Temporary support to mitigate unemployment risks in an emergency (SURE)

The coronavirus pandemic (COVID-19) is having a major negative impact on employment. As part of the EU's response to the crisis, the European Commission has proposed the creation of SURE, a temporary instrument to complement national efforts to protect employees and the self-employed from the risk of unemployment and loss of income. Under the scheme, the EU would be able to provide financial support worth up to €100 billion to 'short-time work' schemes and other national measures that have this objective. The Eurogroup has welcomed the proposal, which the Council should now fine-tune and adopt rapidly. While the instrument is linked to the EU budget through a guarantee scheme, Parliament is not involved in the legislative procedure due to the legal basis.

Background

The coronavirus pandemic is a public health crisis that, although at different paces, is having severe socio-economic repercussions across the world, including in the European Union (EU) and its Member States. The pandemic is predicted to have a far worse impact on employment than the 2008-2009 financial crisis. The United Nations International Labour Organization (ILO) estimates that, in the second quarter of 2020, Europe will lose 7.8 % of its total working hours, equivalent to 12 million full-time workers (-6.7 % or -195 million full-time workers globally). Various analysts rapidly pointed to the need for coordinated and bold policy responses to mitigate the impact of the crisis on citizens, societies and economies. In its March 2020 communication on a coordinated economic response to the COVID-19 outbreak, the European Commission included a section on measures to alleviate the employment impact on workers and sectors, noting the effectiveness of 'short-time work' (STW) schemes in this respect and the EU's readiness to support, where possible, Member States in meeting this objective. Under public STW schemes, found in different forms in many Member States, firms experiencing difficulties can temporarily reduce the number of hours worked by employees (either partially or to zero), but pay them for the hours not worked thanks to support from public sources. Such schemes, therefore, play a stabilisation function and provide support to both workers and firms, sustaining households' incomes and avoiding large numbers of dismissals. As for the self-employed, similar measures may provide income replacement in an emergency.

European Commission proposal

On 2 April 2020, the European Commission put forward a proposal for the creation of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE).

Objective and scope

The SURE instrument aims to make available financial support, in the form of loans granted on favourable terms, to Member States that need to mobilise significant resources to alleviate the socio-economic impact of the pandemic through STW schemes or similar measures. Total loans could amount to up to €100 billion. The instrument, which would be temporary and tailored to the response to the pandemic, will be available to all EU Member States as a second line of defence to finance measures that help protect jobs. It would complement national measures as well as other support that the EU provides in this policy area through grants under the European Social Fund. The United Kingdom will not participate in SURE during the transition period, given the provisions of Article 143(1) of its withdrawal agreement from the EU.

Financing and prudential rules

SURE does not require any upfront cash contributions from Member States. To back the lending scheme, Member States would commit irrevocable and callable guarantees worth €25 billion to the EU budget, with each guarantee calculated on the basis of their respective share of EU gross national income (GNI). Such a system should ensure a high credit rating, enabling the European Commission to contract borrowings on the financial markets at favourable conditions, with the purpose of on-lending them to the Member State

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requesting financial assistance. Further to providing credit enhancement, the guarantees would protect the resources of the EU budget, for which they would constitute external assigned revenue according to Article 21(5) of the EU's Financial Regulation. In addition, the proposal includes prudential rules to manage the risks related to the loan portfolio, such as the provision that, taken together, the three Member States receiving the largest loans cannot get financial assistance worth more than €60 billion.

Functioning

If a Member State experiences a sudden severe increase in actual and planned public expenditure for the preservation of employment because of its response to the COVID-19 pandemic, it can request financial assistance under the SURE instrument to cover part of this additional expenditure. Relevant expenditure concerns the extension or creation of STW schemes or similar measures designed to protect workers from the risk of unemployment and loss of income. Importantly, it includes relevant measures for self-employed people. After receiving the request, the European Commission consults the Member State to assess the increase in expenditure and define the terms of the loan. On this basis, the Commission submits a proposal for a decision to provide financial assistance, on which the Council decides by adopting an implementing act. A loan agreement between the beneficiary Member State and the Commission details the characteristics of the loan, including all the elements listed in Article 220(5) of the EU's Financial Regulation. According to the CEPS think-tank, the SURE instrument has the potential to provide substantial relief to national systems, although a number of features (duration and cost of the loans as well as the overall size of the instrument) may partially reduce its impact.

Legal basis

The legal basis proposed by the Commission is Article 122(1) and (2) of the Treaty on the Functioning of the European Union (TFEU). The Council may adopt, by qualified majority, measures to provide Union financial assistance to Member States faced with severe difficulties caused by exceptional occurrences beyond their control. The European Parliament is not involved in this legislative procedure. Article 122(2) TFEU underpins the lending component of SURE. In the past, it was used to establish the European Financial Stabilisation Mechanism (EFSM), the temporary tool through which the EU provided Ireland and Portugal with financial assistance conditional on the implementation of reforms between 2011 and 2014 (and bridge-finance to Greece in 2015). Unlike the EFSM Regulation, the SURE proposal is also based on Article 122(1) TFEU (the Council 'may decide, in a spirit of solidarity between Member States, upon the measures appropriate to the economic situation…') as far as the guarantee scheme is concerned. Once the requirements for the activation of SURE are met, the text limits the conditions linked to financial assistance to the provision that beneficiary Member States must use it in support of national STW schemes or similar measures.

Eurogroup and Council

On 9 April 2020, the Eurogroup welcomed the proposal for the SURE instrument as part of a package of three measures worth €540 billion to fight the consequences of the pandemic. Mário Centeno, President of the Eurogroup, stressed the magnitude of the response to the pandemic that monetary and fiscal authorities and regulators have put in place so far: 'Nearly 3 % GDP of fiscal measures, enhanced flexibility, additional liquidity schemes of 16 % of GDP.' Ministers agreed on the need to establish SURE as a temporary loan-based instrument for financial assistance, and committed to making it operational as soon as possible, noting that the legislative process should advance without delay. They confirmed the size of the instrument that could channel up to €100 billion, adding that it should build on the EU budget as much as possible, while ensuring sufficient capacity for Balance of Payments (BoP) assistance, and on Member States' guarantees to the EU budget. The Council is now expected to fine-tune and adopt the legislative text.

SURE is a temporary instrument specifically designed for the COVID-19 pandemic. The Commission stresses that this in no way precludes the establishment of a future permanent European unemployment reinsurance scheme under a different legal basis. Recently revived in Commission President Ursula von der Leyen's political guidelines, this long-debated idea could increase the resilience of economic and monetary Union (EMU) against economic shocks. Parliament has repeatedly insisted on strengthening the social dimension of EMU. Following the proclamation of the European Pillar of Social Rights, the possible creation of a permanent unemployment reinsurance scheme could be a further step in that direction.