Council of the European Union

PRESS
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BACKGROUND[1]
Brussels, 14 June 2016

ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Friday 17 June in Luxembourg

The Council will be called on to agree on a draft directive to tackle ***corporate tax avoidance****, addressing some of the practices most commonly used by large companies to reduce their tax liability. It will also discuss whether a reversal of liability for VAT payments ("reverse charge mechanism") could be more widely used to tackle* ***VAT fraud****.*

The Council will be called on to approve a 'roadmap' on strengthening the EU's ***banking union****. And it will be updated on implementation of existing banking union texts.*

The Council is due to approve draft ***country-specific recommendations*** *on the member states' economic and fiscal policies, under the 2016 "European Semester". And it is expected to close* ***excessive deficit procedures*** *for Cyprus, Ireland and Slovenia.*

It is expected to approve draft ***prospectus*** *rules for the trading of securities, a draft regulation on* ***money market funds*** *and an agreed one-year delay to new* ***securities markets*** *rules.*

It will also discuss strengthening the EU's ***economic and monetary union****.*

Terrorist financing *and the EIB's role in actions related to* ***migration*** *are also on the agenda, as well as the* ***European fund for strategic investments*** *and a proposed* ***financial transaction tax****.*

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Proceedings will begin on Thursday 16 June at 13.00 with the annual meeting of the board of governors of the ***European Stability Mechanism****.*

The ***Eurogroup*** *will also meet on Thursday, starting at 15.00. It will discuss the IMF's annual recommendations to the euro area, inflation and exchange rate developments and the sustainability of pension systems.*

On Friday at 9.00, ministers will hold a breakfast meeting to discuss the economic situation. The Council meeting is scheduled to start at 10.00.

Press conferences:

- after the Eurogroup meeting *(Thursday evening)*;
- at the end of the Council *(Friday 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.

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Corporate tax avoidance

The Council will be called on to agree on a draft directive addressing some of the practices most commonly used by large companies to reduce their tax liability.

The draft directive is part of the Commission's January 2016 package of proposals aimed at preventing tax avoidance by large companies. It also implements and builds on the OECD's autumn 2015 recommendations to address corporate tax base erosion and profit shifting (BEPS).

The OECD's anti-BEPS action plan was endorsed at a G20 summit in Antalya in November 2015, and by the Council in conclusions adopted the following month.

The draft directive was discussed by the Council on 25 May 2016. After lengthy discussions, it was decided to postpone an agreement to the present meeting.

The proposal addresses situations where corporate groups take advantage of disparities between national tax systems to reduce their overall tax liability. Corporate taxpayers may benefit from low tax rates or double tax deductions. Or they can ensure that categories of income remain untaxed by making it deductible in one jurisdiction whilst in the other it is not included in the tax base. The outcome distorts business decisions and risks creating unfair tax competition.

The draft directive covers all taxpayers that are subject to corporate tax in a member state, including subsidiaries of companies based in third countries. It lays down anti-tax-avoidance rules in six specific fields:

- Interest limitation rule. Multinationals may finance group entities in high-tax jurisdictions through debt and shift profits to subsidiaries resident in low-tax jurisdictions. The outcome is a reduced tax liability for the group as a whole. The draft directive sets out to discourage this practice by limiting the amount of interest that the taxpayer is entitled to deduct in a tax year.
- Exit taxation. Corporate taxpayers may try to reduce their tax bill by moving their tax residence and/or assets to a low-tax jurisdiction. Exit taxation prevents tax base erosion in the state of origin when assets that incorporate unrealised underlying gains are transferred, without a change of ownership, out of the taxing jurisdiction of that state.
- Switchover clause. Given the inherent difficulties in granting relief for taxes paid abroad, states tend increasingly to exempt foreign income from taxation. The unintended effect of this is that it may encourage untaxed or low-taxed income to enter the EU market and circulate. Switchover clauses are commonly used against such practices. The corporate taxpayer is subjected to taxation (instead of being exempt) and given a credit for tax paid abroad.
- General anti-abuse rule. This rule is intended to cover gaps that may exist in a country's specific anti-abuse rules. Corporate tax planning schemes can be very elaborate and tax legislation doesn't usually evolve fast enough to include all the necessary defences. A general anti-abuse rule therefore enables tax authorities to deny taxpayers the benefit of abusive tax arrangements.
- Controlled foreign company (CFC) rule. In order to reduce their overall tax liability, corporate groups can shift large amounts of profits towards controlled subsidiaries in low-tax jurisdictions. A common scheme consists of first transferring ownership of intangible assets such as intellectual property to the CFC and then shifting royalty payments. CFC rules reattribute the income of a low-taxed controlled foreign subsidiary to its – usually more highly taxed – parent company.
- Hybrid mismatches. Corporate taxpayers may take advantage of disparities between national tax systems in order to reduce their overall tax liability. Such mismatches often lead to double deductions (i.e. tax deductions in both countries) or a deduction of the income in one country without its inclusion in the other.

The presidency is aiming for agreement to be reached on a legally-binding minimum standard for all six of these anti-BEPS provisions. A timetable was supported by most member states at the Council's meeting on 12 February 2016.

The directive will ensure that the OECD anti-BEPS measures are implemented in a coordinated manner in the EU, including by 7 member states that are not OECD members. Furthermore, pending a revised proposal from the Commission for a common consolidated corporate tax base (CCCTB), it takes account of discussions since 2011 on an existing CCCTB proposal within the Council.

Three of the 6 areas covered by the directive implement OECD recommendations, namely the interest limitation rules, the CFC rules and the rules on hybrid mismatches. The three others, i.e. the general anti-abuse rule, the exit taxation rules and the switchover clause, are complementary BEPS-related measures.

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.)

As concerns the rest of the January 2016 anti-tax-avoidance package, the presidency has set an ambitious timetable. On 25 May, the Council approved:

- a directive on the exchange of tax-related information on multinational companies;
- conclusions on the third country aspects of tax transparency.

The anti-tax-avoidance package follows on from a number of EU initiatives in 2015. These include a directive, adopted in December 2015, on cross-border tax rulings.

In December 2014, the European Council cited "an urgent need to advance efforts in the fight against tax avoidance and aggressive tax planning, both at the global and EU levels".

- June 2016 draft directive on corporate tax avoidance
- June 2016 report to Council on the draft directive on corporate tax avoidance
- Anti tax avoidance proposals by the European Commission
- May 2016 conclusions on an external taxation strategy and tax treaty abuse
- Press release on May 2016 directive on tax-related information on multinationals
- December 2015 Council conclusions on corporate tax base erosion and profit shifting
- Press release on December 2015 adoption of the directive on cross-border tax rulings

Capital markets union - Prospectus rules

The Council is expected to confirm – without discussion – an agreement on proposed new rules on prospectuses for the admission to trading and the offering of securities to the public.

On 8 June 2016, the Permanent Representatives Committee (Coreper) agreed a negotiating stance, enabling talks to start with the European Parliament. The aim is to adopt the regulation at first reading.

The draft regulation is aimed at reducing one of the main regulatory hurdles that companies face when issuing equity and debt securities. It sets out to simplify administrative obligations in a manner that still ensures that investors are well informed.

A reform of prospectus rules is amongst measures announced by the Commission under its 2014 "investment plan for Europe" with the aim of improving the business environment.

And it is a second major building block of the EU's 2015 plan to develop a capital markets union. In December 2015, the Council reached a similar agreement on proposals to facilitate the development of a securitisation market in Europe. The capital markets union is due to be fully functioning by the end of 2019. The aim is to strengthen the role of market-based finance, alongside bank finance, in the EU economy.

The regulation requires a qualified majority for adoption by the Council, in agreement with the European Parliament. (Legal basis: article 114 of the Treaty on the Functioning of the European Union.)

- Press release on June 2016 Coreper agreement on prospectus rules

Money market funds

The Council is expected to confirm – without discussion – an agreement on a draft regulation on money market funds, aimed at making them sufficiently robust to resist financial shocks.

On 15 June 2016, the Permanent Representatives Committee (Coreper) agreed a negotiating stance, enabling talks to start with the European Parliament.

Money market funds (MMFs) are an important source of short-term financing for mainly financial institutions, but also for governments and the corporate sector. With assets under management of around €1 trillion, they are mainly used to invest excess cash within short timeframes.

The draft regulation is intended to ensure the smooth operation of the short-term funding market, maintaining the essential role that MMFs play in the financing of the economy.

It lays down rules on the operation of MMFs, in particular the composition of their portfolios and the valuation of their assets. It sets out to ensure that when market conditions are stressed, MMFs can face massive and sudden redemption requests. The text harmonises prudential requirements, imposing obligations on MMFs and their managers throughout the EU.

The regulation requires a qualified majority for adoption by the Council, in agreement with the European Parliament. (Legal basis: article 114 of the Treaty on the Functioning of the European Union.) The Parliament's ECON committee approved its negotiating stance in March 2015.

- Press release on June 2016 Coreper agreement on money market funds

Markets in financial instruments

The Council is expected to adopt – without discussion – a regulation and a directive enacting a one-year delay to new securities market rules.

The one-year postponement of transposition and application deadlines has become necessary because essential data infrastructures will not be in place on time. It will affect the provision of services for investments in financial instruments and the operation of regulated financial markets.

The postponement was agreed with the European Parliament on 2 May 2016.

A recent revision of rules on financial instruments set out to promote the integration, competitiveness, and efficiency of EU financial markets. The Council adopted these in May 2014, amending and replacing an existing "MIFID" text that regulates markets in financial instruments.

The rules consist of two legislative instruments:

- regulation 600/2014 ("MIFIR"), aimed at improving transparency and competition of trading activities by limiting the use of waivers[2] on disclosure requirements and by providing for non-discriminatory access to trading venues and central counterparties (CCPs) for all financial instruments, and requiring derivatives to be traded on organised venues;
- directive 2014/65/EU ("MIFID II"), amending rules on the authorisation and organisational requirements for providers of investment services and on investor protection. The directive also introduces a new type of trading venue, the organised trading facility (OTF). Standardised derivatives contracts are increasingly traded on these platforms, which are currently not regulated.

[2] By setting an overall EU cap and a cap per trading venue for the so-called reference price waiver and negotiated transaction waiver.

Under the draft regulation and directive:

- the deadline for the member states to transpose MIFID II into national legislation is set for 3 July 2017;
- the date of application of both MIFID II and MIFIR is set for 3 January 2018.

The draft regulation and directive also include amendments as concerns trading on own accounts, package transactions, alignment with the EU directive on securities financing transactions and the date of application of certain provisions of a regulation on market abuse.

Both MIFID II and MIFIR were to become applicable 30 months after entry into force, i.e. as of 3 January 2017, with member states having to transpose MIFID II by 3 July 2016. However, due to technical implementing challenges faced by the European Securities and Markets Authority and by national competent authorities, essential data infrastructures will not be in place by 3 January 2017.

- June 2016 draft directive amending MIFID II as regards certain dates
- June 2016 draft regulation amending MIFIR and other regulations as regards certain dates
- Press release on May 2014 rules on markets in financial instruments

Financial transaction tax

The Council will take note of work on a proposal aimed at introducing a financial transaction tax (FTT) in 10 member states.

It will hold an exchange of views.

At the current stage, no agreement is within reach on most of the essential elements of the proposal. Further work will be required.

The 10 participants – Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain – envisage introducing an FTT in the framework of "enhanced cooperation".

The tax would be aimed at:

- ensuring that the financial sector pays its fair share of tax;
- discouraging transactions that do not enhance the efficiency of financial markets.

The proposed directive would enable harmonised implementation of the tax in the participating member states.

Enhanced cooperation for an FTT was authorised in January 2013 by Council decision 2013/52/EU after a September 2011 proposal for an EU-wide FTT had failed to obtain unanimous support. It was initially authorised for 11 member states.

The proposed directive defines how the FTT would be implemented in the participating member states. Tabled in February 2013, it mirrors the scope and objectives of the Commission's initial proposal for an EU-wide FTT. It involves a minimum 0.1% tax rate for transactions in all types of financial instruments, except for derivatives that would be subject to a minimum 0.01% tax rate.

In May 2014, the participants agreed to work on a progressive implementation of the FTT, focusing initially on the taxation of shares and some derivatives. This would enable the economic impact of the tax to be assessed before broadening its scope. However a December 2014 deadline for finalising that work was missed.

In December 2015, the participants agreed a statement identifying the main features of the FTT and setting a June 2016 deadline for deciding on open issues. The statement was agreed by 10 of the 11 participating member states; on 16 March 2016, Estonia completed the formalities for leaving the enhanced cooperation.

Discussions continued during the first half of 2016 and the Council working group met once. Those discussions focused on:

- the taxation principles to be applied for the FTT and its territorial scope;
- exemption from the FTT of market making activities;
- the scope of transactions in derivatives contracts to be subject to the FTT.

The directive requires unanimous agreement of the participating countries, after consulting the European Parliament. All member states can participate in discussions on the proposal, though only participating countries can take part in the vote. (Legal basis: article 113 and articles 326 to 334 of the Treaty on the Functioning of the European Union.)

At least 9 member states are needed to conduct enhanced cooperation.

- June 2016 presidency note on the state of play on the FTT
- Proposal for a Council directive on enhanced cooperation on FTT
- Press release on Council decision to authorise enhanced cooperation on FTT

Strengthening of banking union

The presidency will provide an update concerning work on strengthening the EU's banking union. And the Council will be called on to adopt conclusions, including a 'roadmap' for further work.

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 in response to the sovereign debt crisis, it is part of a longer-term plan for economic and fiscal integration. The banking union involves the transfer of responsibility from the national to the EU level. It currently comprises the 19 countries of the euro area, whilst 7 other member states have indicated their intention to join.

An ad hoc Council working group was established in January 2016 to examine all issues related to the strengthening of the banking union, including:

- a proposal aimed at establishing a European deposit insurance scheme (EDIS);
- measures outlined by the Commission in a November 2015 communication on completion of the banking union.

European deposit insurance scheme

The proposal sets out to establish an EU-level insurance scheme to reinforce the protection of bank deposits in the member states.

Deposit guarantee schemes (DGSs) provide protection to depositors against the risk of losses arising from the failure of a bank or other deposit institution. Whereas the current set-up of national DGSs remains vulnerable to local shocks, the Commission considers that a common deposit insurance would boost resilience against future crises.

The EDIS would constitute the third pillar of Europe's banking union, alongside the single supervisory mechanism (SSM) and single resolution mechanism (SRM). It would be mandatory for eurozone countries, whereas participation would be voluntary for other member states participating in the banking union. Under the Commission's proposal, the EDIS would apply to all banks, though risk weighting would result in riskier banks contributing more.

It would be established in three stages:

- a reinsurance scheme for national DGSs during an initial period of three years;
- a co-insurance scheme for national DGSs during a subsequent period of four years;
- a full insurance for national DGSs once the scheme has reached a steady state.

A national DGS would benefit from the European deposit insurance scheme if its funds are built up in line with a precise funding path. The EU's single resolution board, established under the SRM, would be expanded to administer the EDIS.

The proposed regulation requires a qualified majority for adoption by the Council, in agreement with the European Parliament. (Legal basis: article 114 of the Treaty on the Functioning of the European Union.)

Completion of the banking union

The Commission's communication places the proposal on EDIS in the broader context of completing the banking union, examining additional measures for risk sharing and risk reduction.

Whilst important components of the banking union are already operational, the Commission considers the overall construction to be incomplete.

A common deposit insurance scheme is one of the missing elements, in the Commission's view. Additionally, the Commission calls on member states to continue work under the SRM, including to develop a common backstop for the single resolution fund.

A common feature of such measures is that they weaken the link between banks and their respective national sovereigns. This link was a contributing factor to the sovereign debt crisis. The Commission considers that to break the bank-sovereign link, risk sharing must be accompanied by measures to reduce risk.

- Proposal for a regulation on a European deposit insurance scheme
- Commission communication on completion of the banking union
- Banking union

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. It currently comprises the 19 countries of the euro area, whilst 7 other member states have 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 10 June 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;

– 9 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 10 June 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;

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

- Banking union

Terrorist financing

The Commission will report on implementation of various initiatives set out in its February 2016 action plan to prevent the financing of terrorism.

The Council may hold an exchange of views.

The action plan is intended as a strong and swift response to the challenges exposed by recent terrorist attacks in Europe. It builds on existing EU rules and practices, adapting them to new threats and in line with international standards.

The plan complements the Commission's "European agenda on security", published in April 2015, and other recent measures. These include a December 2015 proposal for a directive on terrorism, which provides for criminal sanctions for terrorist financing.

In November and December 2015, the European Council, the Justice and Home Affairs Council and the Economic and Financial Affairs Council all highlighted the need for rapid further action to address terrorist financing. Work is proceeding meanwhile at the UN and in a number of other international bodies.

The Commission's action plan consists of two main strands of action:

– tracing and preventing the movement of terrorist funds;

– disrupting the sources of terrorist funding.

A timetable for action was included in annex to the plan.

In conclusions adopted on 12 February 2016, the Council asked the Commission to report every six months on progress in implementation of the plan, and for the first time in June.

- 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

VAT fraud - Reverse charge mechanism

The Council will discuss the possibility of allowing certain member states to apply a generalised reversal of liability for VAT payments as a means of preventing VAT fraud.

The aim is to determine whether the so-called reverse charge mechanism (RCM) could be more widely used to prevent fraud in domestic transactions at national level. The Commission will present an analysis of the possible application of a generalised RCM in Austria and the Czech Republic.

Use of the RCM normally requires a temporary derogation under VAT rules. A generalised RCM however would require a change to VAT rules, and would differ from previous uses of the RCM, which have been confined to specific high-risk sectors.

Weaknesses in the current VAT system leave member states vulnerable to fraud, sometimes with serious consequences for national exchequers. This is particularly the case with cross-border transactions.

The so-called VAT gap – the difference between expected VAT revenue and VAT collected by the member states – was almost €170 billion in 2013, according to the Commission. Cross-border fraud is estimated to account for €50 billion of that figure.

Fraud schemes evolve rapidly, giving rise to situations that require a rapid response. A common example is "missing trader" or "carrousel" fraud, where supplies are rapidly traded several times without payment of VAT. Moreover VAT fraud doesn't affect all member states to the same extent.

In July 2013, the Council adopted measures to facilitate rapid reaction by the member states. One enables immediate measures to be taken in cases of sudden and massive VAT fraud. The other allows the member states to apply the RCM on a temporary basis within a pre-determined list of sectors, by derogation from VAT rules.

With the reverse charge mechanism, liability for the payment of VAT in the business chain is shifted from the supplier (as normally required by EU rules) to the customer. The supplier that supplies to the final customer is liable for all of the VAT. Some policymakers see the RCM as an efficient method for preventing fraud, particularly "missing trader" fraud, and call for its generalised use. Others fear that a fragmentation of the single market could result, as well as increased compliance costs for businesses.

In a joint letter to the Commission in April 2016, Austria and the Czech Republic reiterated a request to be authorised to apply a generalised RCM for supplies above €10 000.

In an action plan for VAT issued a few days earlier, the Commission announced that it would carry out an assessment of such requests. If a generalised RCM were to be applied by means of a temporary derogation in one or two member states, the EU's VAT rules would need to be amended.

This would require a unanimous decision of the Council.

The Council discussed the issue on 25 May, when it adopted conclusions on the VAT action plan. It emphasised that VAT derogations should not disproportionately hamper the proper functioning of the EU's single market, whilst acknowledging that the information obtained could be useful for deciding on the most efficient way of fighting VAT fraud.

- Press release on 2013 Council measures to tackle VAT fraud schemes
- VAT action plan, "Towards a single EU VAT area"
- May 2016 Council conclusions on the VAT action plan and VAT fraud

Excessive deficit procedure - Cyprus, Ireland and Slovenia

The Council is expected to close excessive deficit procedures for Cyprus, Ireland and Slovenia.

It will thereby confirm that they have reduced their deficits below 3% of GDP, the EU's reference value for government deficits.

The Council will take the decisions under article 126(12) of the Treaty on the Functioning of the European Union. The texts abrogate decisions it took under article 126(6) of the treaty, in April 2009, December 2009 and July 2010 respectively, on the existence of excessive deficits in Ireland, Slovenia and Cyprus.

As a consequence, only 6 of the EU's 28 member states will remain subject to the excessive deficit procedure (Croatia, France, Greece, Portugal, Spain and the United Kingdom), continuing an improvement observed since 2011. A peak was reached during a 12-month period in 2010 and 2011 when procedures were open for 24 member states.

Cyprus

Cyprus has been subject to the excessive deficit procedure since July 2010, when the Council issued a recommendation calling for its deficit to be corrected by 2012.

In May 2012, the Commission identified macroeconomic imbalances that required urgent action, as the country's banking industry threatened the sustainability of the economy. In June 2012, Cyprus requested financial assistance from international lenders.

In March 2013, an agreement was reached on a three-year economic adjustment programme and on assistance from the European Stability Mechanism and the IMF. A memorandum of understanding was signed the following month.

In view of the worse-than-expected economic downturn in Cyprus, the Council in May 2013 extended the deadline for correcting the deficit to 2016. It set headline deficit targets of 6.5 % of GDP for 2013, 8.4 % of GDP for 2014, 6.3 % of GDP for 2015 and 2.9 % of GDP for 2016.

In 2015, Cyprus's general government deficit amounted to 1.0% of GDP, dropping below the 3% of GDP reference value one year ahead of the deadline set by the Council. In March 2016, Cyprus exited its economic adjustment programme.

The Commission's 2016 spring forecast projects headline balances of -0.4% of GDP in 2016 and 0% of GDP in 2017 under a scenario of unchanged policies. The deficit is thus set to remain below the 3% of GDP reference value over the forecast horizon.

Cyprus's general government gross debt-to-GDP ratio increased to 108.9% in 2015 from 102.5% in 2013 on account of public support granted to the financial sector and contraction of nominal GDP. The Commission's 2016 spring forecast projects the debt to remain stable in 2016 and to decrease to 105.4% of GDP in 2017, mainly due to a nominal increase in GPD.

The Council is expected to conclude that Cyprus's deficit has been corrected.

Ireland

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

In response to a worsening of economic conditions, the Council in December 2009 extended the deadline to 2014. However, Ireland's economic situation weakened further, as substantial measures had to be introduced to support its banking sector. In November 2010, Ireland requested financial assistance from international lenders.

Agreement was reached in November 2010 on an economic adjustment programme, which included an overhaul of the country's banking system. Assistance from the European Financial Stabilisation Mechanism, the European Financial Stability Facility and the IMF was agreed, whilst bilateral lenders also contributed.

In December 2010, the Council extended the deadline for correcting Ireland's deficit a second time, to 2015.

Since 2009, when its deficit peaked at around 11.5% of GDP (excluding one-off measures to support its financial sector), Ireland's general government balance has steadily improved. In December 2013, Ireland exited its economic adjustment programme. The deficit dropped to 3.8% of GDP in 2014 and to 2.3% of GDP in 2015 (1.3% of GDP if a one-off transaction is excluded).

The Commission's 2016 spring forecast projects deficits of 1.1% of GDP in 2016 and 0.6% of GDP in 2017 under a no-policy-change scenario. The deficit is thus set to remain below the 3% of GDP reference value over the forecast horizon.

Ireland's general government gross debt-to-GDP ratio has fallen steadily, having peaked at 120% in 2013. It fell to 93.8% of GDP in 2015 from 107.5% of GDP in 2014, due to a surge in nominal GDP and the sale of state assets, and is projected to decline further to 89.1% of GDP in 2016. The debt ratio is forecast to continue decreasing to 86.6% of GDP in 2017, also due to favourable cyclical conditions, historically low interest rates and primary budget surpluses.

The Council is expected to conclude that Ireland's deficit has been corrected.

Slovenia

Slovenia 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 June 2013 however, in the light of unexpected adverse economic conditions, the Council extended the deadline to 2015. It set headline deficit targets of 4.9% of GDP in 2013, 3.3% of GDP in 2014 and 2.5% of GDP in 2015.

After peaking at 15.0% of GDP in 2013, Slovenia's general government deficit was reduced to 5.0% of GDP in 2014 and 2.9% of GDP in 2015. The Commission's 2016 spring forecast projects deficits of 2.4% of GDP in 2016 and 2.1% of GDP in 2017. Thus, the deficit is set to remain below the 3% of GDP reference value over the forecast horizon.

Slovenia's general government gross debt-to-GDP ratio increased to 83.2% of GDP in 2015, from 71% of GDP in 2013, on account of stock-flow adjustments and one-off expenditures. The Commission's 2016 spring forecast projects the gross government debt to have peaked in 2015 and to decrease to 78% of GDP in 2017, due to a reduction in cash buffers.

The Council is expected to conclude that Slovenia's deficit has been corrected.

Economic and fiscal policies - Country-specific recommendations

The Council is due to approve, under the 2016 "European Semester", draft recommendations to 27 member states[3] on their economic and fiscal policies.

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

The texts will be forwarded to the General Affairs Council on 24 June, and to the European Council for endorsement at its meeting on 28 and 29 June 2016. Similar preparations will be made by the Employment, Social Policy, Health and Consumer Affairs Council on 16 and 17 June as concerns the member states' employment policies. The whole package is due to be adopted in July 2016.

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, which 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. 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 approves country-specific recommendations and opinions and, after endorsement by the European Council annually in June, these are adopted each year in July. The Council 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.)

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; The Netherlands; Poland; Portugal; Romania; Slovakia; Slovenia; Spain; Sweden; United Kingdom.

[3] All except Greece, which is subject to a macroeconomic adjustment programmes. To avoid duplication, there is no country-specific recommendation for Greece.

Economic and monetary union - "five presidents'" report

- **Economic and fiscal governance**
- **External representation of the euro**
- **National productivity boards**

With a view to the European Council meeting on 28 and 29 June 2016, the Council will discuss progress on initiatives regarding:

- EU economic and fiscal governance;
- the euro area's representation within international institutions.

The presidency will communicate the outcome of the discussion to the President of the European Council.

Furthermore, the Council is expected to endorse – without discussion – a draft recommendation on the establishment of productivity boards within the euro area.

The draft recommendation will be submitted to the European Council for its June meeting, and subsequently adopted by the Council.

Five presidents' report

These various elements all relate to the so-called five presidents’ report on the further development of the EU's economic and monetary union (EMU), which was submitted to the European Council in June 2015.

The report was prepared by the president of the Commission, in close cooperation with the presidents of the European Council, the Eurogroup, the European Central Bank and the European Parliament.

The economic and financial crisis exposed a situation where unsustainable policies in some member states can undermine the development of the euro area as a whole. It uncovered shortcomings in the EU's economic governance framework. In October 2014, the Euro Summit called for work on the development of stronger economic policy coordination. At the summit's request, the five presidents' report identifies next steps.

In October 2015 the Commission presented a package of measures to implement the five president's report. The Council held a first discussion in November 2015.

External representation of the euro

As concerns the euro area's external representation, views diverge on the Commission's proposal for a single eurozone seat in the IMF. Whilst many member states support moving towards a single seat, there are different views on the envisaged time horizon. Other member states, however, would prefer to preserve the status quo. And several non-euro member states have concerns about the implications of a single seat for the existing and well-functioning system of IMF constituencies.

Under the Commission's proposal, the president of the Eurogroup would represent the euro area within the IMF by 2025 at the latest. In the shorter term, the coordination process for establishing common positions would be strengthened. In the long run, the aim would be to establish one or several constituencies composed of only eurozone member states.

European fiscal board and the European Semester

The Commission will update the Council on the establishment of an independent advisory European fiscal board (EFB) as part of its plans for strengthening EU economic and fiscal governance.

The Commission has issued a call for candidates for the EFB, which will be composed of five experts. Established by a Commission decision, the EFB is expected to be operational in September 2016.

The Commission also made suggestions to improve the "European Semester" annual policy monitoring process and enable better use of the economic imbalances procedure. Some of these measures have already been implemented.

Other suggestions involve improved transparency and reducing complexity in the EU's fiscal rules, changes that would not involve amending legislation.

The Economic and Financial Committee will continue work on these issues during the second half of 2016.

National productivity boards

The draft recommendation on productivity boards calls on each member state to set up a national board responsible for:

- diagnosis and analysis of productivity and competitiveness developments;
- independent analysis of policy challenges in this field.

Addressed to the eurozone countries, it encourages other member states to set up similar bodies. The productivity boards would engage in dialogue and exchange best practices amongst themselves, and where appropriate produce joint analysis.

The boards would have functional autonomy vis-à-vis public authorities as concerns public communication, procedures for nominating board members and access to information. As a rule, their analyses would be made public.

The independent expertise provided by the boards, including through annual reports, would be used by the member states and the Commission in the context of the "European Semester" annual policy monitoring process.

- June 2016 draft recommendation on the establishment of national productivity boards
- Commission October 2015 press release on completing economic and monetary union
- Five presidents’ report on completing Europe's economic and monetary union

Investment plan for Europe - EIB action for refugees - Migration agenda

With a view to the European Council meeting on 28 and 29 June 2016, the Council will discuss:

- a Commission communication on implementation of its "investment plan for Europe";
- a European Investment Bank initiative to tackle the refugee crisis in Europe by building economic resilience in partner countries;
- the economic and financial aspects of a Commission communication on a new partnership framework with third countries under the EU's European agenda on migration.

The presidency will communicate the outcome of the discussion to the President of the European Council.

European fund for strategic investments

In its communication on the investment plan for Europe, the Commission assesses implementation of the European fund for strategic investments (EFSI). After a year of EFSI operations, it makes suggestions for improvement.

The investment plan for Europe consists of three strands:

- mobilisation of at least €315 billion in new investments between 2015 and 2017 under the EFSI;
- targeted initiatives to ensure this extra investment meets the needs of the real economy;
- measures to improve regulatory predictability and remove barriers to investment.

According to the Commission, the EFSI is now active in 26 member states and is expected to trigger €100 billion in investment with the approvals given so far. The fund has been particularly successful with loans to SMEs.

The Commission will present legislative proposals in autumn 2016 to extend the duration of the EFSI beyond the initial three-year period.

Migration initiatives

The EIB's so-called resilience initiative responds to a March 2016 request from the European Council for an initiative in favour of the EU's southern neighbourhood and the Western Balkan countries. The aim would be to rapidly mobilise additional financing in support of sustainable growth, infrastructure and social cohesion in these countries.

The resilience initiative, discussed by the EIB board of directors on 19 May 2016, would involve an amendment to the bank's lending provisions.

The Commission's initiative is set out in a communication on the new partnership framework under the agenda on migration. For the short run, the aim is a more coordinated, systematic and structured approach with partner countries. In the longer run, the Commission proposes to establish an 'external investment plan', involving the creation of a new fund outside the EU budget. The Commission claims it can make available €3.1 billion from existing sources. For additional financing, it calls on member states and other donors to match EU contributions so that a leverage effect can be created.

The fund would be used to invest in economic and social infrastructure and the private sector, including micro enterprises and SMEs. It would start its activities in Africa and in the EU's southern and eastern neighbourhood, offering credit enhancement, risk sharing, investment grants and technical assistance.

The Commission will present a proposal in autumn 2016 to create the fund.

- Communication "Taking stock of the Investment plan for Europe and next steps
- EIB press release on humanitarian efforts for refugees by building economic resilience
- Communication on a new partnership framework under the European agenda on migration

Other items

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

Without discussion, the Council is expected to approve:

- conclusions and a six-monthly report on implementation of a code of conduct aimed at eliminating situations of **harmful tax competition**;
- a draft regulation on **prospectuses** for the trading of securities (see separate item above);
- a draft regulation on **money market funds** (see separate item above);

- a regulation enacting a one-year delay to new rules related to markets in **financial instruments** (see separate item above);
- a recommendation on the establishment of national **productivity boards** within the euro area (see under "Economic and monetary union - five presidents' report" above);
- conclusions on a Court of Auditors report on the **excessive deficit procedure**;
- a six-monthly report to the European Council on **tax issues**.
  - June 2016 report of the code of conduct group on business taxation
  - June 2016 draft conclusions on the code of conduct on business taxation
  - June 2016 secretariat note on progress on financial services legislative dossiers