BACKGROUND BRIEF[1]
Brussels, 28 November 2020

Video conference of economics and finance ministers
Tuesday 1 December 2020

The video conference of economics *and finance ministers will start at 10:00. It will be chaired by Germany's Federal Minister of Finance and Vice Chancellor, Olaf Scholz.*

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The presidency will inform ministers on the agreement found at technical level on amendments to the Council directive on administrative cooperation in the field of taxation ('DAC 7'). Ministers will have an opportunity to exchange views on the issue.

They are expected to take stock of the progress in strengthening the Banking Union and to exchange views on the conclusions on the Commission's action plan on the Capital Markets Union.

They will also exchange views on the economic situation and European Semester 2021.

The presidency and the Commission will debrief ministers on the G20 finance ministers' and central bank governors' meeting on 13 November, which focused on debt relief. Ministers are expected to have an exchange of views on the conclusions on international debt relief, in particular for African countries.

They will also discuss international taxation issues.

The President of the European Court of Auditors will present the annual report on the implementation of the EU budget for the financial year 2019.

Under 'Any other business', the presidency will present the state of play of financial services legislative proposals. Italy is expected to present the priorities for its G20 chairmanship in 2021.

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The ***Eurogroup*** *will hold a video conference at 14.00 in its regular format. It will discuss post-programme surveillance for Cyprus, Portugal, Ireland and Spain. It will also discuss Greece's enhanced surveillance and* policy *contingent debt measures. The Commission will present member states' draft budgetary plans. At 16.30, in an 'inclusive format' (27 member states), it will focus on the further strengthening of the Banking Union, ESM Treaty and backstop to the Single Resolution Fund, and preparations for the December Euro Summit.*

Press conferences (virtual):

- after the Eurogroup meeting *(Monday evening)*
- at the end of the Council *(Tuesday afternoon)*

Video conference page
Eurogroup meeting page
Press conferences and public events by video streaming
Video conference - video coverage in broadcast quality (MPEG4) and photo gallery
Eurogroup video conference - video coverage in broadcast quality (MPEG4) and photo gallery

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[1] This note has been drawn up under the responsibility of the press office.

Administrative cooperation in the field of taxation

The presidency will inform ministers on the agreement found at technical level on amendments to the Council directive on administrative cooperation in the field of taxation ('DAC 7'). Ministers will have an opportunity to exchange views on the issue.

A proposal for a Council directive amending directive 2011/16/EU on administrative cooperation in the field of taxation was presented by the European Commission on 15 July 2020, as part of the "Package for fair and simple taxation".

Negotiations on this file were concluded at technical level on 20 November 2020 and the compromise text was submitted to the Permanent Representatives Committee for endorsement on 27 November.

The new rules have two main objectives:

- First, the scope of the automatic exchange of information between member states' tax authorities will be extended, from 2023 onwards, to the information, reported by digital platforms, about income and revenues of the sellers on these platforms. Expanding administrative cooperation to this new area is aimed at helping member states to address the challenges posed by the digitalisation of the economy, given that the characteristics of the digital platform economy make the traceability and detection of taxable events by tax authorities very difficult and lead to a shortfall of tax revenues. By preventing tax evasion and tax avoidance, the reporting obligations not only enhance tax fairness but also foster a level playing field for both the platforms and their sellers.
- Secondly, the new rules will improve the exchange of information and cooperation between member states' tax authorities. For instance, it will become easier to obtain information on groups of tax payers and there will be improvements of the rules for using simultaneous controls and allowing the presence of officials of a member state during an enquiry in another member state. The new rules also provide a framework for the competent authorities of two or more member states to conduct joint audits, which will be operational in all member states from 2024 at the latest.

The Council is expected to adopt the directive in the coming weeks, once the opinions of the European Parliament and of the European Economic and Social Committee have been received and the legal-linguistic revision has taken place.

Draft Council directive amending directive 2011/16/EU on administrative cooperation in the field of taxation

Strengthening the Banking Union

Ministers will take stock of the progress in strengthening of the Banking Union on the basis of a presidency report covering the discussions held in the Council’s Ad Hoc Working Party on the Strengthening of the Banking Union during the second semester of 2020.

In December 2019, the discussions in the Eurogroup and at the Euro Summit (meeting in inclusive format) highlighted the need to continue work on all elements of the further strengthening of the Banking Union on a consensual basis. In June 2020, the Eurogroup (in inclusive format) agreed that the COVID-19 crisis strengthened the case for completing the Banking Union. It was concluded that further work should be carried out to further strengthen the Banking Union in a holistic manner, as soon as possible.

Following this holistic approach, member states worked constructively during four meetings of the Council’s Ad Hoc Working Party on the Strengthening of the Banking Union in the second semester of 2020 and discussed all the elements of a strengthened Banking Union:

- measures aimed at improving bank crisis management,
- enhanced market integration of the EU banking sector and home-host balance,
- regulatory treatment of sovereign exposures, and
- design features of a European deposit insurance scheme (EDIS) on the basis of the so-called hybrid model.

The ad-hoc working party also monitored progress on risk reduction measures, notably the presidency informed delegations on initiatives to tackle non-performing loans (NPLs).

Capital Markets Union – Council conclusions

The presidency will inform ministers about draft Council conclusions on the Commission's new Action Plan on the Capital Markets Union (CMU).

The conclusions are due to be approved by the Council after the informal video conference by written procedure.

The Commission's communication on a new action plan on the Capital Markets Union was published on 24 September 2020. It has three key objectives:

- ensuring that the EU's economic recovery is green, digital, inclusive and resilient by making financing more accessible for European companies, in particular SMEs;
- making the EU an even safer place for individuals to save and invest long-term;
- integrating national capital markets into a genuine EU-wide single market for capital.

To do this, the Commission set out sixteen targeted measures to make real progress to complete the CMU.

Progressing further with the CMU is a priority for the German presidency as capital markets need to work for the citizens and the real economy by providing long-term investment opportunities and easy access to finance. The Council conclusions were prepared to give political steering for future work in this area. They set out the Council's priorities among the measures outlined in the Commission's action plan in order to provide the Commission with guidance when preparing future legislation and non-legislative initiatives.

The draft conclusions stress that, at this juncture, the highest priority should be given to those actions that are important to improve the funding of the economy and particularly of SMEs and have the potential to support a swift economic recovery in the context of COVID-19 pandemic. The measures that are considered most important for mobilising private capital should also be delivered as soon as possible. These should be followed by measures that are deemed of major importance for progressing towards a more vibrant and globally competitive capital market in the short term and medium term.

Among other things, the Council highlights the following measures as most urgent:

- facilitating access of corporations, in particular SMEs, to financing on capital markets,
- creating a single access point to financial and non-financial company data for investors;
- supporting insurers, banks and other institutional investors to invest more in EU businesses;
- enhancing financial literacy to promote well-educated investment decisions;
- enhancing the cross-border activities of post trading infrastructures and settlement,
- promoting further supervisory convergence and working towards a more harmonised legal framework for regulated capital market activities in the EU.

The Council encourages the Commission to work on more complex and time-consuming initiatives as well. These include:

- increasing the convergence of the outcomes of insolvency procedures;
- strengthening the confidence of investors and facilitate cross-border investments by evaluating possible deficits in the areas of rules on enforcement of financial reporting of listed companies.

Economic situation and European Semester 2021

As part of the annual 'European Semester' process for the monitoring of the member states' economic, employment and fiscal policies, the Commission will present two documents:

- an 'alert mechanism report', marking the starting point of the annual macroeconomic imbalances procedure;
- a draft Council recommendation on the economic policies of the euro area.

Under the same item, the Commission will also provide ministers with its assessment of the economic and fiscal situation based on the autumn 2020 economic forecast.

Ministers will hold an exchange of views.

Alert mechanism report

The Commission's report identifies 12 member states for which in-depth reviews need to be prepared to identify and assess the severity of possible macroeconomic imbalances - Croatia, Cyprus, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Romania, Spain and Sweden. These member states had already been identified as having imbalances or excessive imbalances in February 2020. The new reviews will help to assess progress in correcting those imbalances.

Overall, the Commission concludes that the COVID-19 crisis aggravated a number of existing macroeconomic imbalances in member states and is posing new risks. This highlights the need to make the best use of available EU support measures.

Recommendation on the economic policies of the euro area

In the context of the current crisis, the 2021 euro area recommendation focuses on short-term measures to support the recovery and ensure the proper functioning of the EMU.

The recommendation places a strong emphasis on the use of the Recovery and Resilience Facility, providing policy guidance on priorities that member states should include in their Recovery and Resilience Plans. It calls on member states, including through their Recovery and Resilience Plans, to:

- ensure a policy stance which supports the recovery;
- further improve convergence, resilience and sustainable and inclusive growth;
- strengthen national institutional frameworks;
- ensure macro-financial stability; and
- complete the EMU and strengthening the international role of the euro.

The Council is scheduled to approve the recommendation on the economic policies of the euro area and conclusions on the alert mechanism report on 19 January 2021.

The annual sustainable growth strategy, which marks the start of the 2021 European Semester cycle, highlighting the main challenges for 2021 and setting out strategic guidance for the implementation of the Recovery and Resilience Facility, was presented to ministers on 6 October. Council conclusions on the strategy were approved on 6 November.

International issues – Debt relief

a) Follow-up to the extraordinary G20 meeting of finance ministers and central bank governors

The presidency and the Commission will debrief ministers on the G20 finance ministers' and central bank governors' meeting on 13 November 2020, which focused on debt relief.

At this meeting, G20 finance ministers and central bank governors endorsed a 'Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative (DSSI)'. The document defines a series of principles, also agreed by the Paris Club, to facilitate timely and orderly debt treatment for DSSI-eligible countries beyond the DSSI, with broad creditors' participation including the private sector.

The meeting followed the G20 finance ministers' and central bank governors' meeting on 14 October 2020, where the Debt Service Suspension Initiative was extended until 30 June 2021, with the possibility of a further 6-month extension.

b) Council conclusions

Ministers are also expected to have an exchange of views on the conclusions on international debt relief, in particular for African countries. The conclusions were prepared in response to a call from the European Council of 15-16 October 2020 to prepare a common approach in this respect. They are due to be adopted on 30 November.

The conclusions underscore the EU's support for a coordinated international approach on debt relief efforts for African countries. In the draft conclusions, the Council welcomes the G20 - Paris Club Debt Service Suspension Initiative and its extension. DSSI has been fundamental in supporting the countries that have requested participation by freeing up fiscal space to fund social, health, and economic measures to respond to the pandemic. The Council also welcomes the G20 agreement on a "Common Framework for Debt Treatments beyond the DSSI" which will be instrumental to ensure strong creditors' coordination and is considered a major step forward in the sovereign debt restructuring international architecture.

In this context, the Council stresses the importance of debt transparency for a sound assessment of debt sustainability, debtor government accountability, and informed decisions for borrowers and creditors in the context of debt relief efforts and supports the international efforts aimed at strengthening debt transparency in low-income countries.

International taxation

Ministers will discuss international taxation issues. They will be invited to express their views on ongoing work and the way forward on a broad range of issues related to the future architecture of rules on international taxation.

The discussion will take place against the backdrop of the next steps to be taken in the G20/OECD fora in order to address the tax challenges caused by the digitalisation of economy and tax base erosion and profit shifting (BEPS).

Despite the COVID-19 pandemic, work has continued at G20/OECD Inclusive Framework level to find solutions to the tax challenges of the digitalised economy. In particular, the G20/OECD Inclusive Framework on BEPS at its meeting on 8-9 October 2020 approved for public release two reports on the blueprints on the two pillars of OECD work:

- Pillar 1, focused on nexus and profit allocation, and
- Pillar 2 (also called GloBE proposal - "Global Anti-Base Erosion Proposal"), focused on a global minimum tax intended to address remaining BEPS issues.

At their virtual meeting on 12-14 October 2020, the G20 finance ministers and central bank governors welcomed the reports and reiterated their commitment to further progress on both pillars. They urged the G20/OECD Inclusive Framework on BEPS to address the remaining issues with a view to reaching a global and consensus-based solution by mid-2021.

At EU level, the Commission published on 15 July 2020 a "Package for fair and simple taxation" consisting of three documents:

- Communication on an "Action Plan for fair and simple taxation supporting the Recovery Strategy",
- Communication on "Tax good governance in the EU and beyond", and
- proposal for a Council Directive amending Directive 2011/16/EU on administrative cooperation in the field of taxation ('DAC7').

The Council responded to the two communications by a set of comprehensive conclusions, which were be approved on 27 November and which reflect the Council's assessment of the main tax policy issues and priorities in a range of areas, including international taxation and the digitalisation of the economy.

In the conclusions, the Council also underlines the progress made under the Council's Code of Conduct for Business Taxation. This work has allowed to promote tax good governance standards in the EU and also beyond with the use of the EU list of non-cooperative jurisdictions for tax purposes.

Another important work stream concerns administrative cooperation on tax matters, where the new EU rules concerning digital platforms will set an example globally. The technical agreement on the 'DAC7' proposal has already been found in the preparatory bodies of the Council (see above).

The conclusions also set out the Council's views on other tax policy issues, such as VAT and excise duties.

Fair and effective taxation: Council adopts conclusions (press release, 27 November 2020)

Report on implementation of the 2019 budget

The president of the European Court of Auditors, Klaus-Heiner Lehne, will present the Court's annual report on the management of the EU's budget. Ministers may hold an exchange of views.

The report, which was published on 10 November, covers the EU's budget for the financial year 2019. It gives a clean opinion on the reliability of the 2019 EU accounts. The court of auditors also concludes that the revenue for 2019, taken as a whole, was legal and regular, as in previous years. At the same time, it issues an adverse opinion on payments.

Overall, the level of irregularities in EU spending remained relatively stable in 2019 (2.7 %, compared to 2.6 % in 2018). However, due to the way the EU budget is composed and evolves over time, with a rise in 'Cohesion' expenditure, so-called 'high-risk expenditure' increased to more than half of the audited spending in 2019. This type of expenditure mainly concerns reimbursement-based payments, for instance in the fields of cohesion and rural development, where EU spending is managed with member states and is often subject to complex rules and eligibility criteria. In this category, expenditure was affected by a material level of error at 4.9 % (compared to 4.5 % in 2018). Unlike in the previous three years, the auditors therefore concluded that the error is pervasive, giving an adverse opinion on EU expenditure.

In its report, the Court of Auditors also highlights that the absorption of the European Structural and Investment (ESI) funds is still at 40%. This has led to a strong increase of the outstanding commitments, up to almost 300 million. The Court of Auditors also stresses the need for robust and efficient management of the next multiannual financial framework and recovery package, as a result of which EU spending is expected to almost double in the next few years.

EU spending totalled €159.1 billion in 2019. This amounts to around 1.0% of EU gross national income and represents approximately 2.1% of total public spending in EU member states.

The Court's assessment will be the basis for a discharge to be given to the Commission for implementation of the EU 2019 budget. The Council is expected to issue a recommendation in February 2021. It will then be for the European Parliament to decide if it grants discharge to the Commission.

Any other business

a) Financial services legislation

Under 'Any other business', the presidency will update ministers on legislative proposals in the field of financial services, in particular the trilogues with the European Parliament on the Capital Markets Recovery Package and the Benchmark Regulation, as well as the on-going work on the legislative files of the Digital Finance Package.

November 2020 note on the progress on financial services legislative files

b) Priorities for the Italian G20 Presidency in 2021

Italy will present the priorities for its G20 Presidency in 2021.