



ECONOMIC AND FINANCIAL AFFAIRS COUNCIL

Friday 22 June in Luxembourg

Ministers will meet at 8.00 in their capacity as governors of the **European Investment Bank** for the EIB's annual governors' meeting.

They will then hold a breakfast meeting, starting at 9.00, to discuss the **economic situation**. They will discuss the EU's **multiannual financial framework** for the 2021-27 period, and will be informed of the outcome of the Franco-German summit at Meseberg on 19 June.

The Council meeting is scheduled to start at 10.00.

The Council is expected to close the excessive deficit procedure for **France**, and to issue recommendations regarding significant budgetary deviations by **Hungary and Romania**. It is due to approve **country-specific recommendations** on the member states' economic and fiscal policies, under the 2018 'European Semester'.

Ministers will be updated on a proposal to establish a European **deposit insurance scheme** as part of the EU's banking union.

Reports on the fulfilment of eurozone **convergence** criteria are also on the agenda.

Ministers will be called on to agree short-term fixes to the **VAT system**. They are also due to approve a directive on the VAT **standard rate**, measures to boost **administrative cooperation** to prevent VAT fraud, and an **agreement with Norway** on VAT cooperation.

On Thursday 21 June at 10.00, eurozone ministers will attend the annual meeting of the board of governors of the **European Stability Mechanism**.

The **Eurogroup** will hold two meetings on Thursday 21 June. At the first, starting at 15.00, it will discuss completion of Greece's economic adjustment programme, post-programme surveillance in Cyprus, the IMF's annual recommendations to the euro area, and Spain's updated draft budgetary plan for 2018. Italy and Spain will present their new governments' policy priorities.

The second Eurogroup meeting is scheduled for 18.30, in an extended format (27 member states), to prepare for the Euro Summit on 29 June 2018. The Summit is expected to take decisions on the further development of the EU's economic and monetary union.

Press conferences:

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

VAT system – Short-term fixes

The Council will be called on to agree on adjustments to the EU's VAT rules in order to fix specific issues pending the introduction of a new VAT system.

Technical work on these adjustments has been completed and there is broad agreement on a text proposed by the presidency, though one issue has still to be resolved.

Discussions are ongoing on a definitive VAT system to replace the current 'transitional' VAT arrangements, applied since 1993. Pending introduction of the new system, four short-term 'quick fixes' are proposed.

These relate to:

- call-off stock. The proposals provide for a simplified and uniform treatment for call-off stock arrangements, where a vendor transfers stock to a warehouse at the disposal of a known acquirer in another member state;
- the VAT identification number. To benefit from a VAT exemption for the intra-EU supply of goods, the identification number of the customer would become an additional condition;
- chain transactions. To enhance legal certainty in determining the VAT treatment of chain transactions, the proposals establish uniform criteria;
- proof of intra-EU supply. A common framework is proposed for the documentary evidence required to claim a VAT exemption for intra-EU supplies.

These adjustments are due to apply from 1 January 2020.

However, an envisaged fifth 'quick fix' remains outstanding. The Commission and several member states oppose the addition of a VAT exemption for groups of taxable persons that pool services and share costs. This additional provision didn't feature in the Commission's original proposals.

The Commission's proposals also included:

- provisions on the key features and principles of the new VAT system;
- the concept of a 'certified taxable person', a category of trusted business – a reliable taxpayer – that would benefit from simpler, time-saving VAT rules.

It has however been decided to discuss these in parallel with proposals on the definitive VAT system.

The Council needs unanimity to adopt the proposals, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union and article 397 of regulation 282/2011.)

The Parliament's opinion is pending.

June 2018 draft package of VAT "quick fix" proposals

European deposit insurance scheme

The Council will take note of progress on a proposal for a European deposit insurance scheme (EDIS), a key element in plans for strengthening the EU's banking union.

The proposed regulation is aimed at establishing an EU-level insurance scheme to strengthen the protection of bank deposits.

A six-monthly progress report summarises work within the Council's working group, both on EDIS and on reducing risk and other measures related to the banking union. It is intended to facilitate further work.

Whereas deposit guarantee schemes provide protection at national level in the event of bank failure, they remain vulnerable to local shocks. Providing insurance at EU level, EDIS is foreseen as the third 'pillar' of the EU's banking union, alongside the existing single supervisory mechanism for the industry and single resolution mechanism for unviable banks.

The banking union is aimed at establishing a sound basis for Europe's banking industry, and ensuring that unviable banks are resolved without recourse to taxpayers' money. Launched in 2012, it currently comprises the 19 countries of the euro area, whilst 7 other member states have also stated their intention to join.

As concerns EDIS, the Commission presented its proposal in November 2015. It provides for a scheme established in three stages.

In June 2016, the Council agreed that negotiations on EDIS at political level would start as soon as progress has been made on measures to reduce risk in the financial sector. Discussions since then have been of a technical nature.

In October 2017 however, the Commission made suggestions aimed at resolving key issues. It suggested that EDIS be introduced more gradually and in only two phases:

- To start with, EDIS would provide liquidity coverage to deposit guarantee schemes (DGSs) at national level during a more limited reinsurance phase. It would temporarily provide the means for full pay-outs in the event of a bank being in crisis. National DGSs would reimburse this support, thus ensuring that any losses would continue to be covered at national level;
- Then during a coinsurance phase, EDIS would progressively also cover losses.

On 25 May 2018, the Council reached an agreement on a package of measures aimed at reducing risk in the banking industry. Negotiations with the European Parliament will start as soon as the Parliament is ready to negotiate. Ministers reiterated their commitment to making progress on all components of the banking union cited in the Council's June 2016 conclusions.

The regulation needs 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.)

[June 2018 progress report on the EDIS proposal](#)

[October 2017 Commission communication on completing the banking union](#)

[June 2016 Council conclusions on a roadmap to complete the banking union](#)

Economic and fiscal policies – Country-specific recommendations

The Council is due to approve, under the 2018 'European Semester' monitoring process, draft recommendations to 27 member states² on their economic and fiscal policies.

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

The texts will be forwarded to the General Affairs Council on 26 June, and to the European Council for endorsement at its meeting on 28 and 29 June 2018. The Employment, Social Policy, Health and Consumer Affairs Council will examine the employment aspects of the texts on 21 June. The whole package is due to be adopted in July 2018.

The European Semester is an annual process for monitoring 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;

² There is no country-specific recommendation for Greece, as it is subject to enhanced policy monitoring under a macroeconomic adjustment programme.

- stability/convergence programmes. Eurozone countries present stability programmes, whereas non-euro member states present convergence programmes. These 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 agrees country-specific recommendations and opinions and, after endorsement by the European Council annually in June, adopts them each year in July.

A qualified majority is needed to adopt the recommendations. (Legal basis: articles 121(2) and 148(4) of the Treaty on the Functioning of the European Union.)

[June 2018 draft country-specific recommendations](#)

Stability and Growth Pact – France, Hungary and Romania

The Council is due to take a number of decisions under the Stability and Growth Pact, the EU's fiscal rulebook.

These concern both the corrective and preventive arms of the pact:

- Under the corrective arm, the Council is expected to close the excessive deficit procedure for France.

It will thereby confirm that France has reduced its deficit below 3% of GDP, the EU's reference value for government deficits.

The text will abrogate the Council's April 2009 decision on the existence of an excessive deficit in France.

As a consequence, Spain will be the only member state to remain subject to an excessive deficit procedure. At the height of the euro crisis in 2010-11, procedures were open for 24 member states;

- Under the preventive arm, the Council is expected to issue a recommendation to Hungary on measures to take to correct a significant budgetary deviation. For Romania, which is already subject to a significant deviation procedure, it will issue a decision confirming that effective action has not been taken, and a new recommendation on measures to take to correct the deviation.

France

France's general government deficit amounted to 2.6% of GDP in 2017, down from 3.4% of GDP in 2016. The Commission's spring 2018 economic forecast projects deficits of 2.3% of GDP in 2018 and 2.8% of GDP in 2019, thus remaining below the EU's 3% of GDP reference value over the forecast horizon.

The structural balance, which is the general government balance adjusted for the economic cycle and net of one-off and other temporary measures, improved by 0.5% of GDP in 2017. The accumulated improvement in the structural balance since 2015 amounted to 0.7% of GDP.

The ratio of gross government debt to GDP increased to 97.0% in 2017 from 96.6% in 2016, mainly due to debt-increasing stock flow adjustments. The Commission's spring 2018 forecast projects the debt ratio to decrease to 96.4% in 2018 and 96.0% in 2019, with high nominal economic growth outweighing primary deficits and interest payments.

France has been subject to an excessive deficit procedure since April 2009, when the Council called for its deficit to be corrected by 2012.

That deadline has been extended three times:

- in December 2009, the Council extended it to 2013 after the Commission forecast that France's 2009 general government deficit would reach 8.3% of GDP, nearly three percentage points higher than its previous estimate;

- in June 2013, the Council extended the deadline to 2015, on account of a worse-than-expected deterioration of France's economy;
- in March 2015, the Council extended the deadline to 2017, on account of continued weak economic conditions and in the light of the fiscal effort made since 2013.

In its March 2015 recommendation, the Council set the following headline deficit targets: 4.0% of GDP in 2015, 3.4% in 2016 and 2.8% in 2017.

In the light of the latest data, the Council is expected to conclude that France's deficit has now been corrected.

[June 2018 draft decision abrogating the 2009 decision on an excessive deficit in France](#)

Hungary

According to the Commission's spring 2018 forecast and 2017 budget data, the growth of Hungary's government expenditure in 2017 was well above the expenditure benchmark set by the Council in July 2016. Hungary's structural balance deteriorated to -3.1% of GDP in 2017, 1.6 percentage points of GDP away from its -1.5% of GDP medium-term objective. Both indicators suggest a significant budgetary deviation in 2017.

The Council is expected to recommend measures to ensure that the nominal growth of net primary government expenditure does not exceed 2.8% in 2018, representing an annual structural adjustment of 1% of GDP.

This will put Hungary on an appropriate adjustment path towards its medium-term objective. Any windfall gains should be used for deficit reduction, and budgetary consolidation measures should secure a lasting improvement.

The Council is expected to set a deadline of 15 October 2018 for Hungary to report on action taken.

[June 2018 draft recommendation to Hungary under the significant deviation procedure](#)

Romania

Romania has been subject to a significant deviation procedure since June 2017.

It is responsible for a significant deviation from the agreed adjustment path towards its medium term budgetary objective.

For the second time, the Council will issue:

- a decision establishing that Romania has failed to take effective action;
- a recommendation on measures to take to correct the significant deviation.

In 2016, Romania's structural balance deteriorated significantly. But contrary to the 0.5% of GDP structural improvement recommended by the Council in June 2017, the Commission's autumn 2017 economic forecast suggested a further deterioration.

In December 2017, the Council established that Romania had not taken effective action. It called for measures to ensure that the nominal growth of net primary government expenditure does not exceed 3.3% in 2018, representing an annual structural adjustment of at least 0.8% of GDP.

However, the Commission's spring 2018 forecast and 2017 budget data suggest that Romania's structural balance deteriorated once again, reaching -3.3% of GDP in 2017. Its net primary government expenditure was well above the benchmark set by the Council. Both indicators confirm a significant budgetary deviation in 2017.

The failure to act upon earlier recommendations – and the risk of exceeding the EU's 3% of GDP reference value for government deficits – call for urgent action.

The Council is expected to recommend measures to ensure that the nominal growth of net primary government expenditure does not exceed 3.3% in 2018 and 5.1% in 2019, representing an annual structural adjustment of 0.8% of GDP in both 2018 and 2019.

This will put Romania on an appropriate adjustment path towards its medium-term budgetary objective. Any windfall gains should be used for deficit reduction, and budgetary consolidation measures should secure a lasting improvement.

The Council is expected to set a deadline of 15 October 2018 for Romania to report on action taken.

[June 2018 draft decision on Romania under the significant deviation procedure](#)
[June 2018 draft recommendation to Romania under the significant deviation procedure](#)

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The decisions and recommendations require:

- for France, a qualified majority amongst 18 of the 19 member states of the eurozone;
- for Hungary and Romania (non-eurozone countries), a qualified majority amongst 27 of the EU's 28 member states.

The member state concerned does not vote.

(Legal bases: article 121(4) of the Treaty on the Functioning of the European Union for the decision on Romania and the recommendations to Hungary and Romania; article 126(12) TFEU for the decision on France.)

Economic and monetary union – Convergence reports

The Commission and the European Central Bank will present reports on the fulfilment of convergence criteria by non-eurozone member states.

The Council will hold an exchange of views.

Nineteen of the EU's 28 member states currently use the euro as their currency. Of the 9 that do not, 7 have a derogation³ under the rules on economic and monetary union (EMU). These are Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania and Sweden, whereas Denmark and the United Kingdom are not required to adopt the euro.

The reports find that whilst the 7 have made progress with regard to the convergence criteria, none of them meet all of the conditions for introducing the euro at this stage.

Article 140 of the Treaty on the Functioning of the European Union requires the Commission and the ECB to issue convergence reports every two years, or if a non-eurozone member state requests it.

The reports assess:

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

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

[2018 convergence report by the Commission](#)
[2018 convergence report by the ECB](#)

³ Having a derogation implies that a member state has not yet fulfilled the conditions for adopting the euro.

VAT fraud – Administrative cooperation

The Council is expected to agree, without discussion, on measures to strengthen administrative cooperation in order to better prevent VAT fraud.

One issue was left unresolved when the Council discussed the proposal on 25 May 2018, but there is now an agreement on the text.

The proposed regulation addresses the most widespread forms of cross-border fraud.

Amending regulation 904/2010, it 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, jointly processing and analysing all relevant data;

It also introduces new instruments for administrative cooperation such as joint audits.

According to the Commission, an estimated €150-160 billion of tax revenue is lost annually due to shortcomings in the VAT system, including fraud. About €152 billion was lost in 2015.

For cross-border fraud alone, some estimates have put annual losses at €50 billion.

The proposed regulation is aimed at containing fraud in the short term, pending implementation of a definitive VAT system. Proposals aimed at replacing the current 'transitional' VAT arrangements by a definitive system are currently under discussion.

The draft regulation sets out to remedy deficiencies identified in a March 2016 special report of the Court of Auditors.

It provides for specific measures to address:

- 'missing trader' or 'carousel' fraud, where supplies are purchased and resold without payment of VAT;
- fraud in the trade of used automobiles;
- the fraudulent abuse of a scheme for VAT-free imports of goods.

The Court found VAT fraud prevention to be hampered by a lack of comparable data and indicators. It called for anti-fraud instruments to be strengthened and more consistently applied.

The Council responded to the Court's report in May 2016. It agreed to work to improve the exchange of information between tax administrations.

At an informal meeting in Sofia on 28 April 2018, ministers discussed the capacity of tax administrations to improve implementation of legislation.

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's opinion is pending.

[May 2018 draft regulation on strengthening VAT administrative cooperation](#)
[ECA special report: "Tackling intra-Community VAT fraud: More action needed"](#)
[May 2016 Council conclusions on the VAT action plan and VAT fraud](#)
[April 2018 Sofia informal finance ministers meeting](#)

VAT minimum standard rate

The Council is expected to adopt, without discussion, a directive making permanent the 15% minimum standard VAT rate currently in force.

Requiring the member states to apply a minimum standard rate, the directive is intended to prevent excessive divergence in VAT rates. Distortions of competition in cross-border shopping and trade will thereby be kept to a minimum, as at present.

A 15% minimum standard rate has been maintained on a provisional basis since VAT rules for the EU single market were introduced in 1993. It was last prolonged in May 2016 for two years, expiring on 31 December 2017.

Proposals aimed at replacing the current 'transitional' VAT arrangements by a definitive VAT system are meanwhile under discussion. The Commission issued proposals in October 2017 and January 2018.

The Commission proposes that cross-border trade be taxed in the member state of destination, and no longer in the country of origin. This was already decided in 2008 for electronic commerce. The new system would allow member states more flexibility than at present in setting VAT rates, consistent with the destination principle.

The minimum standard VAT rate is intended as a permanent feature of the new 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.)

[April 2018 draft directive on the minimum standard VAT rate](#)

Agreement with Norway – VAT

The Council is expected to adopt, without discussion, a decision approving an agreement with Norway aimed at boosting cooperation in the area of VAT.

The agreement, signed in Sofia on 6 February 2018, provides EU member states and Norway with a legal framework for administrative cooperation in:

- preventing VAT fraud;
- assisting each other in the recovery of VAT claims.

The agreement follows the same structure that is currently used for cooperation between the member states. It provides the same instruments, such as electronic platforms and e-forms. Fraud schemes often exploit weaknesses in the way VAT transaction chains are controlled when they include counterparts located in third countries.

Norway is the first country with which the EU has an agreement in this field. A member of the European Economic Area, it has a similar VAT system to the EU's and enjoys a good tradition of VAT cooperation with the EU member states.

The agreement was negotiated by the Commission on the basis of a mandate agreed by the Council in December 2014.

The European Parliament approved it on 19 May 2018.

[2017 agreement with Norway on administrative cooperation in the area of VAT](#)

[Decision on the conclusion of the 2017 EU-Norway agreement on VAT administrative cooperation](#)

Other items

The Council will discuss the following under 'other business':

- **Financial services:** Ministers will be updated regarding work on legislative proposals;
[June 2018 note on financial services legislative proposals](#)

- **Insolvency:** Ministers will be updated as concerns work within the Justice and Home Affairs Council on a proposal on restructuring and insolvency and restructuring.

The November 2016 proposal is aimed at enabling companies in financial difficulty to restructure early on in order to prevent bankruptcy and avoid laying off staff. It sets out to ensure that entrepreneurs get a second chance after a bankruptcy.

The proposal's general aim is to ensure more effective and efficient insolvency procedures throughout the EU.

[2016 proposal for a directive on restructuring and insolvency](#)

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**;

[June 2018 report of the code of conduct group on business taxation](#)

[June 2018 draft conclusions on the code of conduct on business taxation](#)

- a six-monthly report to the European Council on **tax issues**;
[June 2018 report to the European Council on tax issues](#)
 - measures to strengthen **VAT administrative cooperation** in order to better prevent fraud (see separate item above);
 - a directive making permanent the 15% minimum **standard VAT rate** currently in force (see separate item above);
 - an **agreement with Norway** aimed at boosting administrative cooperation in the area of VAT (see separate item above).
-