Informal ECOFIN, September 7-8 2018

MFF 2021-2027: Deepening EMU – b) Strengthening Structural Reforms and Macroeconomic Stabilisation

PRESIDENCY ISSUES NOTE

I. Introduction

On 28 June, the European Council invited the European Parliament and the Council to examine the proposals of the European Commission on the Multiannual Financial Framework (MFF) for the period 2021-2027 in a comprehensive manner as soon as possible. MFF topics with direct relevance for the Ecofin Ministers are InvestEU, the Reform Support Programme and the Investment Stabilisation Function.

In June at Meseberg, France and Germany presented a roadmap for the euro area, which included an outline of instruments to promote competitiveness, convergence and stabilization in the euro area.

II. Reform Support Programme

As a lesson of the last economic and financial crisis, achieving more convergence towards resilient economic structures is important. Shortcomings in administrative capacity, institutional quality and framework conditions are often key obstacles to economic, social and territorial progress. Despite progress achieved through the European Semester Process, the regular dialogue in the Eurogroup and other incentives to promote Structural Reforms in the Member States, including the flexibility instrument of the Stability and Growth Pact, the pace of reform implementation has slowed down.

The proposal for the Reform Support Programme envisages an overall budget of EUR 25bn to offer financial and technical support for priority reforms at national level. It consists of three instruments:

- A **Reform Delivery Tool** (of up to EUR 22bn) that will provide financial support across all Member States for key reforms identified in the context of the European Semester.

- A **Convergence Facility** (of up to EUR 2.16bn) to provide dedicated support (both technical and financial) to Member States seeking to adopt the euro. This support does not interfere with the criteria in place for accession to the euro area but will facilitate practical preparation and convergence, based on a specific process of commitment and partnership.

- Tailor-made **technical support** to Member States (of up to EUR 840 million), upon their request, for the design and implementation of reforms. This builds on the experience of the Structural Reform Support Service which was recently enlarged under the Austrian Presidency to EUR 222.8 million for the period 2017-2020.

III. Establishment of a European Investment Stabilisation Function

During past recessions, public investment was often cut in the Member States, with a negative macroeconomic impact in the short and medium term. To preserve investment over the cycle, and support potential growth, Member States and the euro area need to create room for national stabilisers to work but also to complement them with a European stabilisation capacity to mitigate the effects of large shocks. So far, the EU-budget has a limited counter-cyclical effect on the expenditure side and this effect is not provided automatically (indicator-based). Under the conditions set out in the Financial Regulation, the EU is now empowered to borrow and lend in order to provide financial assistance. The Commission proposes to also be empowered to extend back-to-back loans (within the limits of the margin in the EU budget) to preserve public investment in countries hit by an extraordinary (asymmetric) macroeconomic shock. However, several other proposals for a central stabilisation function have been made or are in the making. For both, the Commission and these other proposals, some political guidance is still needed.

IV. Issues for discussion

1) **Do you agree that additional instruments in the EU budget should be developed to promote the design and implementation of structural reforms in the Member States?**

2) **Do you agree that structural reforms, if supported by strong EU incentives, would be implemented with more emphasis?**

3) **Do you agree that macroeconomic stabilisation should be strengthened at the central level? How could a central stabilisation function complement the national capacity to invest?**

4) **Do you agree that central macroeconomic stabilisation is more pressing for countries, which do not have any more national monetary policy and/ or gave up their exchange rate flexibility?**