financed from the budget.

Table 2: Selected Industrial Sector Support Measures for G-20 countries

Country	Date Announced	\$ Billion	% of GDP (2008)	Forms of Support
Argentina	12/5/2008	3.8	1.14	Low-cost loan to farmers, automakers and other exporters
Australia	1/26/2009	35.2	3.48	Cash payments to low and middle income earners
Brazil	12/23/2008	5	0.31	Tax cuts and rebates
Canada	2/4/2009	33	2.17	Infrastructure, tax relief
China	11/10/2008	586	13.48	Low income housing, infrastructure
France	11/5/2008	33	1.15	Support for public investment projects, car manufacturing
Germany	2/20/2009 01/13/2009	110	3.00	Support for a new lending programme of up to 15 billion euros for state development bank KfW, infrastructure, tax cuts
India	12/8/2008	4	0.33	Support for SMEs, infrastructure spending
Indonesia	2/24/2009	6.3	1.23	Support for domestic demand/jobs
Italy	11/16/2008 2/6/2009	52 2.56	2.35	Loans to companies Support for car manufacturing
Japan	4/9/2009 12/13/2008	154 250	8.16	Support for companies and unemployed people Support for troubled banks
Korea	11/3/2008 2/9/2009	14.64 37.87	6.00	Support for SMEs, infrastructure Support for eco-friendly projects
Mexico	1/7/2009	54	4.95	Increase government purchases from SMEs, construction of low income housing
Russia	11/20/2008	20	1.18	Cut in corporate profit tax rate
Saudi Arabia	N/A	N/A	N/A	N/A
South Africa	2/1/2009	84	30.26	Infrastructure and World Cup
Turkey	3/13/2009	10.28	1.39	Support manufacturing sector
UK	11/24/2008	29.6	1.10	Government guarantees to SMEs
US	2/17/2009	787	5.51	Infrastructure technology, tax cuts, transfers to states

Sources: Nanto, 2009; CRS Report for Congress, Country press releases, Reuters, own calculations

Table 3: Decisions adopted by the Commission in 2008/2009

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
1	Austria	Aid scheme for the Austrian financial sector (guarantees, recapitalization & other)	1-Guarantee measures with a total budget capped at €75 billion aimed at stabilizing the interbank market and set out in the Austrian law "Interbankmarktstärkungsgesetz": To this end a Clearingbank was created, which is guaranteed by the state. 2-"Finanzmarktstabilitätsgesetz" law provides for additional measures, including state guarantees on the liability and asset side, loans and recapitalizations, with a total budget of €15 billion.		For the adequacy of recapitalization, EC puts strict conditions such as a dividend restriction and a remuneration corridor.	9-Dec-08
2	Belgium/ France/ Luxembourg	Guarantee on liabilities of Dexia	The aid is intended to facilitate Dexia's access to means of financing in order to restore investor confidence and encourage inter-bank lending. It is limited in time and will be repaid by Dexia at low rates based on the recommendations of the European Central Bank.		The six months authorization decision does not cover the capital increase of €6.4 billion, and the guarantee announced on 14 November 2008 in the context of the sale of FSA, Dexia's US subsidiary. Repayment by Dexia will be at low rates based on the recommendations of the European Central Bank.	19-Nov-08
3	Belgium/ France/ Luxembourg	Guarantee in favor of Dexia on certain assets in FSA	The guarantee is granted by Belgium and France in order to cover Dexia's potential losses from the assets of its US subsidiary FSA.		The loss-making subsidiary must be sold. But, FSA may not be sold unless FSA is relieved of some low market value assets. A guarantee provided by the Member States is needed for the sale of FSA.	13-Mar-09
4	Belgium/ Luxembourg/ Netherlands	Measures in favor of Fortis	1-The guarantee plan covers only short and medium term wholesale funding.2-The time window for issuing new guarantees is limited to six months.3-Fortis Bank will pay a significant guarantee fee, which will increase in proportion to the guaranteed debt. 4-The expansion of Fortis Bank's balance sheet is capped and it can not advertise the receipt of state guarantees.	Approved as guarantee mechanism complies with the conditions of EC on state aid for financial institutions in the context of the current global financial crisis.		19-Nov-08

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
5	Belgium/ Luxembourg/ Netherlands	Restructuring aid to Fortis Bank and Fortis Bank Luxembourg	The measures have restored the long term viability of the bank and are limited to the minimum necessary. To limit distortions of competition, Fortis Bank has sold its Dutch operations.	According to the EC, the sale of 75 % of Fortis bank and 16 % of Fortis Bank Luxembourg to BNP Paribas does not involve state aid in favor of BNP Paribas, as the latter paid the market price for these acquisitions and the purchase of Fortis Insurance Nederland does not constitute state aid.		3-Dec-08
6	Belgium	Recapitalization measure in favor of KBC	1-The capital injection will increase the tier 1 ratio of KBC Bank to above 10% and the solvency ratio of KBC Insurance to 280%. 2-The securities to be issued would qualify as core tier 1 capital and produce an annual coupon equal to the higher of: € 2.51 per security, non cumulative, payable annually in arrears; 120% of the dividend paid on the ordinary shares in 2009; 125% of the dividend paid on the ordinary shares from 2010 onwards.3-If KBC decides to buy the securities back, it would have to pay 150% of the issue price. 4- Even with the uncertainty inherent in core tier 1 securities, KBC would pay, taking into account the annual coupon and the repurchase options, an adequate remuneration to the state, with an expected return in excess of 8.8%.	Approved as the measure complies with the conditions.		18-Dec-08
7	Belgium	Capital injection for Ethias group	An appropriate level for the return on capital will be paid by Ethias to the state authorities if it returns to profit. Investors have priority in receiving dividends up to 10% of their investment, a level which is furthermore guaranteed by other conditions in the subscription agreement.	Approved as the measure complies with the conditions.		12-Feb-09
8	Denmark	Rescue aid to Roskilde Bank	The Commission examined the measures carefully and concluded that the part of the liquidity facility granted by the Danish National Bank as of 11 July 2008, which was guaranteed by the private financial sector, does not constitute aid. Neither does the private guarantee itself involve State aid. However, the Commission concluded that the remaining part of the liquidity facility that is guaranteed by the Danish State, as well as this state guarantee, constitute State aid.		Rescue aid must be provided in the form of loans or guarantees and is restricted to the amount necessary to keep the bank in business.	31-Jul-08

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
9	Denmark	Liquidation aid Roskilde Bank	A large part of Roskilde Bank's branches were sold on 29 September 2008 to Nordea, Spar Nord Bank and Arbejdernes Landsbank. The buyers agreed to take over loans worth around € 1.3 billion and deposits of around € 670 million. The difference would be paid in cash, including around € 73.7 million for goodwill i.e. for the value of branches sold above book value of loans.	The EC showed that state aid was not involved in the sale of the branches to Nordea, Spar Nord Bank and Arbejdernes Landsbank, because the price achieved for the sale was the maximum possible market price and the assets and liabilities were transferred to the buyers without any aid attached.		5-Nov-08
10	Denmark	Guarantee scheme for banks in Denmark	The scheme is limited to fundamentally sound financial institutions and open to all banks established in Denmark. The State support is kept to a minimum through a high private participation and the system might be wholly self-financing, as the State would cover only losses that occur in excess of the significant financing of DPB which is equal to 2 % of the GDP of Denmark. Participating banks would not be allowed to expand their activities but would have to adopt a cautious strategy and strengthen their balance sheets.	The EC found the scheme to be compatible with EU state aid rules because it is the most appropriate means to address the risk of a severe disturbance in the Danish economy, while keeping potential distortions of competition to a minimum through effective safeguard mechanisms.		10-Oct-08
11	Denmark	Recapitalization scheme and amendment of the guarantee scheme			According to the EC, the adequacy of the recapitalization would be ensured by a remuneration that varies according to the risk profile of the beneficiary and is comprised in the range of approximately 9 to 12%, and the integration of individual guarantees on new loans for up to three years is needed to ensure continued access to medium term liquidity for Danish credit institutions.	3-Feb-09
12	Finland	Finnish guarantee scheme	The state guarantee would cover, against remuneration, the issuance of new short and medium term non-subordinated debt with a maturity between 90 days and three years. A maturity of up to five years is limited to mortgage-backed bonds only. The scheme's overall budget is capped at €50 billion. Only solvent banks would be allowed to enter it. Instruments guaranteed under the scheme may be issued until 30 April 2009. <i>Beneficiaries</i> are required to pay a market-oriented fee, in line with recommendations from the European Central Bank, and will be subject to a series of behavioral commitments, which include restrictions on beneficiaries' balance sheet growth with regard to national and EU averages, limitations on expansion and marketing and strict conditions for staff remuneration or bonus payments.	The Commission found the measure to be in line with its Guidance Communication on state aid to overcome the financial crisis. In particular, the scheme is non-discriminatory, limited in time and scope, provides for behavioral constraints to avoid abuses and is subject to a market-oriented remuneration from the beneficiaries.		14-Nov-08

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
13	Finland	Guarantee for Kaupthing Bank Finland	The measure guarantees the banks that ensured full compensation of Kaupthing's Finnish depositors against legal risks. While this guarantee includes state resources, the measure clearly helps to implement a private arrangement to restore the confidence in the Finnish banking sector and more generally in the Finnish economy.	Approved without conditions since the EC concluded that the guarantee would not give rise to disproportionate distortions of competition within the Single Market..		21-Jan-08
14	France	Financial support measures to the banking industry in France (Refinancing)	The French authorities decided against a direct guarantee scheme and are instead making use of a structure set up for this purpose, the <i>société de refinancement des établissements de crédit</i> (SRAEC - refinancing company for the activities of the credit institutions), which will be the only institution enjoying a state guarantee.	Approved without conditions because the EC concluded that the scheme was compatible with EU state aid principles.		30-Oct-08
15	France	Financial support measures to the banking industry in France (Recapitalization)	The scheme introduced by the French authorities is intended for "fundamentally sound" banks. State's involvement in the banks' capital must be as brief as possible	The EC does not ask for any more conditions. The scheme is compatible with the EC rules on state aid, since it offers sufficient guarantees that the sums injected by the state are actually used to finance the real economy and do not unduly distort competition.		8-Dec-08
		Amendment to the Decision	The change to the scheme essentially entails giving banks the option to use preference shares instead of subordinated debt securities for their recapitalization by the State. Banks will also be able to convert subordinated debt securities already issued into preference shares.	The EC has concluded that the level of remuneration of preference shares provides adequate remuneration of the State and will ensure that its involvement in the banks' capital will be as brief as possible.		28-Jan-09
		Amendment to the Decision	The amendment relates to the terms governing the remuneration and reimbursement of the preference shares issued by the beneficiary banks in return for their recapitalization by the State	Same as above		23-Mar-09

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
16	Germany	Restructuring aid to Sachsen LB (Conditional Decision)	Sachsen LB received state aid so as to be able to continue its business. In January 2008 Germany notified two measures in favor of Sachsen LB to the Commission: a liquidity facility granted by other Landesbanken and a guarantee by the Land of Saxony in the context of the sale of Sachsen LB to LBBW. The German authorities claimed that the measures complied with the market economy investor principle and therefore did not constitute state aid.		The EC concluded that the state guarantee had the effect that the sales price was negative for the Land of Saxony as the potential losses stemming from the coverage under the guarantee are higher than the proceeds from the sale. They assessed also the measures under the rescue and restructuring guidelines which require for restructuring measures that: 1) the aid must restore the long-term viability of the company in difficulty, 2) the state support must be limited to the minimum necessary and the recipient must make a significant contribution of its own, 3) potential distortions of competition created by the aid must be minimized with compensatory measures.	4-Jun-08
17	Germany	Restructuring aid to IKB (Conditional Decision)	The measures in favor of IKB included capital injections and risk shields provided jointly by KfW and three German banking associations, as well as liquidity facilities provided by KfW. In line with the restructuring plan, IKB has been sold to the US investment fund Lone Star in an open, non-discriminatory and unconditional tender completed in August 2008.		Measures must be capable of restoring the long-term viability of the company, the state support must be limited to the min. necessary, the beneficiary has to make a substantial contribution to the restructuring and to accept compensatory measures to limit distortions of competition induced by the aid.	21-Oct-08
18	Germany	Rescue aid to Hypo Real Estate Holding	The German Federal Government together with a group of German financial institutions intends to provide loan guarantees totaling €35 billion, for covering HRE's re-financing needs until April 2009, via a newly created special purpose vehicle (SPV).		Rescue aid must be given in the form of loans or guarantees lasting no more than six months and a subsequent restructuring plan has to include a compatibility analysis for all measures undertaken including eventual structural measures.	2-Oct-08

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
19	Germany	Aid scheme for financial institutions in Germany (guarantees, recapitalizations & other)	1)Recapitalization scheme, makes available new capital to banks and insurance companies in exchange for shares, to allow them to strengthen their balance sheets against possible losses;2)Guarantee scheme covers new issuances of short and medium term debt, in return for market-oriented remuneration, to support sound banks that are unable to access interbank funding;3)A temporary acquisition of assets under the condition that these assets are bought back after 36 months maximum without the state making a loss. -----Beneficiaries must maintain a high solvency ratio during the recapitalization and submit a restructuring plan within six months of any recapitalization.		The Commission considers the pricing of the guarantee to be adequate especially since specific behavioral conditions apply, limiting expansion and advertising of the state support, and also ensures that the state will receive proper remuneration for the preference shares it receives in exchange for a capital injection.	27-Oct-08
		Amendment to the Decision	The price for the state participation increases in proportion to its duration, so as to incite beneficiaries to pay back the state support as soon as market conditions permit it. This will ensure the proportionality of the amended measures and contribute to the adequacy of the whole scheme to remedy a serious disturbance in the German economy.		The Commission accepted in principle that fundamentally sound banks do not need to provide a restructuring plan. They have however to provide a report that illustrates that they remain fundamentally sound and how they plan to repay the state capital. Other banks still need to pay a remuneration of in principle 10 % and need to provide a restructuring plan after six months in order to enable the Commission to assess the need for structural interventions.	12-Dec-08
20	Germany	Guarantee and recapitalization for Bayern LB	Germany notified two measures to be granted by the <i>Freistaat Bayern</i> , a German <i>Land</i> , to BayernLB. BayernLB is a German <i>Landesbank</i> and an international wholesale bank.	Approved with no conditions because both the guarantee and the recapitalization are compatible with the EC Treaty.		18-Dec-08
21	Germany	Guarantee for NordLB	The German Länder of Lower Saxony and Saxony-Anhalt would provide state guarantees on the securities and would receive a market-oriented remuneration, in line with the recommendations of the European Central Bank.	The EC found that the program involved state aid to NordLB. However, the Commission concluded that several provisions ensured the adequacy and proportionality of the measures, in line with the Guidance on state aid during the financial crisis.		22-Dec-08

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
22	Germany	Guarantee for IKB	The German authorities intend to grant a guarantee of at most 5 billion euros on IKB's newly issued debt. Germany will receive a market-orientated remuneration in accordance with the recommendations of the European Central Bank.	Approved with no conditions since the EC found the measure appropriate to stabilize the bank, in line with its Guidance Communication on state aid in the financial crisis		22-Dec-08
23	Germany	Guarantee for SdB – Sicherungseinrichtung deutscher Banken mbH	The guarantee aims to bolster the German Deposit Protection Fund and to pre-finance future proceeds from the estates of insolvent Lehman Brothers entities.	Approved with no conditions since the EC found the measure appropriate to stabilize the bank, in line with its Guidance on state aid in the financial crisis		22-Jan-09
24	Greece	Aid scheme to the banking industry in Greece (guarantees, recapitalization & other)	1)The State will purchase preference shares which are considered as non core tier 1 capital and will be remunerated with 10 % interest. 2)Subordinated debt and interbank deposits are excluded from the scheme. The remuneration is aligned with the ECB recommendations. 3)The bonds are borrowed by the credit institutions against collateral, which has been subject to significant haircuts and against a fee similar to that of the guarantee.		Growth restrictions based on clear benchmarks and limitations to manager remuneration, are imposed on all participating banks.	19-Nov-08
25	Hungary	Support package for Hungarian financial institutions in form of recapitalization and guarantee scheme	1)The State can purchase preference shares, which are considered as tier 1 capital, until 31 March 2009.2) Subordinated debt and interbank deposits are excluded from the scheme. The remuneration is aligned on the recommendations of the ECB. -----It requires beneficiaries to pay a market-oriented remuneration	Approved with no condition, because the EC found the measures in line with its guidance on state aid to overcome the financial crisis.		12-Feb-09
26	Ireland	Guarantee scheme for banks in Ireland	State guarantee over current and future liabilities of certain banks operating on the Irish market.	Approved with no condition, because the EC found the Irish measures in line with the guidance issued by the EC.		13-Oct-08

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
27	Ireland	Recapitalization of Anglo Irish Bank	The shares to be issued will qualify as core tier 1 capital and will produce a dividend of 10% payable annually, at the discretion of the bank and in priority to dividends on ordinary shares. Dividends on the shares are payable in cash, or (if the bank is not able to pay in cash) in ordinary shares on the basis of the average daily closing price over the previous 30 trading days. The shares will carry 75% of the voting rights in Anglo Irish Bank. The bank can repurchase the shares at par during maximum five years. After that period, shares can be repurchased at 125% of par. No dividends on ordinary shares are allowed when no dividend on the shares to be issued is paid to the state.	No extra conditions since the EC concluded that the measure complies with the conditions laid down in its Guidance Communications		14-Jan-09
28	Ireland	Recapitalization of Bank of Ireland	The shares to be issued will qualify as core tier 1 capital. They will produce a dividend of 8% payable annually, at the discretion of the bank and in priority to dividends on ordinary shares, with detachable warrants after five years. Dividends on the shares are payable in cash, or - if the bank is not able to pay in cash - in ordinary shares in lieu. The shares will carry 25% of the voting rights in Bank of Ireland. The bank can repurchase the shares at par during maximum five years. After that period, shares can be repurchased at 125% of par. No dividends on ordinary shares are allowed when no dividend on the shares to be issued is paid to the State. On purchase of the preference shares, the State will also receive an option to purchase 25% of the existing ordinary shares in the bank (the 'warrants'). This option may be exercised from the fifth to the tenth anniversary of the preferred shares' purchase.	No extra conditions since the EC concluded that the measure complies with the conditions laid down in its Guidance Communications		26-Mar-09
29	Italy	Guarantee scheme for Italian banks	1)a state guarantee on new liabilities issued by banks for maturities longer than 3 months and up to 5 years 2)a 6-months renewable swap between bank's debt certificates and Treasury bills, whose interest rate and maturity perfectly match, so as to ensure an identical cash flow and straightforward pricing, 3)a state guarantee for banks in favor of third parties (like insurance companies) lending them high-grade assets which are in turn used by the banks in the Eurosystem to get refinancing.-----All three measures are open for solvent banks only.		Italian authorities committed that the total amount of guarantees issued with a maturity of more than 3 years will not exceed 25% of the total amount covered, and they will monitor that the total amount to be received by a bank does not exceed certain pre-defined thresholds.	14-Nov-08

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
30	Italy	Recapitalization scheme	Measures provide for the possibility for Italy to subscribe subordinated debt instruments, to be counted as bank core tier 1 capital. The global budget will be around €15 - 20 billion. Only fundamentally sound banks as determined by their credit default swaps spread level, their ratings and the additional assessment to be made by the Bank of Italy will be eligible for the recapitalization. Capital endowment will be within 2% of the banks' risk weighted assets and in principle within a level of 8% of tier 1 capital.	No extra conditions since the financial conditions stated are in line with the guidance of aid rules.	Recapitalization conditions such as fixed step-up clauses, increases in remuneration linked to dividend payments and a link of the remuneration with the financing cost of the Italian state, conditions relating to dividend policy, management remuneration, behavioral commitments and an ethical code are included.	23-Dec-08
		Amendment to the Decision	An alternative remuneration option with a higher initial coupon and a higher annual level of the coupon until 2014 in exchange of a lower reimbursement price fixed at the nominal value until June 2013 is introduced. In addition, the possibility for the State to take part in recapitalizations if there is a participation of at least 30 % of private investors and on equal terms with the latter has been introduced.	The EC concluded that the revised scheme is in line with the guidance and the level of remuneration is adequate and ensures that the State involvement in the banks' capital will be as brief as possible.		20-Feb-09
31	Latvia	Public support measures to Parex Banka	The package consists of a state guarantee covering certain existing and new loans, of a state 1-year deposit to support the bank's immediate liquidity needs and of subordinated loans to strengthen its capital base. The maturity for new loans is limited to three years and for subordinated loans to five years.		The EC decision covers a period of 6 months, in which Latvia should terminate the public support to the bank or renotify to the EC for a new assessment, which will enable the EC to verify that the support measures are not maintained if the financial crisis is over. The EC reserves the right to review its assessment, if the measures are modified by the Latvian authorities	24-Nov-08
32	Latvia	Guarantee scheme for banks	The guarantee will cover all liabilities with the exception of interbank deposits, subordinated liabilities and collateralized liabilities such as covered bonds which have a maximum maturity of three years. Beneficiaries will be subject to behavioral commitments to avoid an abusive use of the state support		Latvia made the commitment to notify restructuring or liquidation plans for each beneficiary that defaulted on its liabilities and as a consequence would cause the guarantee to be drawn.	22-Dec-08

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
33	Netherlands	Guarantee scheme for Dutch financial institutions	Guarantee scheme aims at tackling the liquidity problems of financial institutions created by the drying up of the market of unsecured loans.	The EC concluded that the guarantee scheme complies with the conditions laid down on state aid for financial institutions in the context of the current global financial crisis.		30-Oct-08
34	Netherlands	Measure in favor of ING	Dutch authorities notified their plans to recapitalize ING Groep N.V. with €10 billion via a special type of securities.	The EC concluded that the measures comply with the conditions laid down on state aid for financial institutions in the context of the current global financial crisis.		13-Nov-08
35	Netherlands	Measure in favor of Aegon	Dutch authorities notified their plans to recapitalize Aegon N.V. with €3 billion through a special type of securities	The EC concluded that the measures comply with the conditions laid down on state aid for financial institutions in the context of the current global financial crisis.		27-Nov-08
36	Netherlands	SNS Reaal/New capital injection by Dutch authorities	Dutch authorities notified their plans to recapitalize SNS REAAL N.V. with €750 million via a special type of securities. Furthermore SNS will receive €500 million through the issuance of core capital instruments to the private independent foundation Stichting Beheer SNS REAAL.	The EC concluded that the measure complies with the conditions laid down in its Guidance..		10-Dec-08
37	Netherlands	ING Illiquid asset facility	Dutch State will buy the right to receive the cash flows on 80% of this US\$ 39 billion portfolio by paying ING about US\$ 28 billion.		The EC assessed the measure under its guidance on the treatment of asset relief measures, which requires that measures designed to protect banks against illiquidity arising from impaired assets are accompanied by adequate burden sharing and remuneration. The EC decided not to raise objections for a period of six months. However, as some conditions required by the Impaired Asset Communication need further in-depth analysis, the EC has decided to open an in-depth investigation on this and corresponding elements like burden sharing.	31-Mar-09

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
38	Portugal	Guarantee scheme for credit institutions in Portugal	The scheme provides state guarantees for financing agreements and the emission of non subordinated short and medium term debt of solvent credit institutions incorporated in Portugal. The total budget of the scheme is €20 billion.	The EC found the scheme to be in line with its Guidance Communication on state aid to overcome the financial crisis		29-Oct-08
39	Portugal	State guarantee for Banco Privado Português	€450 million loan granted by six Portuguese banks to Banco Privado Português.		The EC approved the aid as a temporary rescue measure and Portugal has committed to provide a restructuring plan for this bank within six months of the state intervention.	13-Mar-09
40	Slovenia	Guarantee scheme for credit institutions in Slovenia	The state guarantee would cover, against remuneration, the issuance of new short and medium term non-subordinated debt with a maturity between 90 days and five years. The scheme's overall budget is capped at €12 billion. Only solvent banks are allowed to enter the scheme.	The EC found the measure to be in line with its Guidance Communication on state aid to overcome the financial crisis.		12-Dec-08
41	Spain	Fund for the Acquisition of Financial Assets in Spain	The measure contains a temporary re-purchase element where the government-sponsored fund buys highly-rated covered bonds or asset backed securities from the banks (minimum AA).		The EC had been reluctant to allow Member States to buy financial assets from banks outright, as the credit crisis makes it difficult to value assets properly and there is a risk to provide undue advantages to banks. However, the Spanish measure has been designed specifically to avoid such distortions of competition, in so far as the government-sponsored fund can only purchase AAA rated covered bonds through an auction. That's why the EC approved this aid.	4-Nov-08
42	Spain	Spanish guarantee scheme for credit institutions	The state guarantee would cover, against remuneration, the issuance of notes, bonds and obligations admitted to the official secondary market in Spain. Only solvent banks have access to the guarantee scheme.	The Commission found the measure to be in line with its Guidance Communication on State aid to overcome the financial crisis. In particular, the scheme is non-discriminatory, limited in time and scope, provides for behavioral constraints to avoid abuses and is subject to a market-oriented remuneration from the beneficiaries.		22-Dec-08

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
43	Sweden	Support measures for the banking industry in Sweden	1-The package consists of a guarantee scheme covering new issuances of short and medium term non-subordinated debt, to support solvent banks and mortgage institutions that have difficulties in accessing financing.2-The scheme will be open to all solvent banks and mortgage institutions incorporated and operating in Sweden. The guarantee will be remunerated by a market-oriented fee in line with the recommendations from the European Central Bank. A series of behavioral commitments will be imposed on the beneficiaries.	The EC concluded that the package would constitute an appropriate and proportionate means to restore confidence in the Swedish financial market and to stimulate inter-bank lending. The strict conditions attached to the grant of any guarantee will ensure that the state support is limited to what is necessary for the recovery of the Swedish financial system.		29-Oct-08
		Amendment to the decision	1-The maximum amount of debt that can be covered by the guarantee will no longer be assessed at the level of the individual institutions but at the level of the group. 2-The scope of the guarantee is extended to certain mortgage institutions that were previously excluded.3-The requirement of a balance sheet growth limitation to certain thresholds for banks participating in the guarantee scheme will no longer apply.	The EC concluded that the Swedish support measures are compatible with the Single Market.		28-Jan-09
44	Sweden	Emergency rescue measures regarding Carnegie Investment Bank	The measures taken by the Swedish authorities are appropriate to remedy Carnegie Bank's liquidity problems and restore confidence in the Swedish financial markets. In particular, the loans provided do not go beyond what is necessary to save the bank and the bank will refrain from any significant expansion.		The EC approved this aid as a temporary rescue measure and Sweden has made the commitment to provide a liquidation plan or a restructuring plan for Carnegie Bank by 25 April 2009.	15-Dec-08
45	Sweden	Swedish recapitalization scheme	The Swedish recapitalization scheme allows the Government to provide share capital or hybrid capital to be counted as bank Tier 1 capital. The state only provides capital if a substantial contribution is provided by private investors (at least 30% of the total investment). The state then participates in the recapitalization on the same terms as the private investors.	The EC approved the state's investment since it is regarded as ensuring that the capital is provided at market rates as foreseen in the Commission's guidance on bank recapitalization.		11-Feb-09

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
46	United Kingdom	Rescue aid to Bradford and Bingley	The measures include the nationalization and winding down of the bank, the sale of Bradford & Bingley's retail deposit book and branches along with a matching cash element to Abbey National, the provision of a working capital facility and guarantee arrangements.		The EC found that the state funding to enable the sale of the deposit book provided a state aid to Bradford & Bingley and to its retail deposit business that was sold, and also concluded that the working capital facility and the guarantee arrangements provided by HM Treasury to Bradford & Bingley constitute state aid. The EC is not concerned by potential advantages that the measures may have procured to Bradford and Bingley's retail depositors, as aid to individuals is outside the scope of the EU state aid rules.	1-Oct-08
47	United Kingdom	Aid scheme to the banking industry in the UK (guarantees, recapitalization & other)	1-Recapitalisation scheme, makes available new capital to banks and builds societies in exchange for preference or ordinary shares, to allow them to strengthen their balance sheets against possible losses; 2-Guarantee scheme covers the new issuance of short and medium term debt, in return for market-oriented remuneration, to support fundamentally sound banks 3-Extension of the short term liquidity measures provided by the Bank of England.	The EC found the measures to be compatible with EU state aid rules, because they were an appropriate means to remedy a serious disturbance in the UK economy.		13-Oct-08
		Amendment to the Decision	1-The UK, as of 1 January 2009, also guarantees debt instruments issued in Japanese yen, Australian dollars, Canadian dollars and Swiss francs. Previously, the eligible debt was limited to instruments in sterling, US dollars or euros. 2-The fee payable on guaranteed liabilities is based on a per annum rate of 50 basis points plus 100% of the institution's median five-year Credit Default Swap (CDS) spread during the period 2 July 2007 to 1 July 2008.		The EC accepted, in line with its Communication on recapitalization that fundamentally sound banks do not need to provide a restructuring plan, but may instead provide a report that illustrates that they remain fundamentally sound and how they plan to repay the state capital. The EC is satisfied that as a result of its dialogue with the UK authorities, the UK support measures to the banking industry have been adjusted to changing market conditions.	22-Dec-08
		Prolongation	The UK considered that the original limit on guaranteed issue of £250 billion remained appropriate. The amount set aside for recapitalization remained £50 billion. The eligible beneficiaries remained fundamentally sound banks, with eligible liabilities of above £500 million. A capital injection into a bank that has already accessed the recapitalization scheme, however, will be subject to individual notification and approval.	The EC found the prolongation to be in line with its Guidance on state aid to overcome the financial crisis.		15-Apr-09

	Member State	Type of measure / Beneficiary	Form of Measure	No Conditions	Operational and Financial Conditions	Date
48	United Kingdom	Homeowners mortgage support scheme	Borrowers still need to pay a minimum of 30% of the monthly interest that they were paying on entry, for the duration of their participation in the scheme. The Government guarantees a maximum of 80% of the total interest (56% of the due interest) deferred to the financial institutions that provide or hold these mortgages, for a period of up to two years. The risk of non-repayment of the principal remains with the lender. The state only pays out on the guarantee in the event that the proceeds of repossession are not enough, once the principal of the mortgage has been repaid, to cover the guaranteed deferred interest.	The EC has concluded that the aid measure is aimed at well-defined objectives of common interest, it is well designed to deliver them and limits the distortions of competition.		20-Apr-09
49	United Kingdom	Asset - Backed Securities Guarantee Scheme	The instruments eligible under the ABS Scheme are bonds issued by vehicles sponsored by UK banks and building societies that have a substantial business in the UK.	The EC found that current conditions on the financial markets justify the scheme, which aims at facilitating banks to acquire liquidity and underpin lending to the UK real economy.		21-Apr-09