EUROPEAN COMMISSION

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Dear President,

The Commission would like to thank the Senat for its Opinion on the 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 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 Economic and Monetary Union from December 2017.

The financial crisis made clear that existing instruments at national level are not always capable of absorbing the impact of large asymmetric shocks, even in those Member States going into the crisis with sound public 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 national public finances. For these reasons, the European Commission believes that a stabilisation capacity at the euro area level is necessary and has proposed the European Investment Stabilisation Function as a first step in this direction.

Mr Călin POPESCU-TĂRICEANU
President of the Senat
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The Commission welcomes the Senat's view that the proposal respects the principles of subsidiarity and proportionality, but notes its doubts related to the need for a central fiscal instrument to stabilise public investment in Member States, the fact that the stabilisation instrument is not entirely financed through grants and the creation of instruments that are only available to certain Member States. The Commission is pleased to have this opportunity to provide the following clarifications regarding its proposal and trusts that these will allay the Senat's concerns.

The Commission would like to point out that the past crisis has shown that public investment was one of the first items that were cut when budget consolidation was necessary in many Member States because it was less politically costly to do so than to cut other budgetary expenditures. These cuts in public investment however had a significant negative impact on economic growth in the medium and long term. After the crisis many Member States had substantially lower potential Gross Domestic Product than they did entering the crisis and one of the factors for this outcome were the cuts in public investment.

The stabilisation function is aimed at euro area and Member States and those in the Exchange Rate Mechanism (ERMII) only because these are the countries that have little or no possibility of using exchange rate and monetary policies to respond to asymmetric shocks. However, non-euro area Member States would be able to use the stabilisation function as soon as they join the Exchange Rate Mechanism, which is also an objective for Romania. Until they join the Exchange Rate Mechanism, non-euro area Member States have at their disposal a specific facility, the Balance of Payments facility, to receive financial support in case they are hit by a large shock. The loans given by this facility are guaranteed by all Member States, including euro area Member States that do not benefit from it.

The European Investment Stabilisation Function proposal uses back-to-back loans guaranteed by the European Union budget to stabilise public investment in the Member State concerned, coupled with a grant-like element in the form of an interest subsidy that reduces the interest cost of the loan to zero. It is not possible for the scheme to rely entirely on grants because of the need to avoid moral hazard and permanent transfers.

The Senat's Opinion has been made available to the Commission's representatives in the ongoing negotiations with the co-legislators, the European Parliament and the Council. The Commission hopes that the clarifications provided in this reply address the issues raised by the Senat and looks forward to continuing the political dialogue in the future.

Yours faithfully,

Frans Timmermans
First Vice-President

Pierre Moscovici
Member of the Commissi