

A European Stabilisation Function : A difficult debate

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Background to the Commission proposal

- **Five Presidents Report** 22 June 2015
- **Commission Reflection Paper on EMU deepening** 31 May 2017
- **Commission Communication on new budgetary instruments** 6 Dec. 2017
- **Commission proposals for the next EU budget** 31 May 2018
 - Reform delivery Tool
 - **European Investment Stabilisation Function (EISF)**

Main objectives

- **Foster more resilient public investment paths and avoid pro-cyclical fiscal tightening**
- **Prevent excessive market reaction to shocks and financial disruptions**
- **Contribute to the cohesion and integrity of the Union**
- **(Tried to build a realistic proposal. But ...)**

How does the EISF work?

Eligible Member State faces large unemployment shock



Commission borrows on markets and on-lends the funds to MS with an interest rate subsidy. Size of the loan is automatically proportioned to severity of shocks



MS spends the money on eligible public investments



At maturity: MS reimburses loan

Sceptics' views

- **There is no need because there are few asymmetric shocks**
 - *Empirically one finds significant asymmetric business cycle. Moreover, there is also a case for smoothing common shocks.*
- **There is no need because proper financial integration can provide enough risk-sharing**
 - *Genuine financial integration is still some way off. Moreover, there is some evidence that private risk-sharing works better if coupled with public risk-sharing.*

Sceptics' views

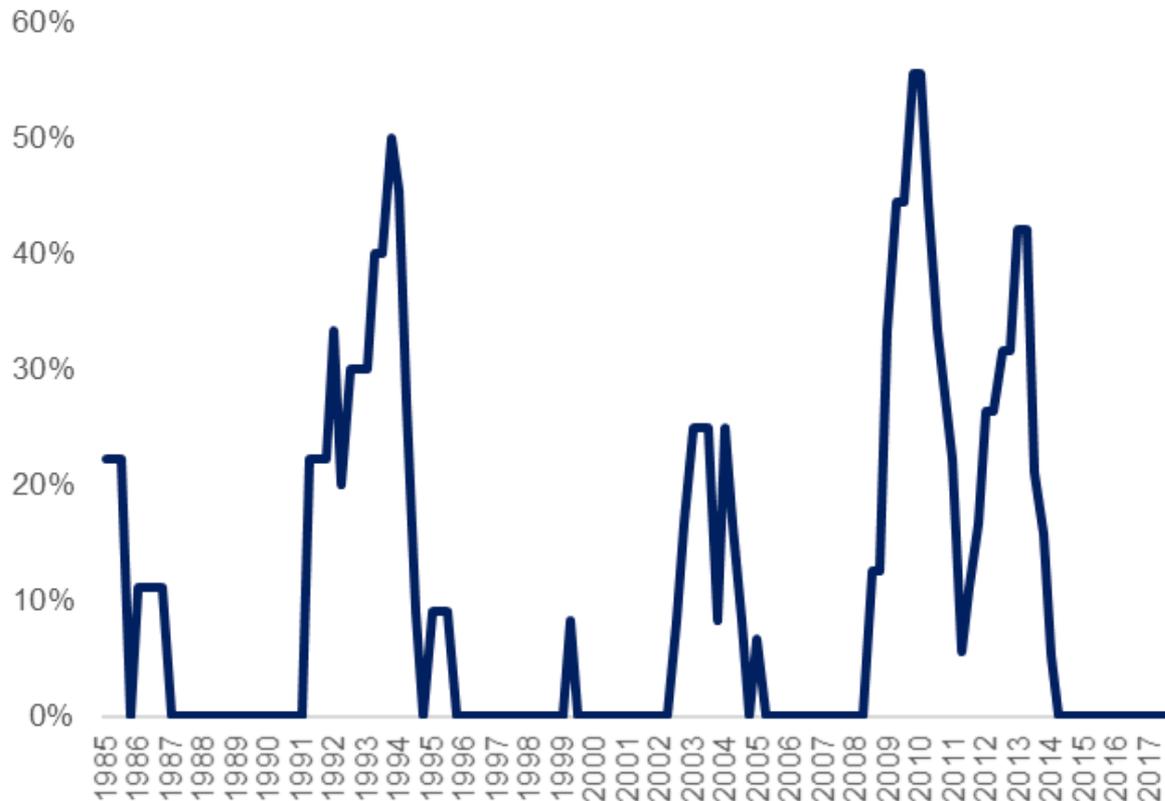
- **There is no need if only Member States ran prudent fiscal policies providing enough national fiscal space**
 - *For severe shocks, even MS respecting the rules may be constrained. Moreover, highly indebted MS will be constrained in running countercyclical policies for a long time.*
- **Any scheme presented as providing stabilisation will generate moral hazard and permanent transfers**
 - *Design features matter: targeting severe shocks; eligibility conditions; nature of support.*

A timely focus on large shocks: Share of eligible MS

Double condition on the unemployment rate

- ✓ Above its average value in the past 15 years
- ✓ Significantly increasing: Yoy increase > 1 pp

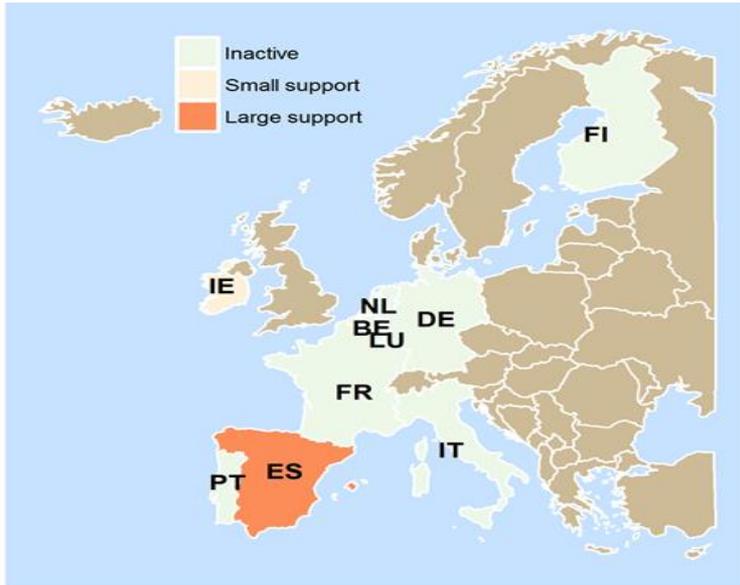
Level condition
Change condition



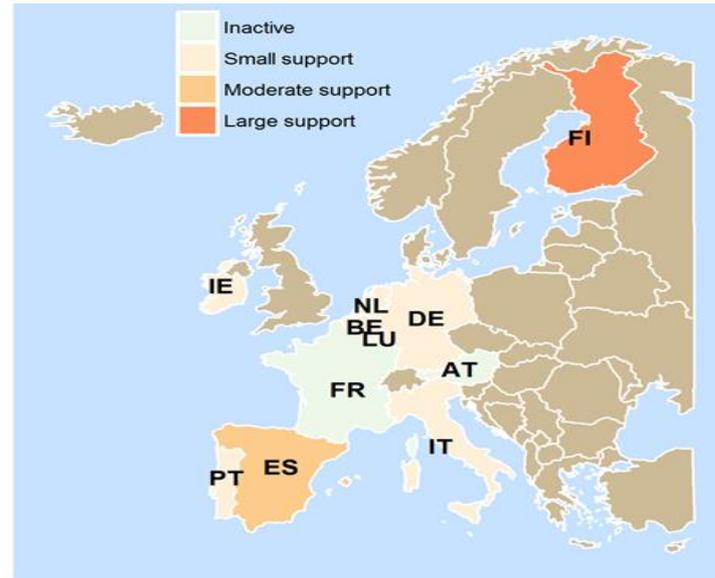
Source: Impact assessment of the EISF proposal, AMECO and DG ECFIN calculations.

All MS may benefit, some more often

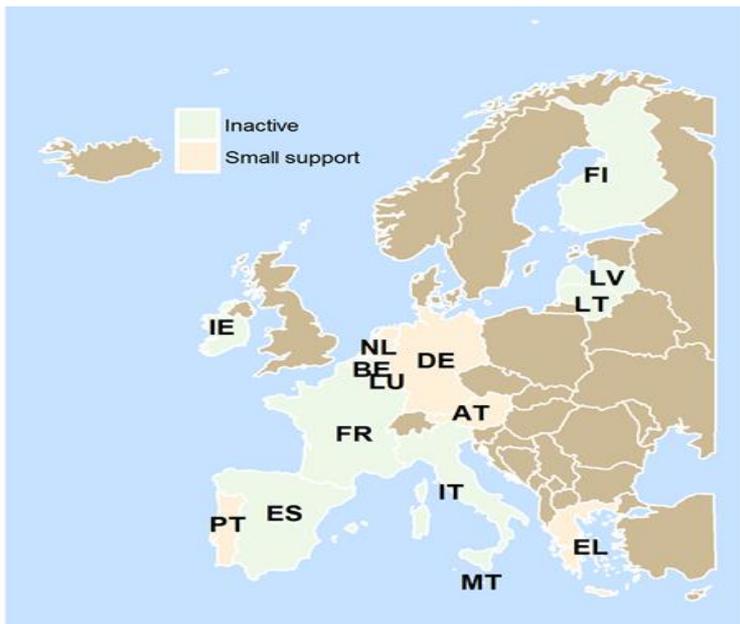
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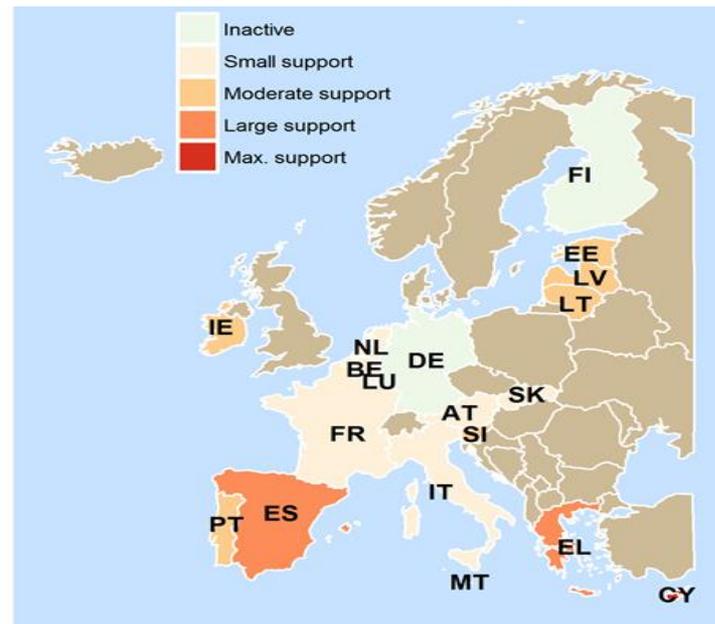
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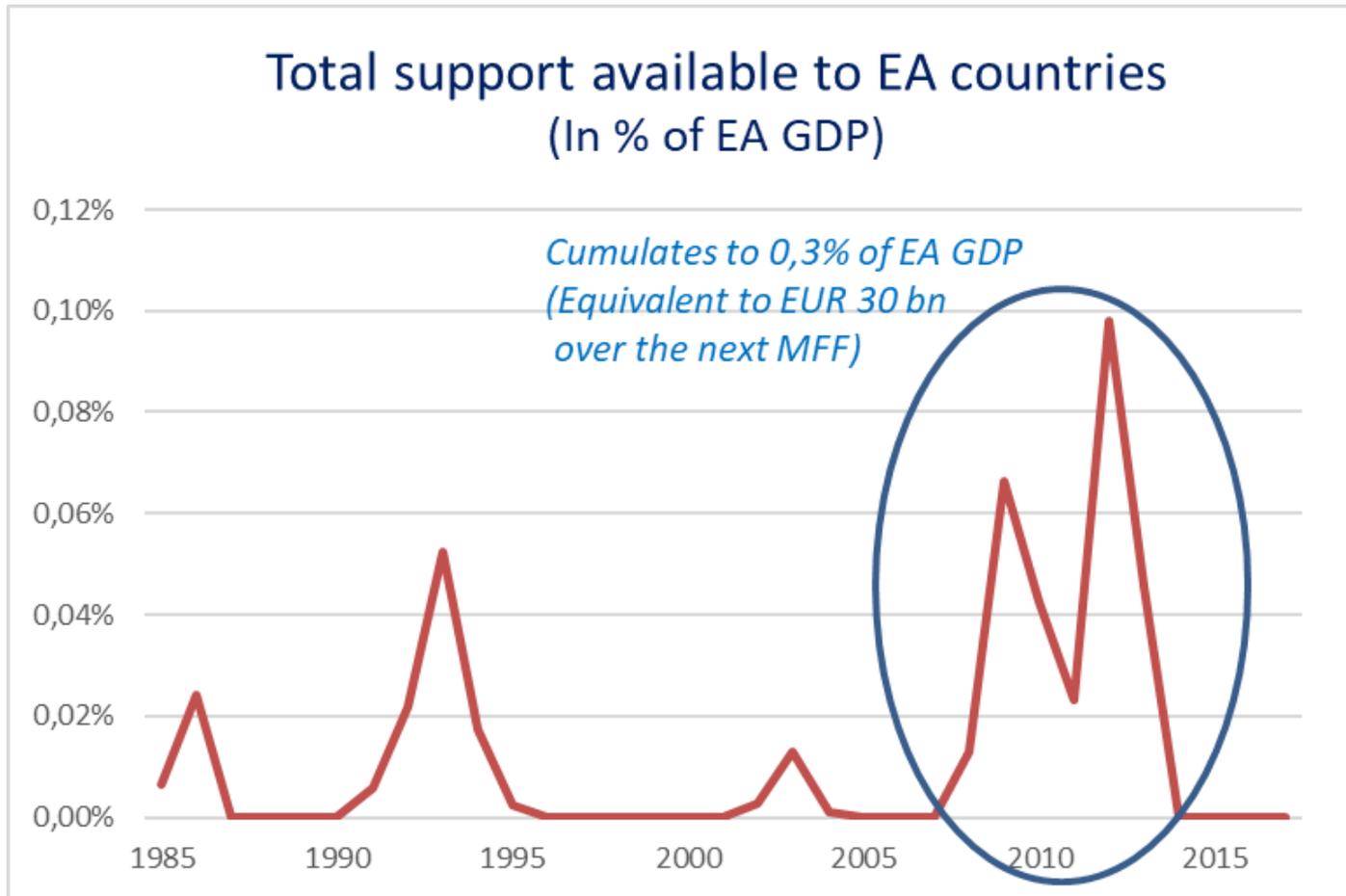
2002q3-
2005q1



2008q3-
2014q1



A limited (but realistic) size



Source: Impact assessment of the EISF proposal, AMECO and DG ECFIN calculations.

State of play

- **No take up by the Council**
 - *No consensus on stabilisation at Eurosummit*
 - *Current political focus on convergence and competitiveness instrument (useful but no substitute)*
 - *Technical discussions to continue on stabilisation function (e.g. on unemployment reinsurance funds)*
- **Debate might gain traction when discussing simplification of fiscal rules? Or next crisis? ...**

Thank you