European Commission

COMPLETING EUROPE'S ECONOMIC AND MONETARY UNION

The Commission's Contribution to the Leaders' Agenda

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A STABILISATION FUNCTION

"Where one national budget could not respond to the shocks on the financial or sovereign markets, everyone suffered. Taxpayers paid a heavy price: for the banks that needed emergency support and the governments that could no longer fund themselves."

European Commission President Jean-Claude Juncker, Brussels, 13 October 2016*

The European Commission's Communication sets out a vision of how certain budgetary functions that are essential for the euro area and the EU as a whole can be developed within the framework of the EU's public finances of today and tomorrow.

In this Communication, the Commission presents some key features for the roll-out of a stabilisation function as a way of preserving investment levels in the event of large asymmetric shocks. A stabilisation function at European level would provide the possibility to activate resources rapidly to deal with **large asymmetric shocks** that cannot be managed at the national level alone.

The stabilisation function is intended for the euro area Member States and open to all who would wish to participate.

Protecting investment in the event of large asymmetric shocks

For the period post-2020, the Commission envisages a stabilisation function which can support investment levels at national level and which can be developed over time. This would take the form of a dedicated vehicle managed by the Commission that could bring together different sources of funding at European level

This vehicle would be based on the logic of a **European Investment Protection Scheme** and would aim to support well-identified priorities and already planned projects or activities at national level.

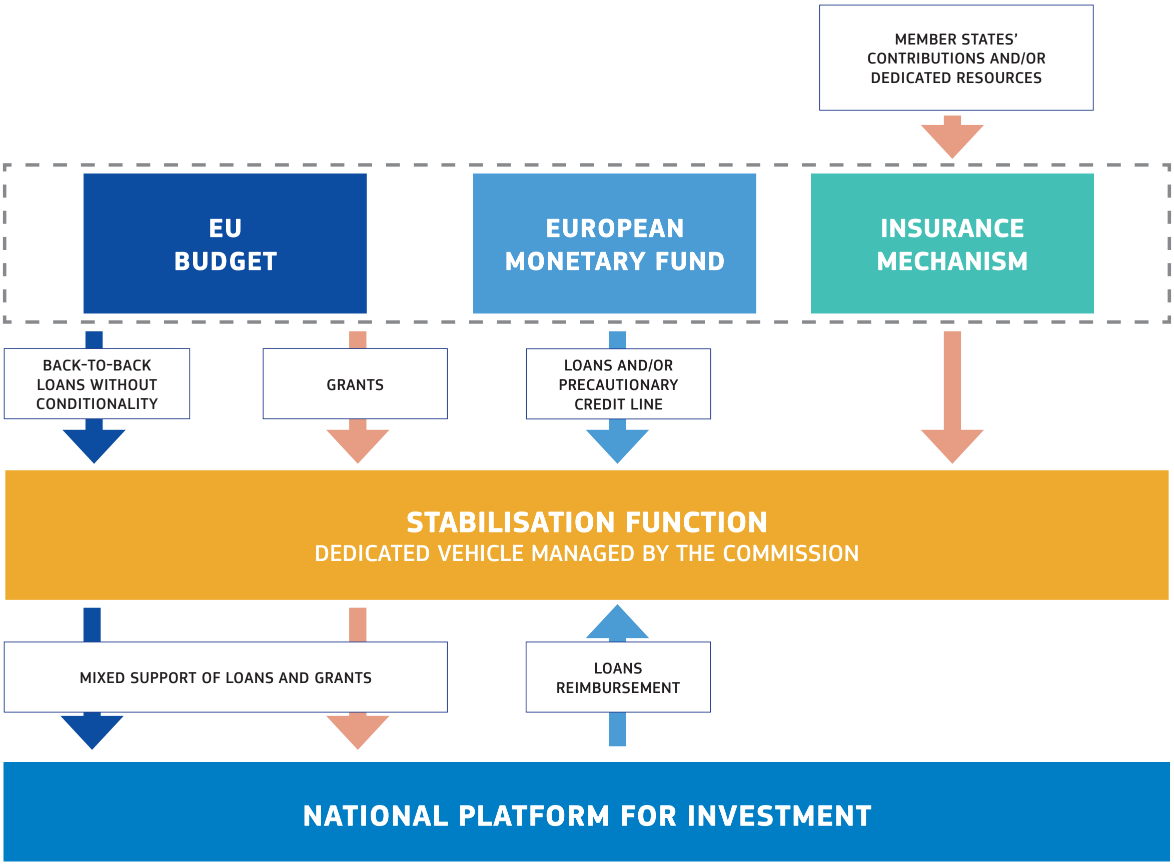
Subject to strict eligibility criteria and triggering mechanism, a Member State facing a large asymmetric shock would automatically be entitled to benefit from the assistance provided through the stabilisation function. As a general principle, only Member States that comply with the EU surveillance framework during the period preceding the large asymmetric shock should be eligible for access. A mixed **support based on loans and budget support** would kick in, which could be based on three components:

1. The EU budget and the European Monetary Fund could provide loans guaranteed by the EU budget. The beneficiary Member State would reimburse those loans to the stabilisation function.

2. The EU budget could provide some limited annually budgeted grant support to the Member States concerned.

3. An insurance mechanism based on voluntary Member States' contributions could complement the grant support of the stabilisation function over time.

*Amended: 8 December 2017



Key features of a stabilisation function

- **Distinct from and complementary to existing instruments in the EU public finances toolbox:** Such a function should fill the gap between, on the one hand, existing instruments financed from the EU budget for jobs, growth and investment and, on the other hand, financial assistance under the European Monetary Fund in extreme cases.
- **Contribute to financial stability:** It should reduce the risk that a beneficiary Member State ends up needing a European Monetary Fund programme.
- **Economically meaningful in the steady state:** It should be large enough to provide real stabilisation at Member State level.
- **Timely and effective:** It should be capable of being activated automatically and rapidly on the basis of pre-defined parameters
- **Contribute to sound fiscal policy and minimise moral hazard:** There would be strict, pre-defined eligibility criteria based on sound macroeconomic policies in order to access the stabilisation function. Only Member States complying with the EU surveillance framework during the period preceding the large asymmetric shock would be eligible for access.

Complementing national shock absorbers

National budgets will continue to be the main fiscal policy instrument for Member States to address changes in economic circumstances. A stabilisation function at European level would only complement the stabilisation role played by Member States' national budgets.

This is why Member States need to continue to build up and sustain adequate fiscal buffers, notably in good times, as foreseen by the Stability and Growth Pact. Only if these buffers and stabilisers are not sufficient, in the case of large asymmetric shocks, should the European stabilisation function be triggered.

Complementary ideas

The Commission outlined three different options in its **Reflection Paper on the Deepening of the Economic and Monetary Union**.

- **A European Investment Protection Scheme** could protect investment in the event of a downturn, by supporting well-identified priorities and already planned projects or activities at national level, such as infrastructure or skills development.

- **A European Unemployment Reinsurance Scheme** could act as a "reinsurance fund" for national unemployment schemes.

- **A rainy day fund** could accumulate funds from Member States on a regular basis and disbursements would be triggered on a pre-defined basis.

The Commission stresses that these options all have their merits and can also be combined over time.

Looking ahead, the Commission finds it important to also consider the future role of existing instruments under the EU budget which are designed to help cushion specific shocks. These include the Youth Employment Initiative, the EU Solidarity Fund and the European Globalisation Adjustment Fund.

A modernised system of own resources to the EU budget could also contribute to a certain degree of economic stabilisation in the future.

A temporary increase of the EU co-financing rate and/or a possible modulation of the level of pre-financing of the European Structural and Investment funds, depending on the circumstances, could also play a role.

Next steps