BACKGROUND[1]
Brussels, 18 January 2018

ECONOMIC AND FINANCIAL AFFAIRS COUNCIL
Tuesday 22 January, in Brussels

Ministers will meet at 10:00 for a breakfast meeting to discuss the economic situation and the priorities for the next institutional cycle. The Council is scheduled to start at 11:00.

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The Council will hold a policy debate on InvestEU, a proposed programme aimed at bringing together a range of EU financial instruments currently available to support investment and innovation and creating jobs in the EU.

Ministers will also discuss the review of the existing architecture of financial supervision: the aim of the discussion will be to decide on frontloading the anti-money laundering component of the legislative package.

The Council will discuss the follow-up to the December Euro-summit when leaders achieved an agreement on the key features of the reform of the economic and monetary union.

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

The Romanian presidency is due to present the work programme in the economic and financial area for the next six months.

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On Monday 21 January, the Eurogroup wil meet at 15:00 in a regular format. It will discuss the recommendation on the economic policy of the euro-area and the international role of the euro. The Eurogroup will meet at 16:30 in an inclusive format to discuss the reform of the Economic and Monetary Union.

***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.

InvestEU

The Council will discuss the proposal to **bring together under one programme the different financial instruments currently available to support investment and job creation in the EU**, in the context of the next multiannual financial framework (2021-2027).

Currently, there are 14 different instruments contributing to supporting investment in the EU. The main one is the **European fund for strategic investments (EFSI)** which was launched in July 2015 to boost investment and stimulate economic growth and employment in the EU, at a time when Europe was still recovering from the financial and economic crisis. The EFSI operates within the EIB. It encourages public and private investor participation in new investment projects by providing guarantees from the EU budget.

The Commission is proposing to build on the success of the EFSI model and benefit from economies of scale by merging all instruments currently available to foster investment in the EU. The Commission proposes the EU budget to provide a €38 billion guarantee which should be used to support strategically important projects across the EU. By crowding in private and public investments, **the Commission expects the InvestEU fund to trigger more than €650 billion in additional investment across the EU between 2021 and 2027**.

InvestEU intends to support four policy areas:

- sustainable infrastructure,
- research, innovation and digitalisation;
- small and medium-sized businesses;
- social investment and skills.

The proposal also provides for the possibility for member states to **channel some of their allocated cohesion policy funds to the InvestEU fund, adding to the EU guarantee provisioning.** Thanks to this, member states will benefit from the EU guarantee and its high credit rating..

As regards governance arrangements, the Commission has proposed a **different setup for the InvestEU programme compared to the EFSI**. It reflects the fact that the new programme will be a one-stop-shop for all existing instruments, as well as the fact that other partners than the European Investment Bank, for example national promotional banks or other international financial institutions, will have the possibility to access the EU guarantee.

The Council started work at technical level on the proposal in June 2018. Finance ministers also discussed the InvestEU initiative at the informal ECOFIN meeting of 8 September 2018, in Vienna.

Ongoing negotiations have demonstrated a **broad support for the proposed streamlining of the existing instruments into one programme**. Progress has been achieved on the features of the **partnership between the Commission and the EIB**, reflecting in particular the central role and expertise of the EIB.

In this context, ministers will be called to discuss two main issues:

- the **governance structure of InvestEU**: the presidency has proposed to setup a steering board (reflecting the EFSI governance model), as well as some guiding principles related to the board's composition and voting modalities. Some features need to be further defined at technical level.
- the **allocation of the financial guarantee provided by the EU to other partners than the EIB**: the Commission has proposed to set aside 25% of the EU guarantee for other institutions than the EIB, in order to try to deliver better results in areas that were under-covered by EFSI.

Ministers will discuss the principles underpinning the allocation of that part of the guarantee, in particular whether the demand-driven approach put forward by the Commission could be complemented with further guiding principles, in order for the EU guarantee to have an impact that is as comprehensive as possible.

Romanian Presidency's issues note on InvestEU

Commission page on the proposed InvestEU programme

Review of the European system of financial supervision

The Council is expected to discuss the review of the current European system of financial supervision.

The focus of the discussion will be on the **decision to frontload the provisions relating to the strengthening of the supervision of anti-money laundering (AML) and terrorist financing activities**. Discussions on the rest of the review of the European system would continue at technical level.

In December 2018, EU ambassadors approved a **partial mandate for negotiations on the AML component of the proposal**. The economic and financial committee of the European Parliament adopted its position on the full review of the European system of financial supervision on 10 January 2019.

Should ministers decide to support the presidency's proposal to move ahead with the AML part, trilogue negotiations could in principle start with the agreement of the European Parliament.

The European system of financial supervision was established in 2011 and consists of:

- three **European supervisory authorities (ESAs)**: the European banking authority (EBA), the European insurance and occupational pensions authority (EIOPA) and the European securities and markets authority (ESMA). Those supervise and provide regulatory guidance for individual sectors and institutions.
- the **European systemic risk board (ESRB)** which oversees the financial system as a whole and coordinates EU policies for financial stability.

Following the financial crisis, the EU overhauled its financial system, the way it is regulated and overseen. It introduced a single rulebook, i.e. a set of regulations agreed at EU level and directly applicable in all EU member states, and created the ESAs. **The authorities play a key role in ensuring that the financial markets across the EU are well regulated, strong and stable**. They contribute to the development and consistent application of the single rulebook, solve cross-border problems, and thereby promote both regulatory and supervisory convergence.

In September 2017, the Commission put forward a package of proposals to review the tasks, powers, governance and funding of the ESAs and the ESRB, so as to adapt the authorities to the changed context in which they operate, in particular the establishment of the banking union and the build up of a capital markets union.

The Council has been examining the package of proposals at technical level since October 2017. Discussions showed a need **to adjust the mandate of the ESAs in view of the changing nature of the authorities' main tasks**: the focus should shift from regulatory issues, in particular the drafting of technical standards and guidelines to operationalise EU legislation, to the strengthening of convergence of supervisory practices across the EU. However a number of stumbling blocks remain on this file which requires further consideration by the Council.

In addition, the Commission put forward in October 2018 an amended proposal containing provisions **reinforcing the role of the EBA as regards risks posed to the financial sector by money laundering activities**.

Presidency's issues note on the ESAs review

Presidency work programme

The Romanian presidency will present its priorities for economic and financial affairs (Ecofin) for the duration of its term, which runs from January to June 2019.

Ministers may hold an exchange of views.

In the area of Ecofin, the Romanian presidency will have three main priorities:

- **Deepening EMU, strengthening the Banking Union and further developing the Capital Markets Union:** the presidency will work on MFF related files, in particular InvestEU, finalise technical work the risk reduction package while supporting work on risk sharing (common backstop and EDIS), and complete negotiations on the CMU-related files (in particular EMIR CCPs, investment firms review or sustainable finance).

- **Fair and effective taxation and efficient customs:** the Presidency will pursue efforts towards modernising the VAT system, aim to finalise negotiations on the excise duties, update the EU list of non-cooperative jurisdictions for tax purposes and work on the proposals on taxation of digital economy.

- **Forward-looking cooperation and coordination** by completing in a smooth manner the 2019 European semester reflecting on priorities for the next institutional cycle and promoting the inclusive format of discussions on economic issues.

Programme of the Romanian presidency

Economic governance - 2019 European Semester

The Council is due to adopt the following texts related to the 2019 European Semester economic policy coordination process:

- conclusions on the Annual Growth Survey, highlighting the main conclusions for 2019;
- conclusions on the 'Alert Mechanism Report', the starting point of the annual macroeconomic imbalances procedure;
- a Council recommendation on the economic policy of the euro area.

The 2019 European Semester will conclude in July with the adoption of country-specific recommendations.

Annual Growth Survey

The Commission's survey is the starting point of the 2019 European Semester. It outlines the most pressing priorities on which the EU and the member states should focus in the economic and social field.

For 2019, the Commission notes a less dynamic economic growth context in Europe. It calls on member states to continue efforts along the lines of the previous annual growth survey:

- delivering high-quality investment;
- focusing reform efforts on productivity growth, inclusiveness and institutional quality;
- ensuring macroeconomic stability and sound public finances.

The Council is expected to broadly share the Commission's assessment and policy priorities. It should stress the importance of monitoring performance and policy implementation, in particular of the country specific recommendations (CSRs) which should be discussed in March 2019. The Council should also acknowledge the particular timing constraints for the agreement of the 2019 CSRs, linked to the European elections, and should call for an early adoption of the Commission's proposals in May.

Commission's 2019 annual growth survey

Alert Mechanism Report - macroeconomic imbalances

The Commission's report identifies 13 member states that may have a macroeconomic imbalance. For these, it will present in-depth reviews in March 2019.

11 out of the 13 countries were subject to a macroeconomic imbalance procedure last year: Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain and Sweden.

In addition, Romania and Greece, which exited its macroeconomic adjustment programme in August 2018, will also be subject to a review.

The macroeconomic imbalances procedure was introduced in 2011 as an annual process aimed at preventing and correcting such imbalances. Fines can be imposed on euro-area countries if they repeatedly fail to comply with the Council's recommendations.

The Council is expected to broadly share the Commission's analysis, welcoming the progress made by member states in correcting their imbalances.

Commission's 2019 alert mechanism report

Recommendation on the economic policies of the euro area

This annual recommendation is a key part of the European Semester. It enables a focus on euro-area priorities when preparing country-specific recommendations in the spring.

For 2019, the Council is expected to recommend, in particular:

- to deepen the single market, improve the business environment and the quality of institutions, and pursue resilience-enhancing product and services market reforms;
- to support public and private investment and improve the quality and composition of public finances while pursuing policies in full respect of the Stability and Growth Pact;
- to shift taxes away from labour and strengthen education and training systems and investment in skills;
- to make ambitious progress on the Capital Markets Union and swift progress on the deepening of the Economic and Monetary Union, building on the statement of the Euro Summit of 14 December 2018, also with the perspective to strengthen the international role of the euro.

EMU - Follow-up of the December Euro-summit

Ministers will take stock of the agreement reached by the leaders at the Euro-summit in inclusive format on 14 December 2018.

The presidency will inform ministers on how it sees the interaction between the Council and the Eurogroup, in particular as regards the possible legislative work on banking union aspects and the euro-area budgetary instrument for convergence and competitiveness.

In a statement, the leaders endorsed the report by the Eurogroup of 4 December 2018, in particular on the following issues:

- the **operationalisation and implementation of a backstop for the Single Resolution Fund** (SRF): the backstop will be provided by the European Stability Mechanism (ESM). It should be introduced by 2024 at the latest, but possibly earlier if sufficient progress in reducing risks in the banking system has been achieved by 2020;
- a **strengthened role for the ESM in crisis prevention and management**, including through more effective precautionary instruments for countries that could be affected by an adverse shock beyond their control, a new work sharing between the Commission and the ESM, and the introduction of single limb collective action clauses by 2022, that would contribute to a successful outcome of a public restructuring.

The Euro-summit also mandated the Eurogroup to work on the **design, modalities of implementation and timing of a budgetary instrument for convergence and competitiveness** for the euro area, and ERM II Member States on a voluntary basis. The instrument's main features should be agreed by June 2019, while the instrument should be adopted in line with the ordinary legislative procedure. Its size will be determined in the context of the MFF.

Other items

Financial services legislation

Under 'other business', the Council will be updated regarding work on legislative proposals. The Commission will also report on the implementation of adopted legislation.