Council of the European Union

PRESS

EN

BACKGROUND[1]
Brussels, 12 June 2019

ECONOMIC AND FINANCIAL AFFAIRS COUNCIL

Friday 14 June in Luxembourg

Ministers will meet at 9:00 in their capacity as governors of the European Investment Bank for the EIB's annual governors' meeting. They will then hold a ministerial breakfast at 11:00. The Council is set to start at 11:30.

The Council as well as the governors' meeting will be chaired by Eugen Teodorovici, Romanian minister of finance.

~ ~ ~

The Presidency will present a progress report on the state of play on the banking union and the Council will take stock of the implementation of the action plan to tackle non-performing loans in Europe.

The Council will be informed on the state of play of the negotiations on the financial transaction tax, on the basis of an update provided by member states participating in the enhanced cooperation.

The Council will have an exchange of views on the economic and financial aspects of the Commission's communication on a strategic long term vision for a climate-neutral economy "A clean planet for all". The outcome of the ministerial discussion will feed into the European Council's debateon 20-21 June.

Ministers will hold a debate on economic and financial policy aspects of country-specific recommendations in the framework of the 2019 European Semester exercise and adopt a number of decisions in the context of the Stability and Growth Pact.

The Presidency and the Commission will also present the main outcomes of the G20 Finance meeting of 8-9 June.

~ ~ ~

The Eurogroup will meet at 13:00 in a regular format. It will discuss the IMF Article 4 review of the euro area, have thematic debate on growth and jobs focusing on the issue of inequality, review Cyprus post-programme surveillance and adopt the Eurogroup work programme for the second half of 2019. The Eurogroup will then meet at 15:00 in an inclusive format to discuss the reform of the Economic and Monetary Union, in preparation of the Euro-summit of 21 June.

Press conferences:

- after the Eurogroup *(Thursday evening)*;
- at the end of the Council *(Friday after the Ecofin meeting).*

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.

Banking Union

The Presidency will present a progress report on the state of play on the banking union.

The progress report takes stock of the developments in the different workstreams related to the strengthening of the banking union and carried out by the Council's preparatory bodies, in particular as regards:

- risk reduction measures,
- measures to tackle non-performing loans
- the proposal to establish a European Deposit Insurance Scheme (EDIS).

The report does not reflect work carried out in the context of the Eurogroup's work on deepening the Economic and Monetary Union. In particular, the outcome of the work of the High Level Working Group established by the Eurogroup to work on further steps regarding a European Deposit Insurance Scheme is reflected in a separate report submitted to the Eurogroup of 13 June.

Risk reduction measures:

Following the political agreement achieved between the Parliament and the Council on 4 December 2018, the Romanian presidency completed the adoption of the "**banking package**", comprising reforms of prudential requirements and recovery and resolution rules for banks.

The new measures implement reforms agreed at international level following the 2007-2008 financial crisis to strengthen the banking sector and address remaining challenges to financial stability. They include in particular key measures such as:

- a leverage ratio requirement for all institutions as well as a leverage ratio buffer for all global systemically important institutions;
- a net stable funding requirement;
- a new total loss absorbing capacity (TLAC) requirement for global systemically important institutions;
- enhanced Minimum Requirement for own funds and Eligible Liabilities (MREL) subordination rules for global systemically important institutions (G-SIIs) and other large banks;
- a new moratorium power for the resolution authority.

On 14 May, the Council adopted the final package of measures which was published in the Official Journal on 8 June.

Measures to tackle non-performing loans (NPLs):

Following the political agreement reached between the Parliament and the Council on 18 December 2018, the Romanian presidency completed the adoption process of the regulation on the minimum loss-coverage for non-performing loans, the so-called "**NPLs prudential backstop**".

The new rules set capital requirements applying to banks with NPLs on their balance sheets. The aim of the reform is to ensure that banks set aside sufficient own resources when new loans become non-performing and to create appropriate incentives to avoid the accumulation of NPLs.

On 9 April, the Council adopted the regulation which was published in the Official Journal on 25 April.

On 27 March, EU ambassadors approved the Council's position on a proposed directive encouraging the **development of secondary markets for NPLs**. The aim of the new rules is to reduce banks' stocks of NPLs and prevent their accumulation in the future by harharmoniseng the rules for how non-credit institutions can buy credit agreements from banks.

In parallel, the Presidency continued technical discussions on the proposal to setup an efficient mechanism of out-of-court value recovery from secured loans - the so-called "Accelerated Extrajudicial Collateral Enforcement".

European Deposit Insurance Scheme (EDIS):

The Romanian presidency organised one working party meeting to discuss technical issues related to the EDIS proposal.

During the meeting, the Commission presented three analyses that served as a basis for member states' discussions:

- an overview of the banking sectors in non-Banking Union member states;
- an analysis of the impact of EDIS on banks' profitability;
- an overview of the implementation of alternative funding arrangements under the deposit guarantee schemes directive.

In parallel, negotiations at technical level have been tackled by the Eurogroup's High Level Working Group on EDIS.

Financial transaction tax

The Council will be updated by member states participating in the enhanced cooperation on the state of play and next steps regarding the financial transaction tax (FTT), on the basis of a note by Germany.

A proposal for a directive on a common system of financial transaction tax (FTT) was submitted by the Commission to the Council in 2011. Given that unanimous agreement by all member states could not be reached, the Commission tabled a proposal aimed at introducing an FTT through the instrument of "enhanced cooperation" in 2013. Currently, 10 countries are participating in the negotiations on the proposed directive: Belgium, Germany, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia.

While all member sates participate in deliberations, the adoption of the directive requires unanimous agreement of the participating countries within the Council, after consulting the European Parliament.

Technical work on the file has been carried in the Council and ministers have regularly reviewed the state of play on this dossier at ECOFIN meetings. The last ministerial debate was held on 6 December 2016.

On 11 March 2019, finance ministers of the states participating in enhanced cooperation in this area met informally in the margins of the Ecofin meeting. At the working party meeting of 7 May 2019, participating member states indicated that they are discussing about an option of an FTT based on the French model of the tax and about the possible mutualisation of the revenues among the participating member states as a contribution to the EU budget.

According to the German note, the FTT that is currently considered by participating member states would be levied on the acquisition of shares of listed companies whose head office is in a member state of the EU and whose market capitalisation exceeds €1 billion on 1 December of the preceding year. The tax should be levied on the transfer of ownership when shares of listed public limited companies are acquired. Initial public offerings, market making and intraday trading should not be taxable. The tax rate should be no less than 0.2 per cent. The revenue should flow into the EU budget or the still-to-be-created euro area budget. Revenue levied nationally should be distributed among the Member States according to a distribution mechanism to be further defined.

In order to reach a final agreement among the member states participating in the enhanced cooperation, further work in the Council and its preparatory bodies will be required in order to ensure that the competences, rights and obligations of non-participating EU member states are respected.

Follow-up to the G20 meeting in Fukuoka

The Presidency and the Commission will report on the G20 meeting of finance ministers held in Fukuoka on 8-9 June 2019.

The G20 meeting featured discussions on the priorities set by the Japanese presidency in the finance track, namely:

- risks and challenges to the global economy, including the surveillance of global economic risks, global imbalances and policy implications of ageing;
- actions towards robust growth, in particular quality infrastructure investment, resilience against natural disasters, debt sustainability and transparency of low income countries and the strengthening of health financing in developing countries;
- the response to structural changes caused by innovation and globalisation in the areas of international taxation, financial market fragmentation and financial innovation.

Ahead of the meeting, the EU agreed terms of reference outlining its position on the main elements of the debate and highlighting in particular the importance of issues such as the preservation of the multilateral trading system, the taxation of the digital economy, tax transparency and the reform of the IMF.

The G20 meeting of finance ministers and central bank governors provides a forum for key countries in the international financial system to discuss major international economic issues and to coordinate to achieve the stable and sustainable growth of the global economy. The meeting has been convened annually since 1999.

Participants in the meeting are: finance ministers and central bank governors of the G20 countries (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom and the United States), the finance minister of the EU Council presidency, the European Commission and the president of the European Central Bank, representatives of international organisations including the IMF and World Bank and of invited countries.

Official communiqué following the Fukuoka G20 Finance meeting

Fukuoka G20 finance meeting's webpage

2019 European Semester - country-specific recommendations

Ministers will hold a discussion on relevant issues addressed in the country-specific recommendations on the basis of a horizontal note (9956/19) prepared by the Economic and Financial Committee (EFC). The outcome of the debate will feed into the European Council discussions on 20-21 June.

Due to the European elections, the Commission delayed the publication of the proposals on the country-specific recommendations (CSRs) to 5 June. This didn't allow sufficient time for member states to coordinate their positions and for the preparatory committees to examine the proposals. Therefore, as an exception to the established practice, the ECOFIN Council will not aim to approve the CSRs but only to hold a horizontal debate.

The formal adoption of the CSRs is expected to take place according to the usual schedule, at the ECOFIN meeting of 9 July.

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;
- 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 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.)

Stability and Growth Pact - Spain, 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 Spain.

  It will thereby confirm that Spain 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 Spain.

  As a consequence, no member state will 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 decisions on Hungary and Romania, which are already subject to a significant deviation procedure, confirming that effective actions have not been taken, and new recommendations on measures to take to correct the deviations.

Spain's exit from the excessive deficit procedure

Spain's general government deficit amounted to 2.5% of GDP in 2018, down from 3.1% of GDP in 2017. The Commission's spring 2019 economic forecast projects deficits of 2.3% of GDP in 2019 and 2.0% 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 0.4% of GDP since 2016.

The ratio of gross government debt to GDP decreased to 97.1% in 2018 from 98.1% in 2017, mainly due to debt-reducing impact of real growth and inflation, while the primary balance is close to zero. The Commission's spring 2019 forecast projects the debt ratio to decrease to 96.3% in 2019 and 95.7% in 2020.

Spain 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, July 2012 and June 2013 postponing the call for correction to 2013, 2014 and 2016 respectively, considering the major unfavourable consequences for government finances resulting from unexpected adverse economic events.

In July 2016, the Council noted the lack of effective action undertaken to remedy the situation of an excessive deficit and set a new deadline for the correction by 2018.

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

June 2019 draft decision abrogating the 2009 decision on an excessive deficit in Spain

Clean Planet for all

The Council will hold a policy debate on the communication for a strategic long-term vision for a climate neutral economy which the Commission published on 28 November 2018.

The Commission's vision for a climate neutral future covers nearly all EU policies and is in line with the Paris Agreement objective to keep temperature increase to well below 2°C, and pursue efforts to keep it to 1.5°C. It aims to achieve this goal by investing into realistic technological solutions, empowering citizens, and aligning action in key areas such as industrial policy, finance, or research. Two of the eight scenarios proposed by the Commission spell out how the EU could reach net zero emissions by 2050.

The exchange of views between finance ministers is part of a series of sectoral debates held in different Council formations over the past few months aimed at tackling the different aspects of the Commission's strategy.

The outcome of the Ecofin discussion will be consolidated in a Presidency letter meant to feed into the preparations of European Council's discussions on climate change at its meeting of 20-21 June 2019.

Finance ministers will focus their debate on investment and finance-related aspects of the Commission's communication. Estimates suggest that the current annual investment volume of about 2% of GDP will have to increase to nearly 3%, or more than 500 billion euros, per year over the 2031-2050 period.

In this context, the Commission's communication highlights in particular two aspects:

- the need to redirect capital flows towards investments with a positive impact on the environment and encourage investment strategies that take into account social and environmental objectives, through initiatives in the context of the capital markets union.

  On this issue, the Commission tabled three legislative proposals in May 2018. The Council and the Parliament reached a political agreement in Spring 2019 on disclosure requirements relating to sustainable investments and on the setup of new categories of benchmarks giving more information on an investment portolio's carbon footprint. Work is ongoing on the third proposal which aims at creating a unified classification system of environmentally sustainable economic activities.

- the role of taxation as a tool of environmental policy, using environmental taxes, carbon pricing systems and revised subsidy structure to steer transition efforts and to promote energy efficiency, reduce greenhouse gas emissions and enhance the circular economy.

The exchange of views will be informed by a letter by the Economic and Financial Committee's chair which sets out a number of guiding questions:

- Does the Commission communication set the right direction for the EU's long-term contribution to achieving the goals of the Paris Agreement?

- What role should ECOFIN and Finance Ministries play in relation to a long-term strategy for a climate-neutral economy and how can climate and environment risks be integrated in the economic and financial decision-making process? Which priorities should be reflected in the further work?
- The investments required to achieve the transition will mostly need to come from the private sector. What kind of measures and framework conditions are needed at EU and national level to best promote private investments?
- How can investments in research and innovation in low carbon technologies and zero carbon solutions be incentivised and coordinated across the EU to accelerate the development and deployment of advanced innovations?

Other items

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

- **Non-performing loans**: the Commission will present the state of play of the implementation of the action plan to tackle non-performing loans in Europe.

The Council will adopt the following decisions without discussion:

- **Capital markets union**: the Council will adopt the regulation setting up a "pan-European pension product" as well as new rules facilitating the cross-border distribution of investment funds..

  Regulation on a pan European personal pension product

  Regulation on cross-border distribution of funds

  Directive on cross-border distribution of funds

- **EU list of non-cooperative jurisdictions**: the Council will approve an update to the EU list of non-cooperative jurisdictions. Dominica will be removed from the EU list following the steps undertaken by this jurisdiction to comply with its commitments on exchanges of information.

  June 2019 note on the update to the EU tax list of non-cooperative jurisdictions

- a six-monhly report to the European Council taking stock of the progress achieved by the Romanian presidency on **tax issues**

  ECOFIN report to the European council on tax issues

- conclusions and a six-monthly report on implementation of a code of conduct aimed at eliminating situations of **harmful tax competition**;

  June 2019 report of the code of conduct group on business taxation
  June 2019 conclusions on the code of conduct on business taxation