European Commission

EU BUDGET FOR THE FUTURE

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2 May 2018

THE EU BUDGET AND THE ECONOMIC AND MONETARY UNION

A stable euro area is the precondition for jobs, growth, investment and social fairness in our Union. **Under the Treaties, the euro is the single currency of the European Union**, and economic convergence and stability are objectives of the Union as a whole. Following the withdrawal of the UK from the EU, the gross domestic product (GDP) of the euro area will represent more than 85% of the total gross domestic product (GDP) of the EU. This is why the tools to strengthen the Economic and Monetary Union must not be separate but part and parcel of the overall financial architecture of the Union.

In December 2017, as part of its roadmap for deepening Europe's Economic and Monetary Union, the Commission set out how new budgetary instruments could be developed within the framework of the EU's public finances to support stability and convergence within the euro area as well as towards it for those committed to joining. These proposals build on the vision of the Five Presidents' Report of June 2015 and on the Commission's Reflection Paper of May 2017, and deliver on the commitments made by President Juncker in his 2017 State of the Union Address.

In the new Multiannual Financial Framework, two new instruments are proposed: a **Reform Support Programme** and a **European Investment Stabilisation Function**.

These new instruments will help to support economic and social convergence and maintain macroeconomic stability by **supporting reforms** that foster resilience domestically and by helping to **maintain investment levels** in the event of large asymmetric shocks.

They will complement other EU funds, notably the European Structural and Investment Funds and the new InvestEU Fund which builds on the success of the Juncker Plan. The new instruments will also **strengthen the link between the EU budget and the European Semester**, the framework for economic policy coordination in the EU and euro area.

The EU budget and the Economic and Monetary Union

Economic governance framework of the European Semester

SUPPORT TO REFORM	SUPPORT FOR INVESTMENT	STABILISATION IN CASE OF SHOCKS
Reform Support Programme Reform Delivery Tool Convergence Facility Technical Support Instrument	**European Structural and Investment Funds** **InvestEU Fund** building on the success of the Juncker Plan	**European Investment Stabilisation Function**

SUPPORTING REFORMS TO MODERNISE THE ECONOMY AND STRENGTHEN RESILIENCE

The implementation of structural reforms is crucial to modernise European economies, enhance resilience and foster greater convergence. The **Reform Support Programme** will have an overall budget of **€25 billion** and it will offer financial and technical support for priority reforms at national level[1]. It will include the following:

- A **Reform Delivery Tool** that will provide financial support across all Member States for key reforms identified in the context of the European Semester. The Reform Delivery Tool will draw on the experience gained during a pilot phase initiated in December 2017.
- A **Convergence Facility** to provide dedicated support to Member States seeking to adopt the euro. This support does not interfere with the criteria in place for accession to the euro but will facilitate practical preparation and convergence, based on a specific process of commitment and partnership.
- Tailor-made **technical support** to Member States, upon their request, for the design and implementation of reforms. This builds on the experience of the Structural Reform Support Service which has provided support for more than 440 reform projects in 24 Member States in recent years.

REFORM DELIVERY TOOL PILOT PHASE

On 23 March 2018, Commission President **Jean-Claude Juncker** and the Portuguese Prime Minister **António Costa agreed to launch the first pilot project** for the new reform delivery tool to address the skills gap in Portugal.

This project aims to significantly improve the vocational education and training system in Portugal, addressing the skills challenges of a significant share of the labour force and enhancing the competitiveness of the economy.

HOW THE REFORM DELIVERY TOOL COULD OPERATE

Reforms will be proposed by Member States through their **National Reform Programmes**, on the basis of the challenges identified in the European Semester.

A **structured dialogue** between the Commission and the Member State will follow to conclude a **reform commitment package**, including a detailed set of measures, milestones for implementation, a calendar for completion and financial aspects.

Member States will **report** on these measures together with their National Reform Programme and review progress collectively in the European Semester.

ENHANCING STABILITY BY MAINTAINING INVESTMENT LEVELS IN THE EVENT OF SHOCKS

Adequate levels of investment are essential to ensure that our economies and societies are prepared for tomorrow's challenges.

As we have seen in past crises, existing national stabilisation mechanisms may not be sufficient to absorb certain macroeconomic shocks and to prevent them from spilling over to other countries, notably within the euro area, with a particularly damaging impact on investment levels and the real economy.

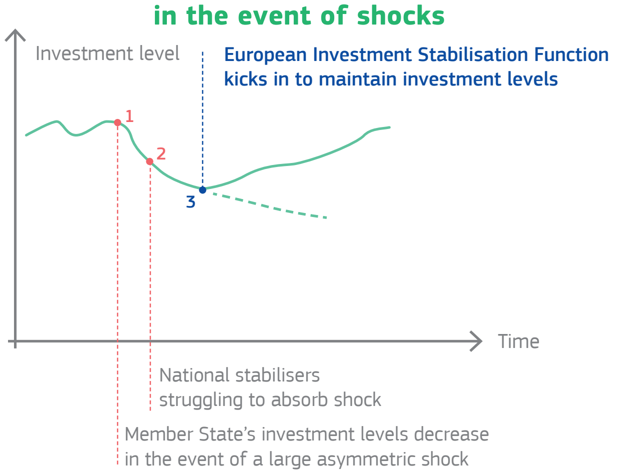
While the euro area has put in place — through the European Stability Mechanism — an instrument to provide financial assistance to countries in financial distress, it does not yet have a tool to facilitate rapid economic rebound in cases of shocks and prevent them from evolving into destabilising crises.

[1] These include reforms in product and labour markets, education, tax reforms, the development of capital markets, reforms to improve the business environment as well as investment in human capital and public administration reforms.

The new **European Investment Stabilisation Function** will be initiated in the form of back-to-back loans under the EU budget of **up to €30 billion**, coupled with a grant component to cover the costs of the interest, with a view to stabilising investment levels in Member States in the event of a large asymmetric shock.

The loans will give extra financial support at a time when public finances become stretched and should be geared towards maintaining priority investments.The grant component is important to help shoulder the impact of the shock and to facilitate the repayment of the loans when they become due. The grant component could be financed through contributions from euro area Member States equivalent to a share of monetary income (seigniorage). These contributions would take the form of external assigned revenues to the EU budget, collected through a dedicated financial vehicle.

Maintaining investment levels in the event of shocks

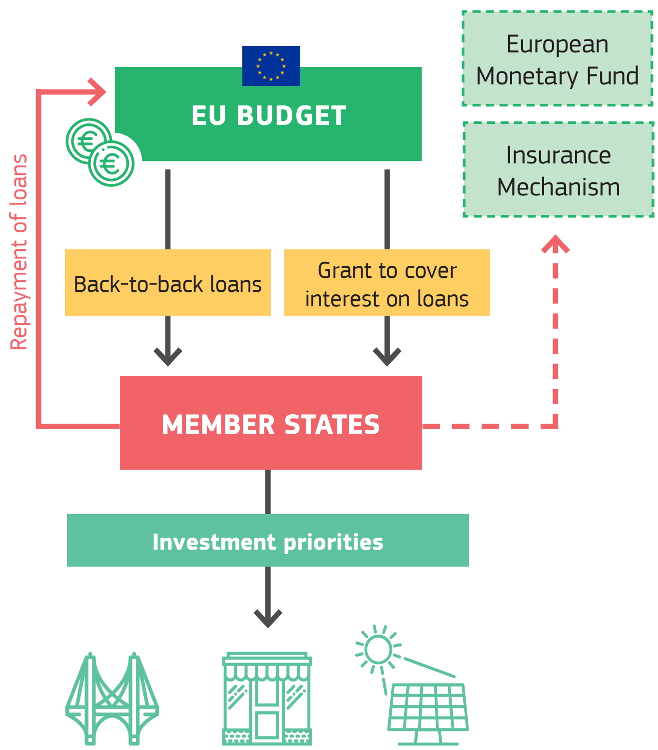


As envisaged in December 2017, this function could be complemented over time by additional financing resources outside the EU budget, such as a possible role for the European Stability Mechanism, the future European Monetary Fund, and a possible voluntary insurance mechanism to be set up by the Member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

The specificities of this new instrument call for a clear **focus on euro area countries** while the instrument would remain **open for other countries to participate** if they contribute to its financing. This could be arranged through the financial vehicle to be established in support of the grant component.

As a shock-absorbing mechanism, the European Investment Stabilisation Function will complement existing instruments at national and European level. To be effective, it should kick in automatically in the event of large asymmetric shocks, subject to **clear eligibility criteria** and a triggering mechanism determined in advance, in line with the principles of sound financial and macroeconomic policy.

The European Investment Stabilisation Function



INVESTMENT STABILISATION FUNCTION — KEY FEATURES

- Distinct from existing EU and national instruments.
- Contributes to macroeconomic and financial stability.
- Should be large enough to provide real stabilisation.
- Is capable of automatic and rapid activation on the basis of pre-defined parameters.
- Contributes to sound fiscal policy and minimises moral hazard via pre-defined access and eligibility criteria.
- Focuses on euro area countries but is open to non-euro area Member States if they contribute to its financing according to the European Central Bank capital subscription key.

WHAT HAPPENED SO FAR AND NEXT STEPS

22/06 2015
Five Presidents' Report on Completing Europe's Economic and Monetary Union

21/10 2015
Commission Communication on steps towards Deepening Economic and Monetary Union

01/03 2017
White Paper on the Future of Europe

31/05 2017
Reflection Paper on Deepening of the Economic and Monetary Union

28/06 2017
Reflection Paper on the Future of EU Finances

13/09 2017
President Juncker's State of the Union Address

06/12 2017
Roadmap and EMU proposals

15/12 2017
Euro Summit

23/03 2018
Euro Summit

02/05 2018
Multiannual Financial Framework beyond 2020 package

31/05 2018
Legislative sectoral proposals for spending programmes

28-29/06 2018
European Council

12/09 2018
President Juncker's State of the Union Address

18-19/10 2018
European Council

13-14/12 2018
European Council

21-22/03 2019
European Council

09/05 2019
Sibiu Meeting

2025