Council of the European Union

PRESS

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BACKGROUND[1]
Brussels, 8 July 2016

ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Tuesday 12 July in Brussels

*The Council is expected to adopt decisions that **Portugal and Spain** have not taken effective action in response to its recommendations on measures to correct their excessive deficits.*

*It is expected to adopt **country-specific recommendations** on the member states' economic, employment and fiscal policies, thus ending the 2016 "European Semester" cycle.*

*The Council is expected to adopt a directive to tackle **corporate tax avoidance**, following an agreement reached on 21 June.*

*It will discuss new proposals to prevent **money laundering** and to boost **tax transparency**.*

*The agenda also includes the **Slovak presidency** work programme, removing barriers to **investment**, Basel Committee **banking reforms** and preparation of a **G20** meeting.*

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*The **Eurogroup** will meet on Monday11 July, starting at 15.00. It will discuss the economic and financial situation, the euro area's fiscal stance, the outcome of post-programme surveillance missions to Ireland and Portugal, and the budgetary situation in Portugal and Spain. It will also hold a thematic discussion on investment.*

On Tuesday at 8.00, the presidency, the two next presidencies and the Commission will hold an informal meeting with representatives of the European Parliament. They will discuss the EU's banking union, legislative dossiers including on capital markets union, next steps as concerns economic and monetary union, and issues related to the United Kingdom referendum on EU membership.

At 9.30, ministers will then hold a breakfast meeting to discuss the economic situation.

The Council meeting is scheduled to start at 10.30.

*A taxation agreement with **Monaco** is due to be signed after the Council, scheduled for 14.30.*

Press conferences:

- after the Eurogroup meeting *(Monday evening)*;
- at the end of the Council *(Tuesday afternoon).*

Eurogroup agenda highlights

Press conferences and public events by video streaming

Video coverage in broadcast quality and photo gallery

1 This note has been drawn up under the responsibility of the press office.

Money laundering

The Commission will present a proposal to strengthen EU rules aimed at preventing money laundering and terrorist financing.

The Council will hold an exchange of views.

The proposal addresses new means of terrorist financing such as prepaid cards and virtual currencies, and sets out to improve cooperation between the member states' financial intelligence units. It provides for full public access to beneficial ownership registers, so as to improve transparency about who really owns companies and trusts, and connecting the registers between member states.

The proposed directive is a central element of the EU's response to recent terrorist attacks in Europe, as well as the April 2016 Panama Papers revelations. For many member states it is a priority dossier.

It is part of a Commission action plan to clamp down on terrorist financing, on which the Council adopted conclusions on 12 February 2016. Actions proposed under the February plan, whilst geared primarily against terrorist financing, will also strengthen the EU's framework against money laundering.

Following the Panama Papers revelations, finance ministers discussed money laundering and terrorist financing on 22 April 2016 at an informal meeting in Amsterdam. They agreed that revision of the directive should go beyond amendments already announced.

A previous revision of the EU's money laundering rules (regulation and directive) was adopted in May 2015, and will apply from 26 June 2017.

- July 2015 proposal on the prevention of money laundering and terrorist financing
- Factsheet on the February 2016 action plan on the prevention of terrorist financing
- February 2016 Commission action plan for strengthening the fight against terrorist financing
- February 2016 Council conclusions on the fight against the financing of terrorism

Presidency work programme

The Slovak presidency will present a work programme on economic and financial affairs for the duration of its term, which runs from July to December 2016.

The Council may hold an exchange of views.

The presidency intends to pay particular attention to completing the EU's economic and monetary union (EMU), combating tax fraud and tax evasion and increasing tax transparency.

It will organise a debate on long-term measures to strengthen the fiscal pillar of EMU. It will strive to strengthen the potential of the European Fund for Strategic Investments, launched under the Commission's 2014 "Investment plan for Europe". Discussions will continue on the measures necessary to create a capital markets union, to complete the EU's banking union and to simplify the Stability and Growth Pact, the EU's fiscal rulebook. Concerning terrorist financing and tax evasion, the presidency will strive for progress in the search for common European solutions. It will also seek an agreement with the European Parliament on the EU's general budget for 2017.

- 2016 Slovak presidency work programme for economic and financial affairs (10064/16)

Corporate tax avoidance

The Council is expected to adopt, without discussion, a directive to tackle corporate tax avoidance.

Agreement on the directive was reached on 21 June 2016, following discussion by the Council on 17 June.

The directive is part of the Commission's January 2016 package of anti-tax-avoidance proposals. It addresses some of the practices most commonly used by large companies to reduce their tax liability.

It also implements and builds on the OECD's autumn 2015 recommendations to address corporate tax base erosion and profit shifting (BEPS).

The directive addresses situations where corporate groups take advantage of disparities between national tax systems to reduce their overall tax liability. It lays down anti-tax-avoidance rules in six specific fields.

Adoption of the directive requires unanimity for adoption by the Council, after consulting the European Parliament. (Legal basis: article 115 of the Treaty on the Functioning of the European Union.)

- July 2016 draft directive addressing corporate tax avoidance practices
- Press release on June 2016 Council agreement on corporate tax avoidance
- Anti tax avoidance proposals by the European Commission

Tax transparency

The Commission will present a communication on further measures to enhance tax transparency and prevent tax abuse.

The Council may hold an exchange of views.

The communication, issued on 5 July 2016, provides an overview of possible action at EU level as a result of the April 2016 Panama Papers revelations.

Tax evasion and tax avoidance deprive public budgets of billions of euros in revenues each year, distort competition between businesses and erode fairness in tax systems. SMEs, which are the main source of employment in Europe, end up paying proportionately more taxes than larger companies that can afford to engage in aggressive tax planning. Tax avoidance can also increase the tax burden on labour, as governments compensate for the lost revenue by increasing taxes elsewhere.

The Commission recommends a coordinated approach to tackling tax abuse, at both EU and international levels. Initiatives have already resulted in a number of achievements, which should improve the tax environment for citizens and businesses in Europe.

Further action envisaged by the Commission includes:

- harnessing the link between measures to prevent money laundering and tax transparency rules;
- improving information exchange on beneficial ownership, so as to increase transparency about who owns companies and trusts;
- increased oversight of enablers and promoters of aggressive tax planning;
- promoting good tax governance standards worldwide;
- improving the protection of whistle-blowers.

The communication is accompanied by a proposal for a directive that would enable access for tax administrations to information on beneficial ownership.

- July 2016 Commission communication on measures to enhance tax transparency
- July 2016 proposal for a directive to enable access to information on beneficial ownership

Implementation of banking union

The Commission will provide a brief update on implementation of the EU's banking union, as part of a review made regularly at Council meetings since mid-2015.

The banking union is aimed at placing Europe's banking industry on a sounder footing, whilst ensuring that non-viable banks are resolved without recourse to taxpayers' money. Launched in 2012 to address the bank-sovereign nexus in the EU, it is part of a longer-term plan for financial integration. Involving a transfer of responsibility from the national to the EU level, it currently comprises the 19 countries of the euro area. Seven other member states have also indicated their intention to join.

The banking union currently consists of two main initiatives, the single supervisory mechanism (SSM) and the single resolution mechanism (SRM). These are based on a regulatory framework, the "single rulebook", which applies to all 28 member states.

On 1 January 2016, the SRM became operational and the single resolution fund (SRF), a component of the SRM, entered into force.

As of 1 July 2016:

– 20 member states, including all 19 current members of the banking union, had ratified an intergovernmental agreement (IGA) on the SRF;

– the transfer to the SRF of contributions raised in 2015 under a directive on bank recovery and resolution was almost complete;

– 11 of the 19 banking union member states had signed a loan facility agreement on bridge financing for the SRF.

As concerns the single rulebook, on 1 July 2016:

– 25 of the 28 member states had fully transposed the directive on bank recovery and resolution, whilst the three others had partially transposed it;

– 26 of the 28 member states had fully transposed a directive on deposit guarantee schemes (DGSs), and the two others had partially transposed it.

- Banking union

Banking reform - Basel committee

The Council will discuss the finalisation of work on post-crisis banking reform undertaken by the Basel committee on banking supervision.

The Council will be called on to adopt conclusions:

- supporting the Basel committee and its ambitious timeline for completing the work (end of 2016);
- emphasising the importance of careful design and calibration, based on a thorough impact assessment that takes into account geographical differences and differences in business models;
- noting that the reform would not be expected to result in a significant increase in the overall capital requirements for the European banking sector.

The Basel committee is a forum of supervisory authorities aimed at enhancing cooperation and improving bank supervision worldwide. It prepares guidelines intended to foster convergence towards common approaches and standards.

Established in 1975, it currently has 28 members, including the EU and some of its member states. Its secretariat is based in Basel.

Excessive deficit procedure - Portugal and Spain

The Council is expected to adopt decisions noting that Portugal and Spain have not taken effective action in response to its recommendations on measures to correct their excessive deficits.

The two countries' deficits remain above 3% of GDP, the EU's reference value for government deficits.

The Council's decisions will trigger sanctions under the excessive deficit procedure. Regulation 1173/2011, adopted in 2011, strengthened the sanctions regime provided for by the EU's fiscal rules, introducing sanctions for eurozone countries at an earlier stage in the procedure.

In accordance with the 2012 fiscal compact, the decisions require a "reverse" qualified majority for adoption by the Council:

- this signifies that they will be adopted if a qualified majority of member states are not opposed;
- only eurozone countries vote, though the member states concerned do not vote on the decision that relates to them.

The legal basis for the decisions is article 126(8) of the Treaty on the Functioning of the European Union.

Regulation 1173/2011 requires the Commission, within 20 days of the Council's decision, to recommend a further Council decision imposing a fine amounting to 0.2% of GDP. The member states concerned can submit reasoned requests for a reduction of the fine within 10 days. The second decision is deemed to be adopted unless the Council decides by qualified majority to reject it within 10 days.

Portugal

Portugal has been subject to an excessive deficit procedure since December 2009, when the Council issued a recommendation calling for its deficit to be corrected by 2013.

In April 2011 however, after several months of market pressure on its sovereign bonds, Portugal requested assistance from international lenders. It obtained a €78 billion package of loans from the EU, the euro area and the IMF. In October 2012, the Council extended the deadline for correcting Portugal's deficit by one year to 2014, in the light of the recession that the country faced.

Economic prospects deteriorated further, and Portugal's general government deficit reached 6.4% of GDP in 2012. In June 2013, the Council extended the deadline for correcting the deficit by another year, to 2015. It set headline deficit targets of 5.5% of GDP in 2013, 4.0% of GDP in 2014 and 2.5% of GDP in 2015, consistent with 0.6%, 1.4% and 0.5% of GDP improvements in the structural balance respectively.

Portugal exited its economic adjustment programme in June 2014.

However its general government deficit came out at 4.4% of GDP in 2015, and the deadline for correcting the deficit was missed. The overshoot was largely due to a financial sector support measure (resolution of Banif), though the deficit net of one-off measures would in any case have been above 3% of GDP. The cumulative improvement in Portugal's structural balance in the 2013-15 period is estimated by the Commission at 1.1% of GDP, significantly below the 2.5% recommended by the Council. When adjusted in the light of revised potential output growth and revenue windfalls or shortfalls, it is even slightly negative.

Overall, since June 2014 the improvement in Portugal's headline deficit has been driven by economic recovery and reduced interest expenditure in a low-interest-rate environment. The country's general government gross debt has broadly stabilised. It amounted to 129.2% of GDP at the end of 2013, 130.2% of GDP in 2014 and 129.0% of GDP in 2015, according to the Commission's spring 2016 economic forecast.

The Commission proposes that the Council conclude that Portugal 's response to its June 2013 recommendation has been insufficient. Portugal didn't correct its deficit by 2015 as required, and its fiscal effort falls significantly short of what was recommended by the Council.

Spain

Spain has been subject to an excessive deficit procedure since April 2009, when the Council issued a recommendation calling for its deficit to be corrected by 2012.

In December 2009 however, the Council extended the deadline to 2013. The Commission forecast that Spain's 2009 deficit would reach 11,2 % of GDP, five percentage points more than its previous estimate.

In July 2012, the Council extended the deadline for a further year to 2014 on account of renewed adverse economic circumstances. The Commission projected that Spain's general government deficit would reach 6.3% of GDP in 2012, compared to the 5.3% previously expected.

Also in July 2012, the euro area member states agreed to provide up to €100 billion of loans for the recapitalisation of Spain's financial services industry.

In June 2013, the Council found that Spain fulfilled the conditions for extending the deadline for correcting its deficit by a further two years, setting a new deadline of 2016. It set headline deficit targets of 6.5% of GDP for 2013, 5.8% of GDP for 2014, 4.2% of GDP for 2015 and 2.8% of GDP for 2016, consistent with 1.1%, 0.8%, 0.8% and 1.2% of GDP improvements in the structural balance respectively.

Spain exited the financial assistance programme for the recapitalisation of its financial institutions in January 2014. It had used close to €38.9 billion for bank recapitalisation, plus around €2.5 billion for capitalising the country's asset management company.

Spain's general government deficit amounted to 5.9% of GDP in 2014 and 5.1% of GDP in 2015. above the intermediate targets set by the Council. A relaxation of fiscal policy in 2015 had a large impact on the fiscal outcome. The cumulative improvement in the structural balance over the 2013-15 period amounted to 0.6% of GDP, significantly below the 2.7% recommended by the Council. When adjusted in the light of revised potential output growth and revenue windfalls or shortfalls, it is even lower.

Over the 2013-15 period, low or even negative inflation made achievement of the fiscal targets more difficult, but this was largely offset by higher-than-expected real GDP growth. A low interest rate environment has also helped Spain reduce its deficit. The Commission's 2016 spring economic forecast projects a general government deficit of 3.9% of GDP in 2016 and 3.1% of GDP in 2017. Spain is therefore not set to correct its deficit in 2016 as required. The debt-to-GDP ratio declined from 99.3% in 2014 to 99.2% in 2015, thanks to sales of financial assets. According to the Commission's 2016 spring forecast, the debt ratio is expected to rise to 100.3% in 2016 and decline thereafter.

The Commission proposes that the Council conclude that Spain 's response to its June 2013 recommendation has been insufficient. Spain didn't reach the intermediate target set for its headline deficit in 2015 and is not forecast to correct its deficit by 2016 as required. Its fiscal effort falls significantly short of what was recommended by the Council, and it even relaxed its fiscal stance in 2015.

- Press release on March 2012 signing of the fiscal compact
- Regulation 1173/2011 on the effective enforcement of eurozone budgetary surveillance

Country-specific policy recommendations

The Council is due to adopt recommendations to 27 member states[2] on their economic, employment and fiscal policies.

The draft recommendations assess the economic and employment policies set out in the member states' national reform programmes. They include draft opinions on the fiscal policies set out in their stability/convergence programmes.

Adoption of the texts will conclude the 2016 "European Semester", following endorsement by the European Council on 29 June. The Council approved the economic and fiscal policy parts on 17 June. The employment policy parts were approved by the Employment, Social Policy, Health and Consumer Affairs Council on 16 June.

In March, the European Council endorsed the following priorities:

- relaunching investment;
- pursuing structural reforms to modernise European economies;
- conducting responsible fiscal policies.

The European Semester is an annual process that involves simultaneous monitoring of the member states' economic, employment and fiscal policies.

In the light of policy guidance given by the European Council annually in March, the member states present each year in April:

- national reform programmes for their economic and employment policies. These include a macroeconomic scenario for the medium term, national targets for implementing the "Europe 2020" strategy for jobs and growth, identification of the main obstacles to growth, and measures for growth-enhancing initiatives in the short term;
- stability or convergence programmes for their fiscal policies. Eurozone countries present stability programmes, whereas non-euro member states present convergence programmes. The programmes set out medium-term budgetary objectives, the main assumptions about expected economic developments, a description of fiscal and economic policy measures, and an analysis of how changes in assumptions will affect fiscal and debt positions.

The Council then adopts country-specific recommendations. It provides explanations in cases where the recommendations do not comply with those proposed by the Commission.

The recommendations and opinions require a qualified majority for adoption by the Council. (Legal basis: articles 121(2) and 148(4) of the Treaty on the Functioning of the EU.)

In March 2016, the Council adopted a specific recommendation on the economic policies of the euro area. It did so at an earlier stage than in previous years, in order to take greater account of eurozone issues when approving the country-specific recommendations.

The draft recommendations can be found in the following documents:

Austria; Belgium; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Hungary; Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; Netherlands; Poland; Portugal; Romania; Slovakia; Slovenia; Spain; Sweden; United Kingdom.

[2] All except Greece, which is subject to a macroeconomic adjustment programme.

Barriers to investment

The Council will take stock of work on removing barriers to investment.

The chairman of the Economic and Financial Committee (EFC) will report on thematic discussions held on the subject so far.

Since September 2015, the Economic Policy Committee has held six thematic discussions aimed at identifying key bottlenecks and the way forward. The EFC has further identified three areas where steps could be taken at national level, which would have an important impact. These are insolvency frameworks, access to funding and cross-border synergies, particularly in network industries.

Removing investment barriers is the third of the three main strands of the Commission's 2014 "investment plan for Europe": The other two involve:

- mobilisation of at least €315 billion in new investments between 2015 and 2017 under the European Fund for Strategic Investments;
- ensuring that new investment generated under the EFSI meets the needs of the real economy. This involves a European Investment Advisory Hub to provide technical assistance to governments and project promoters, and a European Investment Project Portal to help investors identify projects.

Progress on improving the investment environment has been more elusive than on the other two strands. There has so far been little follow-up to the thematic discussions, as the member states are responsible for deciding what to do with the information gathered. The Commission has therefore identified possible means for improving the situation, namely:

- an enhanced monitoring of structural reforms and technical assistance;
- better assessment of the impact of reforms, including through the use of benchmarking;
- the role of EU funds and conditionality in the use of those funds;
- use of the flexibility that exists under the Stability and Growth Pact, the EU's fiscal rulebook.

The Council will discuss the instruments identified, how they could be used and how synergies between these instruments could be exploited.

The EPC's discussions covered the six following themes:

- public investment in transport infrastructure;
- insolvency frameworks;
- best practicies with public-private partnerships;
- investment in network industries;
- price regulations and environmentally harmful subsidies in the energy market;
- residential investment in energy efficiency and renewable energies.

  - Communication "Taking stock of the Investment plan for Europe and next steps"

G20 meeting in Chengdu

The Council will endorse terms of reference for a meeting of G20 finance ministers and central bank governors in Chengdu on 23 and 24 July 2016.

The presidency will participate on behalf of the EU, together with the Commission and the European Central Bank.

The 2016 G20 summit is scheduled to take place in Hangzhou on 4 and 5 September.

Economic and monetary union – Convergence reports

The Commission and the European Central Bank will report on the fulfilment of economic and monetary union (EMU) convergence criteria by the 7 non-eurozone member states that have an EMU derogation.

The Council may hold an exchange of views.

Nineteen of the EU's 28 member states currently use the euro as their currency. Of the 9 that do not, 7 have an EMU derogation, which implies that they have not yet fulfilled the conditions for adopting the euro. Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania and Sweden all fall into this category, whilst Denmark and the United Kingdom are not required to adopt the euro.

None of the 7 member states examined meet all of the conditions for introducing the euro.

Article 140 of the Treaty on the Functioning of the European Union requires the Commission and the ECB to issue convergence reports at least once every two years.

The reports assess:

- the fulfilment of EMU obligations, including the compatibility of national legislation and central bank statutes with treaty provisions and with the statutes of the European System of Central Banks;
- the fulfilment of convergence criteria as regards price stability, the sustainability of public finances, exchange rates and long-term levels of interest rates.

They also take account of market integration, each country's balance of payments, as well as unit labour costs and other price indices.

2016 convergence report by the Commission
2016 convergence report by the ECB

Other items

Under "other business", the Council will be updated as concerns work on legislative proposals on financial services;

Without discussion, it is expected to approve:

- a directive to tackle corporate **tax avoidance** (see separate item above);
- the signing of an agreement with **Monaco** aimed at improving tax compliance by private savers. The signing ceremony is scheduled for 14.30, after the Council.

  - July 2016 secretariat note on progress on financial services legislative dossiers