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Green proposal for KfW solidarity loans for small and medium-sized enterprises in Italy

What helps our neighbours, helps us

The current crisis situation triggered by the Covid-19 virus is not a national but a European crisis. We must therefore stand together in the European Union. The European Union has a common internal market. Thus, it is obvious that national solutions can never be sufficient. We need solidarity-based and economically appropriate financial and economic aid for all EU Member States. What helps one EU member state helps all EU countries. What helps Italy ultimately helps Germany.

In the coming months, European cohesion will be put to another serious test. Therefore, we need confidence and the will to strengthen Europe and keep it together. The fact that Italy was first supplied with medical equipment by China before EU partner countries such as Germany acted did not help. Our proposal is intended to set a different, pro-European accent and strengthen mutual trust.

The fiscal policy measures taken so far to combat the economic crisis triggered by COVID-19 are largely national. But the crisis does not (yet) hit all euro countries equally hard, and the national options for combating the crisis are unequally distributed. Stabilisation in the crisis must not be left to monetary policy alone. The funds provided by the European Commission to date are too small. There is an urgent need for a strong fiscal policy response at European level to support healthcare systems, companies and employees in particularly affected euro countries. Unfortunately, this strong fiscal policy response does not yet exist. The finance ministers were unable to agree on anything alike at the Eurogroup meeting on Monday, March 16th.

What is needed is comprehensive financial protection for Europe and the euro area, which now provides above all rapid and effective preventative emergency aid: The ESM's precautionary credit line should be activated specifically to combat the corona crisis for all Member States, so that market access for all Member States remains secured and a clear

signal is sent to financial markets that speculation against individual Member States is pointless. The precautionary credit line should be granted on a non-discriminatory basis and should therefore be open to all as a precautionary measure.

All companies need unbureaucratic access to emergency loans from the European Investment Bank (EIB) or national development banks. The European Investment Bank must be able to play its part in alleviating the consequences of the crisis, especially for small and medium-sized enterprises (SMEs). But even the new measures of the European Investment Bank cannot adequately address the major problems of the real economy in Italy. Since the creditworthiness of borrowers in Italy is worse than in Germany, the EIB can only grant limited loans there without jeopardizing its own AAA rating. We Greens have long been advocating an increase in the EIB's equity and the guarantees provided by the states supporting it. This continues to be urgently needed, but it requires a joint decision by the Member States.

Until then, however, Italy, the country most affected by the Corona crisis so far, urgently needs support. Italy's stability is central to the stability of the euro zone. Especially SMEs in Italy are sliding further into bankruptcy every day. They need help now, but certainly also in the coming months. To ensure that they receive this support, we want European countries to support each other in solidarity. Economically strong countries such as Germany and France can make the first step by providing limited financial support to SMEs in Italy in this time of need with the help of their development banks - the Kreditanstalt für Wiederaufbau (KfW) and Bpifrance. The German Government should try to also involve development banks from the other EU member states. We Greens will also try to spread this idea of solidarity in Europe among our Green partner parties which are in government coalitions.

Since Germany, as the economically strongest country in the euro area, has greater fiscal leeway than any other euro state, Germany should use this leeway and support Italian SMEs unbureaucratically with a KfW credit line. This would send a strong signal of European solidarity and could help prevent the Italian economy from sliding even deeper into crisis through bankruptcies of healthy companies. In the end - thanks to the common internal market - this would also have a positive knock-on effect on European and also German companies.

Germany must do what it can do

Germany alone can of course not save all of Italy's SMEs. This will only be possible through a great effort by all EU member states. Nevertheless, we consider it an important political and economic signal that Germany will not leave Italy out in the rain as long as no pan-European solution is in sight. We propose to the German Government to immediately offer the Italian promotional bank Cassa Depositi e Prestiti (CDP) a global loan (Globaldarlehen) from KfW in the amount of EUR 1 billion as an initial step. The German Government would be liable for this loan from the federal budget. This measure is to be used to improve the financing conditions for Italian SMEs in the crisis. This makes economic sense, because thanks to the strong credit rating of the German state, KfW can finance itself more favourably than CDP by about 100-200 basis points. This interest rate advantage would also benefit Italian SMEs. The exact structure must be worked out together with the Italian experts to fit Italy's situation.

What already exists, what we want to build on

The cooperation of the European development banks in the field of SME promotion has long been proven. The granting of global loans to partner banks in Europe, which in turn grant investment loans to SMEs and municipalities, has long been part of KfW's commitment. In 2014 KfW cooperated with Italy for EUR 500 million and with Spain for EUR 800 million in 2013. Equally proven are the structures between CDP and its partner banks. CDP - following the example of KfW - would not grant the loans itself, but to pass them on to local commercial banks, which then extend the loans to SMEs swiftly and unbureaucratically. The proposed solidarity loans are not intended to replace the common global loans, which are usually combined with grants from the European Union and used for SME or municipal investments in a specific priority area (such as energy efficiency), but to complement them and help Italian SMEs to overcome the corona crisis. The proposed loans are open to cooperation with the EU or other national development banks.

Scope: One billion euros in emergency aid for SMEs

In 2013 KfW granted a total of EUR 1 billion to the Spanish promotional bank ICO to strengthen the SME sector. In analogy to this aid, which had become necessary due to the financial crisis, KfW should now also support Italy in overcoming financing bottlenecks and the lack of equity capital for SMEs, thus helping to safeguard jobs. Solidarity loans in the amount of EUR 1 billion would be a clear signal of pan-European solidarity and an impulse for other Member States to join KfW's assistance.

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