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**COMMISSION STAFF WORKING DOCUMENT**  
**EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT**

*Accompanying the document*

**Proposal for a Regulation of the European Parliament and of the Council  
on the establishment of a European Investment Stabilisation Function**

{COM(2018) 387 final} - {SEC(2018) 277 final} - {SWD(2018) 297 final}

## Executive Summary Sheet

Impact assessment on the Commission proposal for a Regulation of the European Parliament and of the Council on the establishment of a "European Investment Stabilisation Function".

### A. Need for action

#### Why? What is the problem being addressed?

The problem to be addressed by this initiative, in summary, is the insufficient ability of available instruments to absorb large macroeconomic shocks in the euro area. In modern economies, fiscal and monetary policies are the main means for managing business cycles. The euro area is however confronted with a particular set-up: monetary policy can only focus on aggregate fluctuations of the zone, while fiscal policy is 'decentralised' and in principle can respond to country-specific shocks. This arrangement appears viable for normal times but it is confronted with critical problems whenever large economic disruptions arise. This has especially been illustrated by developments in the economic and financial and the euro crisis, which has evidenced strong limits to the functioning of national automatic stabilisers for coping with asymmetric shocks, even sometimes in Member States with sound fiscal credentials. This has resulted in a pro-cyclical pattern for fiscal policies, which has also been detrimental to the quality of public finances and in particular public investments.

#### What is this initiative expected to achieve?

The initiative is expected to support euro area Member States to respond better to rapidly changing economic circumstances and stabilise their economy in the event of large asymmetric shocks. More specifically, it should contribute to a reduced amplitude and asymmetries of business cycle fluctuations across Member States. It should back a conduct of fiscal policies that is more counter-cyclical, or at least reduce the risks of pro-cyclicality. It should contribute to smoother public investment trajectories and economic cohesion. It should add to the prevention of full-fledged financial market crises. At the same time, it should preserve cross-country neutrality.

#### What is the value added of action at the EU level?

In line with the subsidiarity principle, a stabilisation function would in severe circumstances act as a complementary tool. In a currency union, there are several lines of defence against disruptive shocks. Integrated, European markets are indispensable to absorb economic shocks efficiently across Member States. National governments play a key role in the stabilisation of the European economy against shocks. Among existing common European instruments, the ECB is at the forefront of regular macroeconomic stabilisation. Even with all these elements in place, national fiscal policies risk being overwhelmed calling for support at the European level. In the presence of large shocks, fiscal (automatic) stabilisers may become insufficient to ensure proper stabilisation. The euro area therefore needs a fiscal instrument to help coping with large shocks.

### B. Solutions

#### What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?

The impact assessment examined three policy options for a stabilisation function, besides option 1, the status quo: Option 2 corresponds to the Commission proposal, namely a European Investment Stabilisation Function, which would provide loans together with limited grants to Member States affected by large shocks in order to maintain public investment activity. Option 3 is an insurance mechanism. Regular contributions, in particular in normal and good economic times, or an own resource would be accumulated in a fund. When a Member State is affected by a large shock, it would benefit from support in form of pay-outs/grants. A limited borrowing capacity would likely be needed to ensure credible and continuous operation. Option 4 is a dedicated euro area budget. A common budget would not primarily target economic stabilisation, but rather the provision of European public goods. Still, reliance on cyclical revenues and countercyclical spending, possibly enhanced discretionary elements, would contribute to macroeconomic stabilisation at the EU level.

A European Investment Stabilisation Function (option 2) is the preferred option at this stage. It would contribute to the cohesion objective by offering financing support in the event of a large asymmetric shock. This will provide a strong incentive to protect key public investments and thereby preserve essential growth-enhancing expenditures at an appropriate level. The macroeconomic stabilisation impact in this option is limited by the fact that support takes the form of a loan. At the same time, option 2 also appears more politically feasible, at least in the near future, since risks of permanent transfers and moral hazard are fairly limited. Overall, given these considerations option 2 is in the current circumstances the preferred option.

**Who supports which option?**

There is a lively debate on the need and form of a possible stabilisation function. Some Member States positively support further fiscal integration as a crucial component of EMU deepening. The case for ambitious fiscal integration, in the form of a euro area budget that would notably provide stabilisation, has been made by the French President. The national ministries of economy or finance from Italy and Spain have issued papers lining out proposals for specific funds providing macroeconomic stabilisation. However, doubts have also been raised in other constituencies on the value added and risks from a common stabilisation instrument. The Prime Minister of the Netherlands has been explicitly sceptical in a recent speech. Some Member States appear open to further discussions without necessarily being supportive. The coalition agreement underpinning the current German government mentions a future investment budget for the euro area that could also provide stabilisation.

**C. Impacts of the preferred option**

**What are the benefits of the preferred option (if any, otherwise main ones)?**

A European Investment Stabilisation Function (option 2) would contribute to the cohesion objective by offering financing support in the event of a large asymmetric shock affecting a Member State. This support would target the benefit of public investments in priority sectors and be subject to a trigger and eligibility conditions. It would facilitate the execution of a counter-cyclical fiscal policy, by allowing fiscal stabilisers to play. In practice, it allows maintaining adequate spending levels, including in investment, even though tax revenues decline due the erosion of tax bases. The powerfulness of the scheme would depend on its precise design and parametrisation. The macroeconomic stabilisation impact in this option is limited by the fact that support takes the form of a loan.

The scheme would foster outcomes in sharp contrast to the past crisis where public investment was often sizeably cut and many Member States had to revert to pro-cyclical fiscal policies in the wake of market pressure. The European Investment Stabilisation Function (option 2) would contribute to more counter-cyclical national fiscal policies and more stable investment. This would ultimately add to reduced amplitude and asymmetries of business cycle fluctuations and contribute to the prevention of full-fledged financial market crises. *In fine*, it would contribute to the integrity of the Union.

**What are the costs of the preferred option (if any, otherwise main ones)?**

No negative economic, social and environmental costs are expected.

**How will businesses, SMEs and micro-enterprises be affected?**

The proposed “European Investment Stabilisation Function” would contribute to more stable public investment activity and to a more stable macroeconomic environment, ultimately fostering a higher macroeconomic growth path. As such, this would also benefit micro-enterprises and SMEs. However, it is not expected to have a direct impact on individual firms, which could be measured in a microeconomic setting/model.

**Will there be significant impacts on national budgets and administrations?**

The provision of back-to-back loans by the EU budget entails the need for guarantees from the EU budget and ultimately from Member States. While this adds to the provisioning requirements for Member States, the cost of such provisioning is very low. Similarly, the cost of the envisaged interest subsidy would be limited in

macroeconomic terms.

**Will there be other significant impacts?**

No, no further significant impacts are expected.

**D. Follow up**

**When will the policy be reviewed?**

An evaluation of the mechanism in its entirety would be conducted after a certain number of years (possibly 3-5 years). Such a delay appears sufficient to allow for a review of the first cases of activation and their impact. However, given the unknown and by definition random occurrence of large shocks it is not excluded that the sample of activation might be limited by that time.