

The European Investment Bank's response to Covid-19: Fact sheet

On Monday, 16 March 2020 the European Investment Bank Group announced measures expected to mobilize up to €40 billion in response to the crisis caused by the coronavirus Covid-19. In announcing the measures, the President of the EIB, Werner Hoyer, called for even more support, and proposed the establishment of a substantial and scalable guarantee to ensure the EIB and national promotional banks can assure SMEs have access to capital for as long as it is needed.

How is the virus affecting the economy?

The spreading of the new coronavirus is already having a major economic impact in the EU, which is only likely to increase in the coming months. This is due to:

- Drastic drops in customer demand in certain sectors, leading to cash-flow problems.
- Supply-chain disruptions, especially for businesses relying on supplies from international partners.
- Labour force shortages, as staff are asked to stay home and cannot ensure the same output, which is especially critical due to increased demand in certain sectors (for food, hygienic material and medical supplies, for example).

Who will suffer from the economic impacts?

Small and medium-sized enterprises that employ the vast majority of private sector workers in the EU are most vulnerable. Smaller companies are usually more human capital-intensive, thus susceptible to disruptions when people can't work. They also typically have smaller reserves, limited financing options, and lack significant assets that can be sold. These factors can make it difficult to cope with a liquidity deficit.

Currently the travel, tourism, hospitality, retail, sports and entertainment sectors appear the most affected, but secondary effects are likely to spread to the entire economy.

What do these businesses need from their banks?

These businesses need banks to provide them with:

- Extended credit holidays and grace periods for both capital and interest payments on existing financial commitments
- Improved access to new financial support: working capital products including factoring, invoice discounting, overdrafts and credit lines – both for short and medium-term.

Critically, they need this support immediately, which is why the EIB Group has focused on measures that can be undertaken using existing instruments and without changes to their legal basis while already working on other new initiatives for a swift implementation to provide more liquidity to companies and share risks with banks.

What will the EIB Group and the European Commission do to make this happen?

We have set a target of mobilizing up to €40 billion to the impacted SME's, through various products that we will make available to financial intermediaries (commercial banks, national promotional banks, guarantee institutions) immediately. In detail, this support is based on broadly three building blocks, some of these resting on various pillars of guarantees by the European Commission. The three blocks are the following:

First, we will launch dedicated guarantee schemes to banks based on existing programmes for immediate deployment, mobilising up to €20 billion of financing by them to support the businesses in need.

Second, we would accelerate and repurpose our multi-beneficiary intermediated lending facilities and other framework loans so that banks across Europe could specifically come to the aid of impacted businesses. This would amount to €5 billion of EIB financing, which we expect to mobilize €10 billion to those companies.

Third, we plan to reprioritize some EFSI resources to make working capital available to those who need it the most through the purchase of €2 billion worth of asset-backed securities from banks. This allows banks to transfer risk of existing SME loans to the EIB, freeing up capital to give out new loans. This should also mobilize €10 billion.

Which changes will need to take place for this support to be deployed?

We are working with the European Commission to adapt existing product features, and adopt fast track approval processes. The measures outlined above will include deployment criteria to make sure they reach the targeted businesses suffering from the effects of the virus.

What else can the European Investment Bank do in response to Covid-19?

We are currently looking to expand the EIB Group's financing for venture equity and venture debt for companies engaged in high-risk research and development of vaccines, treatments, drugs and diagnostics. These projects would be fast-tracked through the EIB immediately, and we will be able to use various EU programmes and mandates for this support. We have a current pipeline of projects in the health sector of around €5 billion, and we are continuing to build this, based on the changing needs of this crucial sector. We are doing this in close cooperation with the World Health Organization as agreed in a Memorandum of Understanding. Together with our advisory services we continue to identify vulnerabilities worldwide, and ensure that sufficient funding will be mobilised to support pandemic preparedness going forward.

Additionally, the EIB is prepared to quickly amend loans already approved for EU Member States' (including their health authorities) infrastructure and equipment needs to take into account possible changes in their needs, due to the spread of the virus.

Over the medium to longer term, a wider range of instruments could also be made available for SMEs and mid-caps.