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OUTCOME OF THE COUNCIL MEETING

3619th Council meeting

Economic and Financial Affairs

Brussels, 25 May 2018

President **Vladislav Goranov**
Minister for finance of Bulgaria

P R E S S

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ITEMS DEBATED

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- Documents for which references are given in the text are available on the Council's internet site (http://www.consilium.europa.eu).
- Acts adopted with statements for the Council minutes which may be released to the public are indicated by an asterisk; these statements are available on the Council's internet site or may be obtained from the Press Office.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

TRANSPARENCY

ITEMS DEBATED

BANKING – RISK REDUCTION MEASURES

The Council agreed its stance on a package of measures aimed at reducing risk in the banking industry.

Ministers asked the presidency to start negotiations with the European Parliament as soon as the Parliament is ready to negotiate.

Based on the progress achieved on risk reduction, they reiterated their commitment to making progress on all components – including on risk sharing – cited in the Council's 'roadmap' on banking union. Decisions to advance on the backstop to the EU's single resolution fund will be taken in June 2018.

The proposals on risk reduction are intended to implement reforms agreed at international level following the 2007-08 financial crisis. They include elements agreed by the Basel Committee on Banking Supervision and by the Financial Stability Board.

Strengthening existing EU rules, the aim is to ensure that any outstanding challenges to financial stability are correctly addressed.

The package comprises two regulations and two directives, relating to:

- bank capital requirements (amendments to regulation 575/2013 and directive 2013/36/EU);
- the recovery and resolution of banks in difficulty (amendments to directive 2014/59/EU and regulation 806/2014).

See press release.

VAT ADMINISTRATIVE COOPERATION

The Council discussed measures aimed at strengthening administrative cooperation in order to better prevent VAT fraud.

Despite progress made on the proposal, it was unable to reach an agreement at this stage.

The proposed regulation sets out to:

- improve the exchange and analysis of information shared by the member states' tax administrations and with law enforcement bodies;

- strengthen Eurofisc, a network of national tax officials for the exchange of information on VAT fraud;

It also introduces new instruments for cooperation that will allow, inter alia, for administrative enquiries to be carried out jointly.

Amending regulation 904/2010, the proposal is aimed at containing fraud in the short term, pending implementation of a definitive VAT system.

The Council needs unanimity to adopt the regulation, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.) The Parliament hasn't yet delivered its opinion.

VAT FRAUD – 'REVERSE CHARGE' MECHANISM

The Council discussed a proposal that would allow member states to apply temporarily a generalised reversal of VAT liability in order to better prevent VAT fraud.

It was unable to reach an agreement at this stage.

The so-called ‘reverse charge’ mechanism involves shifting liability for VAT payments from the supplier to the customer. The proposal was issued at the request of member states particularly affected by VAT fraud.

The directive would offer a short-term solution for containing fraud, pending implementation of a new VAT system under which supplies will be taxed in the country of destination. It would apply to all domestic supplies of goods and services above an invoice threshold of €10 000.

The Council needs unanimity to adopt the directive, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.) The Parliament hasn’t yet delivered its opinion.

VAT RATES FOR ELECTRONIC PUBLICATIONS

The Council discussed a proposal that would allow member states to apply reduced VAT rates to electronic publications.

It was unable to reach an agreement at this stage.

The proposed directive is aimed at aligning VAT rules for electronic and physical publications, thereby contributing to the EU's 'digital single market' plan.

It would apply temporarily, pending the introduction of a new, definitive VAT system.

The Council needs unanimity to adopt the directive, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.) The Parliament delivered its opinion on 1 June 2017.

ECONOMIC GOVERNANCE – 2018 EUROPEAN SEMESTER

The Council discussed:

– in-depth reviews of macroeconomic imbalances in 12 member states.

– implementation of its 2017 country-specific recommendations on economic and fiscal policies.

It adopted the following conclusions:

"The Council (ECOFIN):

1. WELCOMES the publication of the Commission's country reports analysing the economic policies for each Member State, including the in-depth reviews (IDRs) in the context of the Macroeconomic Imbalances Procedure (MIP), and monitoring progress with the implementation of the 2017 country specific recommendations (CSRs), as well as the accompanying Communication. WELCOMES the integrated analysis and STRESSES the need to keep the IDR analysis well identifiable, complete and transparent.

2. WILL take account of these elements, as well as the National Reform Programmes, the Stability and Convergence Programmes and the recommendation on the economic policy for the Euro area of May 2018, when adopting the 2018 Country Specific Recommendations.

IN-DEPTH REVIEWS

3. CONSIDERS that the IDRs present a thorough and high-quality analysis of the country position in each Member State under review, presenting the basis for multilateral surveillance, enhanced domestic ownership of reforms and effective policy action. RECOGNISES that relevant and improved analytical tools have been applied in view of the specific challenges of each economy and complemented by substantive qualitative analysis.

4. AGREES that 11 of the examined Member States (Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, and Sweden) are experiencing macroeconomic imbalances of various nature and degree of severity under the MIP, and that Slovenia is no longer experiencing macroeconomic imbalances in the sense of the MIP.

5. AGREES with the view of the Commission that excessive imbalances exist in 3 Member States (Croatia, Cyprus and Italy).

6. UNDERLINES that transparency and consistency of the MIP implementation are important for ensuring Member States' ownership of the procedure and for the effectiveness of the MIP. REITERATES that the MIP should be used to its full potential and in a comprehensible way, including with the excessive imbalance procedure applied where found appropriate by the Commission and the Council. REEMPHASIZES that whenever the Commission concludes that a Member State is experiencing excessive imbalances, but does not propose to the Council the opening of the excessive imbalance procedure, it should clearly and publicly explain its reasons.

7. RECOGNISES the further progress achieved by several Member States in correcting their imbalances, supported by reforms and the economic expansion. NOTES that internal and external stock imbalances remain a source of risk as they are only adjusting slowly and at an uneven pace, and not all the adjustment is of a structural nature but is partly linked to the positive economic cycle. STRESSES that cyclical upswings can mask the build-up of macroeconomic imbalances. HIGHLIGHTS the need to reduce harmful imbalances and monitor developments where there are signs of rising cost pressures in product, labour and housing markets in some Member States. UNDERLINES the continued need for policy action and strong commitment to structural reforms in all Member States, especially when they face macroeconomic imbalances affecting the smooth functioning of EMU. Imbalances should be addressed in a durable manner that improve resilience and reduce risks, focusing on key challenges, and creating conditions for sustainable growth and jobs.

8. NOTES that much progress has been achieved among net debtor countries in correcting their external imbalances, although negative net international investment positions exist that are generally coupled with large stocks of private or government debt. Simultaneously, NOTES that large current account surpluses remain almost unchanged in some creditor countries. REITERATES that Member States with current account deficits or high external debt should additionally seek to improve their competitiveness and prevent excessive growth in unit labour costs. Member States with large current account surpluses should create the conditions to promote wage growth, while respecting the national role of social partners, and implement as a priority measures that foster investment, support domestic demand and growth potential, thereby also facilitating rebalancing.

IMPLEMENTATION OF COUNTRY SPECIFIC RECOMMENDATIONS (CSRs)

9. NOTES the similar implementation record of the 2017 CSRs compared to previous years with at least some progress recorded for around half of the CSRs. TAKES NOTE that reform implementation continue to be uneven across policy areas and countries.

10. WELCOMES the results in the Commission`s multiannual assessment of CSR implementation that show at least 'some progress' with regard to more than two-thirds of the recommendations since the start of the European Semester in 2011, but NOTES this has been uneven across policy areas, countries and over time. RECALLS that the multiannual assessment by the Commission illustrates that a number of CSRs relate to long-term structural issues that take time to be addressed and that tangible results take time to materialise.

11. STRESSES that in the current favourable macroeconomic environment, reform implementation needs to be stepped up significantly to address the pending reform challenges outlined below, guarding against reform fatigue and overcoming political economy challenges.

12. WELCOMES that general government deficits and debt ratios continue to decline, but STRESSES that fiscal policies should be pursued in full respect of the Stability and Growth Pact, with an appropriate differentiation of fiscal efforts across Member States, thereby taking into account stabilisation needs and sustainability concerns. UNDERLINES that the positive cyclical conditions call for the need to rebuild fiscal buffers, in particular in Member States where debt ratios are high, while continuing to strengthen the growth potential of Member States.

13. WELCOMES the upturn in investment but RECOGNISES that overall investment and in particular public investment still accounts for a relatively low share of GDP in many Member States and that there remains a need to improve investment conditions to attract increased private investment in the real economy and to ensure high quality public investment and infrastructures. WELCOMES the progress made by Member States in the areas of improving the business environment, improving access to finance, especially for the small and medium sized enterprises, reducing administrative burdens and in creating fair and growth-friendly tax systems. STRESSES that further structural reforms should be prioritised to remove bottlenecks to investment, increase growth potential, further improve the institutional and business environment, and strengthen both administrative efficiency and regulatory quality. NOTES, in this respect, the need to reinforce the single market thus fostering further structural reforms in the product and services markets and to reform insolvency frameworks, thereby increasing their efficiency. This would also help improve resilience and enable the economies to deal with shocks.

14. WELCOMES that the situation of the banking sector has improved significantly and that NPL ratios have stabilised in nearly all more affected euro-area Member States or are on a declining trend, but STRESSES that progress remains uneven across Member States and banks. Further action is therefore required, in line with the Council Action Plan.

15. ACKNOWLEDGES that Europe continues to face a productivity challenge, with productivity growth subdued and lagging behind the growth rates of other advanced economies. In this context STRESSES the importance of structural reforms and investment into high quality education and training to foster innovation, digitalisation and facilitate the diffusion of new technologies to boost productivity and jobs. The importance of this challenge is aggravated by demographic ageing. The share of working-age persons in the total population is projected to decline across EU, with particularly marked declines in some Member States.

16. WELCOMES the continued improvement in labour markets, but NOTES that important challenges remain. In some Member States unemployment remain high, and further efforts to reduce youth and long-term unemployment are needed. The successful integration especially of migrants and refugees requires particular attention. Labour markets and social and education systems also need to adapt to face the challenges of globalisation and technological progress. In this context, EMPHASIZES the need for wage bargaining frameworks that support wage setting in line with local and sectoral developments of productivity and unemployment, while respecting the national role of social partners, as well as the need for policy action to support up- and re-skilling with the needs of the labour market and to ensure effective active labour market policies. Dynamic and flexible labour markets are important for creating high quality jobs and supporting labour market transitions.

17. WELCOMES how the Commission has incorporated the European Pillar of Social Rights within the country reports to keep track of employment and social performances, which allowed for the focus on macroeconomic imbalances and the main economic reform priorities to be maintained."

PUBLIC FINANCES – 2018 AGEING REPORT

The Council discussed age-related expenditure projections for the member states over the 2016-70 period, on the basis of a 2018 joint report from the Economic Policy Committee and the Commission.

It endorsed the report and adopted the following conclusions:

"The Council (ECOFIN):

1. STRESSES that ageing populations pose a major challenge for long term sustainability of public finances, exacerbated by the significant rise in government debt levels following the economic and financial crisis. Although debt has recently embarked on a downward trend in the EU, it remains elevated and is expected to remain above pre-crisis levels for some time. In this context ensuring the long-term sustainability of public finances is particularly important. AFFIRMS the need for appropriate growth friendly fiscal consolidation in accordance with the Stability and Growth Pact and further implementation of structural reforms supporting potential growth in order to enhance the sustainability of public finances.

2. ENDORSES the 2018 Ageing Report: economic and budgetary projections for the EU Member States (2016–2070) prepared by the Economic Policy Committee (Ageing Working Group) and Commission services (DG ECFIN) on the basis of commonly agreed methodologies and assumptions. In line with previous editions, the projections in the 2018 Ageing Report cover age-related public expenditure (pensions, health care, long-term care, education), and unemployment benefit expenditure.

3. HIGHLIGHTS the main findings of the 2018 Ageing Report:

- The expected decline of the working-age population will act as a drag on growth over the long-term, while labour productivity will be the sole growth driver. In the EU as a whole, the average annual GDP growth rate is projected to remain broadly stable over the long-term. At the same time there are considerable differences in the growth potential across Member States. Over the whole period 2016–2070, the average annual GDP growth rate in the EU is projected to be 1.4% in the baseline scenario, assuming a sizeable increase in total factor productivity (TFP) growth. Under an alternative, less optimistic scenario of lower TFP growth, the estimated average annual GDP growth rate in the EU would be 1.1%.

- Total age-related public expenditure is projected to rise by 1.7 pps. of GDP between 2016 and 2070 in the EU, to reach 26.6 % in 2070, although with large differences across countries. Under the scenario of a more adverse macroeconomic assumption (with lower TFP growth), it would increase by 2.2 pps. between 2016 and 2070, reaching 27.1 % of GDP in 2070.

- Public pension expenditure is projected to rise by 0.8 pps. of GDP in the period up to 2040, and subsequently return to slightly below its starting point by 2070 (11 % of GDP for the EU). The projected pension expenditures, however, would be higher in case of more adverse demographic or macroeconomic assumptions. For example, under the lower TFP growth scenario, the increase to 2040 is estimated to be 1.1 pps. of GDP, with pension spending ending up at 11.4 % of GDP in 2070. There is again significant diversity across Member States depending on the degree and timing of population ageing, GDP growth prospects, the specific features of national pension systems and, notably, progress with structural reforms.

- Public expenditure on health care and long-term care is projected to increase by 2 pps. of GDP in the EU in the baseline scenario, to 10.4% of GDP in 2070, reflecting mainly population developments. Taking into account possible future developments in non-demographic cost drivers in health care and long-term care spending, the projected increase in care-related spending would be 4 pps. of GDP between 2016 and 2070.

4. REAFFIRMS that, while welcoming recent reforms in many Member States, coping with the challenges highlighted by the age-related expenditure projections will require Member States to take further policy actions to resolve specific country issues. CALLS for Member States to implement the European Semester recommendations related to the sustainability of public finances, as well as apply the three-pronged strategy for addressing the economic and budgetary consequences of ageing by reducing government debt, raising employment rates and productivity, and reforming pension, health care and long-term care systems.

5. In this regard, WELCOMES that in most countries, recent pension reforms have had a positive impact by containing public expenditure dynamics and contributing to an increase of average exit age from the labour market. NOTES that the scale of reforms in several countries is however still insufficient to curb the increase in public pension expenditure and is concerned that in some cases previous reforms have been reversed. HIGHLIGHTS that further steps still need to be taken by Member States, though to varying degrees, to raise the effective retirement age, inter alia by avoiding early exit from the labour market, promoting active ageing; strengthening incentives to remain in the labour market; and strengthening sustainability elements in the pension system such as by linking the retirement age or pension benefits to life expectancy. Measures implying the reversal of already undertaken sustainability-enhancing reforms need to be avoided. NOTES the importance of a holistic view on both financial sustainability and adequacy of pensions systems. The Pensions Adequacy Report 2018 complements the 2018 Ageing Report in this respect.

6. Recalling its conclusions of 8 November 2016, REAFFIRMS that achieving the twin aim of ensuring fiscal sustainability and access to good quality health and long-term care services for all, by improving the efficiency and effectiveness of health and long-term care systems, is particularly important.

7. INVITES the Commission to factor these findings related to ageing challenges into its analysis and surveillance under the European Semester and to take account of its implications in all relevant fields of economic policy coordination in the EU.

8. INVITES the Commission to carry out its regular in-depth assessment of the sustainability of public finances by the end of 2018 using this set of comprehensive and comparable updated projections. The Economic Policy Committee should, on the basis of the assessment, report back to the Council.

9. WELCOMES Eurostat's ongoing work on improving the governance of population projections, including exchange of experiences and practices and suggestions for improvements with the National Statistical Institutes (NSIs) and reporting to the Economic Policy Committee with the scope of improving the quality and soundness of population projections, in full respect of the independence of Eurostat and NSIs. INVITES the Economic Policy Committee and the Commission to update, on the basis of new population projections to be provided by Eurostat, its analysis of the economic and budgetary implications of population ageing by the autumn of 2021.

OTHER BUSINESS

– ***Financial services***

The presidency updated ministers regarding work on legislative proposals in the field of financial services.

May 2018 progress report on financial services legislative proposals

MEETINGS IN THE MARGINS OF THE COUNCIL

– ***Eurogroup***

Ministers of the eurozone member states attended a meeting of the Eurogroup on 24 May.

They discussed the fourth review of Greece's macroeconomic adjustment programme, as well as the economic situation, in the light of the Commission's spring forecast, and held a thematic discussion on national spending reviews.

The Eurogroup also met in an extended format (27 member states) to prepare for the Euro Summit on 28 and 29 June 2018.

It discussed completion of Europe's banking union and reform of the European Stability Mechanism.

Eurogroup main results

– ***Dialogue with the Western Balkans and Turkey***

The Council presidency and next two presidencies met representatives from the Western Balkans and Turkey for an annual economic and financial dialogue.

They issued joint conclusions (9319/18) and held a thematic debate on fiscal frameworks.

– ***Ministerial breakfast***

Ministers held a breakfast meeting to discuss the economic situation, in the light of the Commission's spring forecast.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

Taxation – Non-cooperative jurisdictions

The Council removed the Bahamas and Saint Kitts and Nevis from the EU's list of non-cooperative tax jurisdictions.

The list is part of on-going efforts to prevent tax fraud and promote good governance worldwide. It was established in December 2017.

See press release.

Tax intermediaries

The Council adopted rules aimed at boosting transparency to prevent aggressive cross-border tax planning.

The directive targets intermediaries such as tax advisors, accountants and lawyers that design and/or promote tax planning schemes. It will require them to report schemes that are potentially aggressive.

The information received will be automatically exchanged through a centralised database. Penalties will be imposed on intermediaries that do not comply.

Member States will have until 31 December 2018 to transpose the directive into national laws and regulations.

March 2018 press release on Council agreement on the draft directive on tax intermediaries
May 2018 draft directive on tax intermediaries

Tax fraud – Agreements with third countries

The Council adopted conclusions establishing a standard provision on good tax governance to be included in EU agreements with third countries.

The conclusions emphasise the need to prevent cross-border tax fraud and tax evasion, as well as money laundering, corruption and the financing of terrorism.

The new provision reflects developments in international tax standards since a previous standard provision was agreed in 2008. These include OECD standards aimed at preventing corporate tax base erosion and profit shifting.

VAT - Hungary - 'Reverse charge' mechanism

The Council adopted a decision allowing Hungary, by way of derogation from article 193 of directive 2006/112/EC, to apply a reversal of VAT liability ('reverse charge' mechanism) for supplies of certain goods and services (8345/18 + 8045/18).

The measure is aimed at preventing fraud by companies that are in liquidation or under insolvency procedures.

The Council's decision will expire on 31 December 2021.

Court of Auditors special report - Financial crisis in Greece

The Council adopted conclusions responding to a Court of Auditors special report on the Commission's intervention in the financial crisis in Greece.

TRANSPARENCY

Public access to documents

On 25 May 2018, the Council approved the reply to confirmatory application No 06/c/01/18 (doc. 7727/1/18 REV 1).