European Commission

EU BUDGET FOR THE FUTURE

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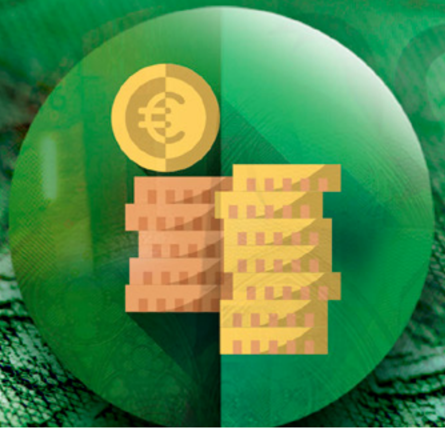


31 May 2018

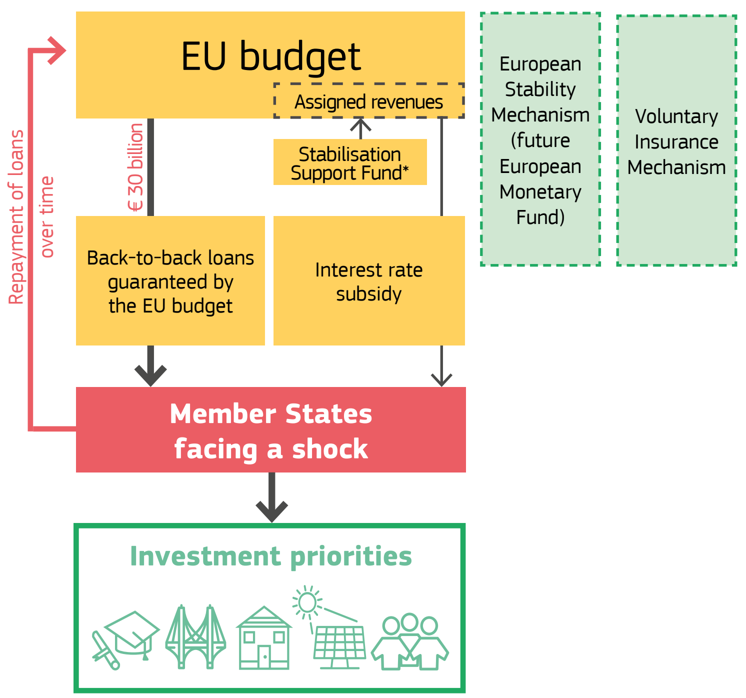
DEEPENING EUROPE'S ECONOMIC AND MONETARY UNION

EUROPEAN INVESTMENT STABILISATION FUNCTION

Building on the vision set out in the Five Presidents' Report, the Commission presented its roadmap for deepening Europe's Economic and Monetary Union in December 2017. As a next step, in the Multiannual Financial Framework, the Commission is proposing a **European Investment Stabilisation Function** alongside a proposal for a Reform Support Programme.

This new instrument will help to maintain public investment levels in the event of large asymmetric shocks, thus preserving stability and facilitating economic recovery.

These instruments are complementary to, and will work in full synergy, with the reform priorities identified in the context of the European Semester of economic policy coordination, as well as other EU funding instruments for jobs, growth and investment, such as the European Structural and Investment Funds, the new InvestEU Fund and the Connecting Europe Facility.



*Prefilled with contributions by Member States based on their monetary income ("seigniorage").

KEY FEATURES

- Complements existing EU and national instruments to absorb shocks.
- Helps to maintain public investment levels in the event of large asymmetric shocks.
- Contributes to macroeconomic and financial stability.
- Is capable of automatic and rapid activation in the situation of large asymmetric shocks on the basis of pre-defined parameters.
- Contributes to sound fiscal policy and minimises moral hazard via pre-defined eligibility criteria.
- Open to euro area Member States and to non-euro area Member States participating in the exchange rate mechanism ERM II.
- Can be complemented over time by additional financing resources outside the EU budget.

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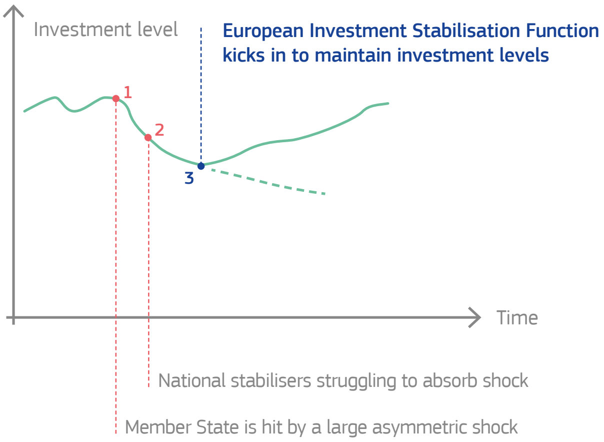
ENHANCING STABILITY BY MAINTAINING INVESTMENT LEVELS IN THE EVENT OF SHOCKS

As shown by the crisis years, existing national stabilisation mechanisms may not be sufficient to absorb certain macroeconomic shocks and there are often risks of negative spill-over to other countries, with a particularly damaging impact on public investment levels and the real economy.

The new **European Investment Stabilisation Function** will, in the event of large asymmetric shocks, provide back-to-back loans guaranteed by the EU budget of **up to € 30 billion**, coupled with a grant-like component to cover the full costs of the interest.

The loans will be available to Member States complying **with strict eligibility criteria** based on sound financial and macroeconomic policies. The loans will give extra financial support at a time when public finances become stretched and should be geared towards maintaining growth-supporting public investments.



HOW DOES IT WORK?

A Member State fulfils the eligibility criteria and is experiencing a large asymmetric shock

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The Commission assesses the request and decides on the terms for the loan and the interest rate subsidy

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The amount of the loan is determined by a formula, taking into account the maximum level of support and the severity of the shock

The amount of the interest rate subsidy is determined by a fixed formula

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The Commission (on behalf of the EU) contracts borrowings on the capital markets and gives a back-to-back loan to the Member State

The interest rate subsidy is made possible thanks to the Stabilisation Support Fund which is prefilled with contributions by Member States

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The Member State invests the support and maintains an adequate level of public investment in relevant sectors

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After the agreed period, the Member State pays back the loan

The interest rate subsidy is paid to the Member States at the moment when the Member State repays the loan or interest due

A new Stabilisation Support Fund will be set up in order to collect contributions from Member States equivalent to a share of their monetary income (known as “seigniorage”). The revenues of this Fund will be assigned to the EU budget to provide the interest rate subsidies to the eligible Member States. Such an interest rate subsidy is important to make the instrument financially meaningful.

As envisaged in December 2017, the European Investment Stabilisation Function could be complemented over time by additional means outside the EU budget, such as a possible role for the European Stability Mechanism or the future European Monetary Fund, and a possible voluntary insurance mechanism to be set up by the Member States.

This new instrument is open to all euro area countries and those Member States participating in the exchange rate mechanism ERM II.