Council of the European Union

PRESS

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BACKGROUND[1]
Brussels, 8 May 2015

ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Tuesday 12 May in Brussels

*The **Eurogroup** will meet on Monday 11 May, starting at 15.00. It will discuss the economic situation, in the light of the Commission's spring economic forecast, and will continue discussion on the situation in Greece. It will be informed of the outcome of the third post-programme surveillance mission to Ireland (following exit from its macroeconomic adjustment programme), and will hold a thematic discussion on fiscal frameworks in the euro area member states.*

*On Tuesday, ministers will attend a breakfast meeting, starting at 9.00, to discuss the **economic situation**. They will also take stock of work on flexibility under the EU's **Stability and Growth Pact** and on financial assistance to **Romania**. The Council meeting is scheduled to start at 10.00.*

*The Council will discuss ongoing work on the proposed European fund for strategic investments, which is part of the Commission's action plan on **investment**.*

*It will discuss the Commission's in-depth reviews of **macroeconomic imbalances** in the member states, as well as implementation of **structural reforms**.*

*Other items on the agenda include projections for **age-related expenditure** in the member states, and the follow-up to a **G20 finance** meeting in Washington, D.C., last month.*

*At 13.00, ministers are scheduled to meet their counterparts from the **Western Balkans and Turkey** for an economic and financial dialogue over lunch. Joint conclusions have been prepared.*

Press conferences:

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

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.

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European fund for strategic investments

The Council will take stock of progress in negotiations with the European Parliament on a proposal for a regulation establishing a European fund for strategic investments (EFSI).

The Council on 10 March 2015 agreed its negotiating stance on the EFSI regulation. The presidency started negotiations with the Parliament on 23 April. A third trilogue meeting was held on 7 May. The aim is to finalise negotiations by the end of May, so as to adopt the regulation by the end of June. This would enable new investments to begin as early as mid-2015, as planned.

The EFSI will be established within the European Investment Bank by an agreement between the Commission and the EIB. The fund will support projects in a broad range of areas, including transport, energy and broadband infrastructure, education, health, research and risk finance for SMEs. It will target socially and economically viable projects without any sectoral or regional pre-allocation, in particular to address market failures. The EFSI will complement and be additional to ongoing EU programmes and traditional EIB activities.

The fund will be built on €16 billion in guarantees from the EU budget and €5 billion from the EIB. To facilitate the payment of potential guarantee calls, a guarantee fund will be established that will gradually reach €8 billion (i.e. 50% of total EU guarantee obligations) by 2020.

Under the approach agreed by the Council, as proposed by the Commission, EU funding would mostly come from redeploying grants from the Horizon 2020 programme (research and innovation) and the Connecting Europe facility (transport, energy and digital networks), as well as unused margins in the budget.

The EFSI will enhance risk-bearing capacity. By taking on part of the risk of new projects through a first-loss liability, it will enable private investors to join under more favourable conditions. Thereby the EFSI is estimated to reach an overall multiplier effect of 1:15 in real investment.

Third parties, including member states' national promotional banks, will be able to co-finance projects together with the EFSI, either on a project-by-project basis or through investment platforms.

A "European investment advisory hub" will be set up to provide advisory support for the identification, preparation and development of projects across the EU.

Under the approach agreed by the Council, the EFSI would have a two-tier governance structure:

– A steering board would set the overall strategy, investment policy and risk profile of the fund. It would adopt investment guidelines for the use of the EU guarantee to be implemented by the investment committee (see below). To ensure an impartial steering board and avoid political influence over the selection of projects, the board members would come from the Commission and the EIB only. Their numbers would reflect the institutions' size of contributions in the form of cash or guarantees. The steering board would take decisions by consensus.

– An independent investment committee would select projects to receive EFSI support. Accountable to the steering board, it would consist of eight independent experts and a managing director. It would take decisions by simple majority. Any project supported by the EFSI would require approval by the EIB.

The regulation requires a qualified majority for adoption by the Council, after consulting the European Parliament. (Legal basis: articles 172, 173, 175(3) and 182(1) of the Treaty on the Functioning of the EU.)

The EFSI is one of the core elements of the Commission's €315 billion "investment plan for Europe", published in November 2014.

Council negotiating stance on the EFSI regulation

Communication from the Commission on the investment plan

Note of 7 May 2015 on the state of play regarding the investment plan for Europe

Economic governance

- **Macroeconomic imbalances: In-depth reviews**
- **Implementation of structural reforms**

The Council will discuss in-depth reviews published by the Commission in March 2015 of macroeconomic imbalances in 16 member states.

It will discuss implementation of its 2014 country-specific recommendations on economic, employment and fiscal policies under the European Semester, the EU's policy monitoring process.

It is expected to adopt conclusions.

The in-depth reviews are part of an annual process, within the European Semester, aimed at rebalancing the EU economy and creating the conditions for sustainable economic growth. Their purpose is to determine whether a macroeconomic imbalance exists and whether it can be considered excessive.

The reviews cover Belgium, Bulgaria, Croatia, Finland, France, Germany, Hungary, Ireland, Italy, the Netherlands, Portugal, Romania, Slovenia, Spain, Sweden and the United Kingdom. Cyprus and Greece are not covered, as they are already under enhanced surveillance under their macroeconomic adjustment programmes.

National reform programmes and stability and convergence programmes for all member states will be assessed in June[2]. The 2015 European Semester will conclude in July, with the adoption of new country-specific recommendations.

The main findings of the reviews are as follows:

- Bulgaria, Croatia, France, Italy and Portugal are considered to be in a situation of excessive imbalance requiring decisive policy action and specific monitoring:
  - For Croatia and France, risks of imbalances have significantly increased. For France, this represents a stepping-up of the procedure compared to 2014. The Commission will consider in May, in the light of the two countries' national reform programmes, whether to recommend that excessive imbalance procedures be opened with recommendations on corrective action to be taken.
  - For Italy, imbalances remain excessive, requiring decisive policy action and specific monitoring of ongoing and planned reforms.
  - For Bulgaria and Portugal, the Commission will carry out specific monitoring of policies recommended by the Council.
- Ireland, Slovenia and Spain are considered to be in a situation of imbalance requiring decisive policy action, with specific monitoring:
  - For Ireland and Spain, monitoring will depend on post-programme surveillance (following their exit from financial support programmes).
  - For Slovenia, the Commission considers that a significant adjustment has taken place since the 2014 in-depth review. Although it concludes that imbalances are no longer excessive, it stresses that important risks are still present.
- Germany and Hungary are considered to be in a situation of imbalance requiring decisive policy action and monitoring.
  - For Germany, the Commission considers that there is no tangible improvement in the trends of imbalances identified in 2014 and that the policy response has been insufficient so far.
  - For Hungary, the Commission considers that there has been no tangible improvement.

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[2] National reform programmes set out economic policies, whereas stability and convergence programmes set out fiscal policies. Euro area countries present stability programmes, while non-eurozone member states present convergence programmes.

- Belgium, Finland, the Netherlands, Romania, Sweden and the United Kingdom are considered to be in a situation of imbalance requiring policy action and monitoring.

The Council is expected to underscore the need for policy action and strong commitment to structural reforms in all member states. This is particularly the case when facing macroeconomic imbalances, especially if they affect the smooth functioning of the euro area. The Council will call on the Commission to present well-focused and consistent recommendations to address these.

Reform implementation has been uneven across policy areas and between member states. The Council will therefore highlight the need for implementation to be stepped up to address the individual policy challenges confronting each member state.

Draft conclusions on 2015 in-depth reviews

Sustainability of public finances - 2015 ageing report

The Council is expected to endorse an update of age-related expenditure projections for the 28 member states (and for Norway) over the 2013-60 period. It is due to adopt conclusions.

The 2015 joint report from the Economic Policy Committee (EPC) and the Commission analyses public expenditures in pensions, health care, long-term care, education and unemployment benefits. Using demographic data from Eurostat, the EU's statistical office, the projections are based on commonly agreed methodologies and assumptions.

The draft conclusions highlight the need to minimise the negative impact on economic growth of expenditure developments related to ageing populations. The economic and financial crisis has put a significant burden on public finances, with rising deficits and debt levels. The Council is expected to advocate continued policy action, in particular reforms to pension and health systems and long-term care. It will highlight the need to avoid measures that result in the reversal of sustainability-enhancing reforms already undertaken.

More specifically, the Council is expected to highlight the need for member states, though to varying degrees, to take further steps to raise the effective retirement age. This should include avoiding early exit from the labour market and linking the retirement age or pension benefits to life expectancy.

The main findings of the report are as follows:

- Total age-related public spending is projected to increase by 1.4 percentage points of GDP in the EU over the period, reaching 27% in 2060. Projections feature large differences between member states.
- In all countries except Latvia, Portugal and Spain, age-related public spending is expected to rise less than projected in the previous ageing report, issued in 2012 (average 3.3 p.p. of GDP). This is mostly due to less pronounced increases in pension expenditure over the long term. It reflects the impact of pension reforms and less pronounced population ageing, according to the latest demographic projections. The largest downward revisions are in Denmark, Finland, France, Greece, Lithuania, Luxembourg and Romania.
- With more adverse macroeconomic assumptions, age-related public spending could increase by 2.1 p.p. over the period.
- Public pension expenditure is projected to increase until 2040, related in part to the post-war baby boom generation reaching retirement age. It is then projected by 2060 to return close to its 2013 level (11.3% of GDP for the EU). Diversity across member states is large, depending on the degree and timing of population ageing, the specific features of national pension systems and, in particular, progress with structural reforms. In most countries, recent pension reforms have had a positive impact by containing public expenditure dynamics. Pension reforms have also contributed to an increase in the effective retirement age and thus to labour input. The scale of reforms in some member states is however still insufficient to curb the increase in public pension expenditure.

- Public expenditure on health care and long-term care is projected to increase by 2 p.p. of GDP in the EU over the period, reaching 10.6% of GDP in 2060. This is mainly due to demographic developments, and there are considerable difference between member states. With possible developments in non-demographic cost drivers, the projected increase in care-related spending could even reach 4 p.p..

Follow-up to G20 meeting

The presidency and the Commission will report on the outcome of a G20 meeting of finance ministers and central bank governors held in Washington D.C. on 16-17 April 2015.

This second G20 finance meeting under Turkish presidency focused on global economic developments, G20 growth strategies, investment, IMF reform, financial sector reforms and international tax issues.

Other issues

The presidency will inform the Council of the follow-up to be given to an informal meeting of EU finance ministers and central bank governors held in Riga on 24 and 25 April 2015.

It will emphasise the following two issues:

- Growth potential of the EU: structural reforms;
- Capital markets union.

Under "other business", the Council will take stock of ongoing work on financial services dossiers.