Council of the European Union

PRESS

EN

BACKGROUND[1]

Brussels, 13 January 2016

ECONOMIC and FINANCIAL AFFAIRS COUNCIL

Friday 15 January in Brussels

The Council is due to adopt conclusions on the Commission's **annual growth survey** and on **macroeconomic imbalances** in the member states. It will approve a draft recommendation on the economic policies of the euro area.

The agenda also includes the **Netherlands presidency** work programme, implementation of **banking union** and the prevention of **VAT fraud**.

Under "other business", the Council may discuss **terrorist financing**.

~ ~ ~

On Thursday 14 January, the presidency troika and the Commission will hold an informal meeting with representatives of the European Parliament, starting at 10.30. Discussion will focus on shadow banking, banking union, capital markets union and bank structures.

The **Eurogroup** will meet on Thursday at 15.00. It will discuss implementation of Greece's economic adjustment programme, the latest review of Cyprus's programme, the latest IMF mission to the euro area and the draft recommendation on the economic policies of the euro area. It will also hold a thematic discussion on national insolvency frameworks.

On Friday 15 January 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 (MPEG4) and photo gallery

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

Press office - General Secretariat of the Council
Rue de la Loi 175 – B-1048 BRUSSELS – Tel.: +32 (0)2 281 6319
press.office@consilium.europa.eu - www.consilium.europa.eu/press

Presidency work programme

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

The Council will hold an exchange of views.

The presidency's priorities include:

– further strengthening of the EU's economic and monetary union;

– strengthening and streamlining the European Semester annual policy monitoring process;

– completion of the EU's banking union;

– the development of an EU capital markets union.

The work programme examines these, and describes a number of other issues that will require attention.

- 2016 Netherlands presidency work programme for economic and financial affairs
- 2016 Netherlands presidency work programme

Implementation of banking union

The Commission will provide a brief update on Europe's banking union, following entry into force of measures to ensure the orderly resolution of failing banks.

On 1 January 2016, the EU's single resolution mechanism (SRM) became operational and one of its key components – the single resolution fund (SRF) – entered into force. For banking union member states, the SRF replaced national resolution funds that were previously set up under common rules for all 28 member states.

Member states have however run up delays in implementing those common rules. The delays concern directives on bank recovery and resolution and on deposit guarantee schemes. Several times in 2015 the Council urged them to speed up the necessary measures. In October 2015, the Commission announced it would refer the Czech Republic, Luxembourg, the Netherlands, Poland, Romania and Sweden to the Court of Justice. The referrals relate to those countries' failure to transpose in a timely manner the bank recovery and resolution directive.

Nevertheless on 1 January 2016 an intergovernmental agreement (IGA) on the SRF entered into force as scheduled. The IGA contains provisions on the transfer of contributions to the SRF and the mutualisation of those contributions over an eight-year period. A sufficient number of member states had ratified the IGA by the agreed deadline of 30 November 2015.

As of 12 January 2016:

– 18 of the current 19 members of the banking union had deposited their instruments of ratification of the IGA. The 19th had ratified the IGA but not yet deposited its instrument of ratification, whist one other member state had also deposited its instrument of ratification;

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

– 24 of the 28 member states had fully transposed the bank recovery and resolution directive, and two others had partially transposed it;

– 21 of the 28 member states had fully transposed the directive on deposit guarantee schemes, and two others had partially transposed it.

The banking union currently comprises of the 19 countries of the euro area, whilst 7 other member states have also indicated their intention to join.

The two directives apply to all 28 member states.

The bank recovery and resolution directive identifies the powers and instruments at the disposal of national authorities to resolve failing banks. It sets out to preserve essential bank operations and minimise taxpayers' exposure to losses in the event of a bank being resolved.

The directive on deposit guarantee schemes (DGSs) sets requirements for supervision and for regular stress tests of DGSs. All banks are required to join a DGS so that deposits of up to €100 000 are protected.

- Press release on the adoption of the regulation establishing the SRM
- Press release on the signature of the intergovernmental agreement on the SRF
- Press release on SRF contributions and the appointment of members of the SRB
- Press release on the adoption of the bank recovery and resolution directive
- Press release on the Council's approval of the directive on deposit guarantee schemes

Economic governance - 2016 European Semester

The Council is due to:

– approve a draft recommendation on the economic policies of the euro area;

– adopt conclusions on key aspects of the "European Semester" annual policy monitoring process.

The conclusions relate to the Commission's annual growth survey and its "alert mechanism report", the starting point of the annual macroeconomic imbalances procedure,

The 2016 European Semester will conclude in July, with the adoption of country-specific recommendations.

Recommendation for the euro area

It is the first time that a draft recommendation for the euro area is approved at an early stage of the European Semester. The aim is to take greater account of eurozone issues when approving the country-specific recommendations later on.

The draft recommendation will be referred to the European Council in February, with a view to adoption on 8 March 2016. The Employment, Social Policy, Health and Consumer Affairs Council approved its position on the social and employment aspects on 7 December 2015.

The draft recommends, essentially:

– the pursuit of sound economic policies;

– implementation of labour, product and services market reforms;

– maintaining a broadly neutral fiscal stance in 2016 and reducing public debt in 2017;

– facilitating the gradual reduction of banks' non-performing loans and improving insolvency proceedings for businesses and households

– working towards completion of the EU's economic and monetary union.

The draft recommendation requires a qualified majority for approval by the Council. (Legal basis: article 121(2) of the Treaty on the Functioning of the EU.)

Annual growth survey

The annual growth survey suggests priority actions to be taken by member states to ensure better-coordinated and more effective policies for fostering sustainable economic growth.

The 2016 survey registers a moderate recovery for the EU economy. The pace of activity is expected to accelerate gradually. Unemployment has been falling, but remains at historically high levels. Temporary positive factors – such as low oil prices, a relatively weak euro and accommodative monetary policies – are benefiting the recovery. The first effects of reforms of recent years are being felt. At the same time, security concerns and geopolitical tensions have intensified and the global economic outlook is more challenging.

The Commission recommends that policies be directed at consolidating the recovery and fostering convergence. Member states should take advantage of the current economic tailwinds to implement ambitious reforms and pursue responsible fiscal policies.

For 2016, the Commission proposes to focus efforts on the three following priorities:

– relaunching investment;

– pursuing structural reforms to modernise member states' economies;

– responsible fiscal policies.

The Council is expected to broadly share the Commission's analysis and to agree on the broad priority policy areas outlined in the report.

Alert mechanism report

Macroeconomic imbalances risk hindering the smooth functioning of the European economy and the EU's monetary union. They were among the factors that contributed to the sovereign debt crisis in the euro area.

The macroeconomic imbalances procedure is used to prevent and correct such imbalances. Eurozone countries can be fined under the procedure if they repeatedly fail to comply with the Council's recommendations.

The Commission's report identifies the member states that may have an imbalance. For these, in-depth reviews will be undertaken.

To identify the imbalances, the Commission applied the following "scoreboard" of economic indicators:

– External imbalances and competitiveness: current account balance; net international investment position; real effective exchange rates; export market shares; nominal unit labour costs.

– Internal imbalances: house prices; private sector credit flow; private sector debt; general government sector debt; unemployment rate; total financial sector liabilities.

It additionally applied three new employment indicators: activity rate; long-term unemployment rate; youth unemployment rate.

The report calls for in-depth reviews of the situation in 18 member states: Austria, Belgium, Bulgaria, Croatia, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, the Netherlands, Portugal, Romania, Slovenia, Spain, Sweden and the United Kingdom.

These are the same as for the 2015 exercise, with two additions: for Austria and Estonia, in-depth reviews will be prepared for the first time. The list does not include Cyprus or Greece, as they are subject to macroeconomic adjustment programmes; they are therefore already under enhanced surveillance.

The Council is expected to broadly share the Commission's analysis. It is however expected to disagree with the addition of the three employment indicators to the scoreboard. The draft conclusions assert that social and labour market indicators are not relevant to the macroeconomic imbalances procedure.

The Commission is due to publish its in-depth reviews at the end of February 2016.

- draft 2016 Council recommendation on the economic policy of the euro area (5134/16)
- explanatory note on 2016 recommendation on the economic policy of the euro area
- draft Council conclusions on 2016 annual growth survey
- draft Council conclusions on 2016 alert mechanism report
- 2016 annual growth survey
- 2016 alert mechanism report

VAT fraud

The Council will discuss the prevention of VAT fraud by means of a reversal of liability for VAT payments ("reverse charge mechanism").

The aim is to determine whether the reverse charge mechanism could be more widely used at national level.

This item was added to the agenda at the request of the Czech Republic. The discussion will also contribute to work, later in 2016, on the future of the EU's VAT system.

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 problem can be assessed using the so-called VAT gap, which indicates the difference between total VAT tax liability and the amount of VAT actually collected. A significant part of the VAT gap is attributable to fraud. According to the Commission, 2015 figures showed an overall VAT gap in the EU of €168 billion. The overall VAT gap was evaluated at 15.2%.

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.

In July 2013, the Council adopted directives aimed at facilitating 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 temporarily the reverse charge mechanism.

With the reverse charge mechanism, liability for the payment of VAT is shifted from the supplier (as normally required by EU rules) to the customer. Some policymakers see the mechanism as an efficient method for preventing fraud, particularly "missing trader" fraud. The member states may currently apply it on a temporary basis within a pre-determined list of sectors, by derogation from general VAT rules.

In October 2015, the Commission refused a request from Austria, Bulgaria, the Czech Republic and Slovakia to be able to apply the reverse charge mechanism more widely. Such a measure could only be authorised by a unanimous decision of the Council, by means of a derogation under VAT rules. In the past, some member states rejected the idea of a generalised use of the reverse charge mechanism from the outset. Nor did they favour the launch of pilot projects that could lead to generalised use of the mechanism. They were concerned at a potential fragmentation of the single market should it be implemented in an non-harmonised manner. They also cited increased compliance costs for businesses. Their preference was for conventional anti-fraud measures, such as mutual assistance between administrations and joint and several liability for VAT payment.

The Czech Republic nevertheless calls for a derogation that would enable it to conduct a pilot project under conditions that the Commission was willing to allow in 2008 and 2009. This is before the rules on the reverse charge mechanism were amended in 2010 and 2013. If a simple majority of member states were favourable to the Czech request, the Council could request the Commission to make a proposal for a derogation.

The Commission is expected to issue a communication in March 2016 on the future of the VAT system. The Council could equally ask it to address the prevention of VAT fraud in that context.

- Press release on 2013 Council measures to tackle VAT fraud schemes

Other business

Under "other business", the Council will take note of on-going work on legislative proposals on financial services;

The Commission may present next steps in the preparation of strengthened measures to prevent the **financing of terrorism**.

Terrorist financing was discussed by the Council on 8 December at the request of France, following the terrorist attacks in Paris on 13 November 2015. In its conclusions of 17-18 December, the European Council committed to rapidly taking further action.