EUROPEAN COMMISSION

Brussels, 21.1.2019
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Dear President,

The Commission would like to thank the Senát for its reasoned Opinion on the Commission proposal for a Regulation of the European Parliament and of the Council on the establishment of a European Investment Stabilisation Function (EISF) {COM(2018) 387 final}.

This proposal is put forward in the context of the ongoing discussions on the Multiannual Financial Framework for 2021 - 2027. It delivers on the commitments made by President Juncker in his 2017 State of the Union Address and builds on the vision of the Five Presidents' Report as well as the Commission's roadmap for deepening the Europe's Economic and Monetary Union from December 2017.

The Commission has carefully considered the concerns expressed by the Senát as regards the proposal's compliance with the subsidiarity principle. The Commission has also taken good note of the call for strict ex ante conditions on the use of the stabilisation function and the need to avoid permanent transfers, moral hazard, or use of the instrument for revenue-rebalancing/crisis management purposes. The Commission is pleased to have this opportunity to provide a number of clarifications regarding its proposal, which it hopes will allay the concerns of Senát.

As regards respect for the subsidiarity principle, the proposal is motivated by the observation that euro area and Exchange Rate Mechanism (ERMII) Member States cannot achieve individually the objectives which the stabilisation function serves – namely to stabilise public investment expenditure when the Member State is hit by a large asymmetric shock. The financial crisis demonstrated that existing instruments at national level are not always capable of absorbing the impact of large asymmetric shocks. This was true even in those Member States going into the crisis with sound public

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finances. Moreover, the incomplete architecture of the euro area (centralised monetary policy and decentralised national fiscal policies) can mean that the burden of adjustment falls heavily on monetary policy. For these reasons, as well as the high interconnectivity of the economies of euro area Member States and potential for negative spill-overs, the European Commission believes that a stabilisation capacity at the euro area level is necessary to absorb asymmetric shocks. The EISF is proposed as a first concrete step to reduce the risk of widening divergences in macroeconomic performance between euro-area Member States (and those participating in ERMII) which could otherwise imperil economic and social cohesion.

The objective of the stabilisation function is to provide support to Member States in the immediate aftermath of an asymmetric shock, arising because of external factors outside the Member State's control. The EISF is to be understood as an early intervention mechanism to cushion these impacts and possibly reduce the need for a full-blown financial assistance programme. In this regard, it differs from a financial assistance programme where the implementation of national reforms is an integral part of the programme to remedy underlying structural imbalances that contributed to the crisis. Given the difference in objective and timing of intervention, the Commission does not see that the availability of support through the stabilisation function would reduce the need for Member States to implement national reforms in the context of a financial assistance programme.

To benefit from support via the stabilisation function, Member States must meet a number of ex-ante conditions related to the existing rules of the economic governance framework concerning fiscal and macro-economic surveillance. These conditions are targeted towards government behaviour: notably, there should not be a Council Decision on non-effective action under any of the surveillance procedures for a period of two years before a Member State can request EISF support. The Commission believes that these conditions are both sufficiently strict and operational to allow rapid and automatic deployment of the EISF only in Member States which have managed their public finances in a sound and prudent manner.

These strict ex-ante eligibility conditions, together with the fact that EISF support consists only of loans which have to be reimbursed by the Member State, ensure that there are no permanent transfers and no scope for moral hazard.

The stabilisation function is not a tool to balance the revenue between Member States. On the contrary, it aims to intervene on the expenditure side by supporting eligible public investment, not on the revenue side of a Member State's budget. It is also not a tool for crisis management, as its rapid deployment in the wake of an asymmetric shock aims to prevent situations deteriorating to the point where a Member State has to ask for financial assistance.

The Commission hopes that the clarifications provided in this reply address the issues raised by the Senát and looks forward to continuing the political dialogue in the future.

Yours faithfully,

Frans Timmermans *First Vice-President*	*Pierre Moscovici* *Member of the Commission*