Council of the European Union

PRESS
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BACKGROUND BRIEF[1]
Brussels, 16 June 2022

Economic and Financial Affairs Council
Luxembourg, 17 June 2022

Chair: **Bruno Le Maire**, French Minister for the Economy, Finance and Industrial and Digital Sovereignty

European Commission representatives: Commissioner Paolo Gentiloni, Commissioner Mairead McGuinness

Starting time: 11.30

Press conferences:

• (tbc) after the ESM Board of Governors meeting (Thursday early afternoon)

• after the Eurogroup meeting (Thursday evening)

• after the Economic and Financial Affairs Council (Friday afternoon, +- 14:45)

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The economic and financial consequences of **Russia's war in Ukraine** will be discussed over breakfast.

EU economy and finance ministers will deliberate on the proposed decision on the system of **new own resources** of the European Union. This discussion will be based on a Presidency note on new own resources.

The Council should adopt its position (general approach) on two legislative proposals: amendments to **Solvency II**, the EU's main piece of legislation in the insurance area; and on a review of the **alternative investment fund managers** directive, which is the legislative framework which governs managers of hedge funds, private equity funds, private debt funds and real estate funds. It will also aim to reach a position on a Council directive on ensuring a global minimum level of taxation for multinational groups in the Union (**Pillar 2**);

Ministers will take stock of the implementation of the Recovery and Resilience Facility (RRF), following a presentation by the European Commission on the state of play. The Council will exchange views on the **recovery and resilience plan (RRP) of Poland** and adopt its implementing decision on the approval of the Polish recovery plan.

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

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The Council will adopt a recommendation which is the first part of a legal process which will enable **Croatia to become a member of the euro area** and to benefit from using our common currency, the euro, as of next year.

As regards business taxation, the Council will aim to adopt **conclusions** on the progress achieved by the **Code of Conduct Group** during the French Presidency, and it will also approve the 6-monthly COCG report to Ecofin.

The Council will take note of a progress report on the state of play as regards the legislative package on **anti-money laundering**. The Presidency will present the state of play as regards current legislative proposals in the field of **financial services**. As an item without discussion, the Council will take note of a progress report on the proposed revision of the **energy taxation directive**.

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The Eurogroup will meet on Thursday 16 June (14.30).

In regular format, it will discuss:

- *Euro area enlargement – convergence reports and draft recommendation on euro introduction by Croatia*
- *Greece – 14th enhanced surveillance report*
- *Post Programme Surveillance reports regarding Cyprus, Portugal, Ireland and Spain*
- *Eurogroup work programme for II/2022*
- *Information points: Priorities of new Slovenian Government; ECB debrief on the latest decisions of the Governing Council*

In inclusive format, it will discuss:

- *Banking Union*
- *Preparation of the June Euro Summit*

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On 16 June at 12.00, the annual Board of Governors meeting of the European Stability Mechanism will take place at the ESM premises.

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On 17 June at 8.30, there will be the annual Board of Governors meeting of the European Investment Bank at ECC Luxembourg.

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Economic and Financial Affairs Council - meeting page

Eurogroup - meeting page

Economic and Financial Affairs Council - video coverage in broadcast quality (MPEG4) and photo gallery

Eurogroup - video coverage in broadcast quality (MPEG4) and photo gallery

Press conferences and public events by video streaming

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Economic and financial consequences of Russia’s military aggression against Ukraine

Over breakfast, the Council will have an exchange of views on the economic and financial aspects of Russia’s military aggression against Ukraine.

EU economy and finance ministers continue to follow these developments closely. On 25 February, they issued a statement, together with the European Commission and the European Central Bank, underlining their unity and their commitment to consider all possible sanctions, as well as their desire to strengthen Europe’s strategic autonomy.

Ukraine: press statement from the EU Ministers for Finance, European Commission and the European Central Bank (press release, 25 February 2022)

Council adopts €1.2 billion assistance to Ukraine (press release, 21 February 2022)

Timeline - EU restrictive measures against Russia over Ukraine (background information)

EU restrictive measures against Russia over Ukraine (since 2014) (background information)

Own resources of the EU

EU economy and finance ministers will deliberate on the proposed decision on the system of new own resources of the European Union. This discussion will be based on a Presidency note on new own resources. This note covers inter alia:

- Carbon border adjustment mechanism (CBAM)
- EU emissions trading system (EU ETS)
- Pillar 1
- Own resources package

At the Ecofin Council, ministers will be invited to express their views on:

- the introduction of these new own resources to ensure the repayment of the EU recovery plan;
- the timetable for their implementation.

Background

The EU's expenditure is financed by revenue from different sources:

- own resources
- surplus EU revenue – what remains after payments from the previous year
- other sources: mainly fines on companies infringing EU competition law, refunds and taxes on salaries

The EU’s own resources make up most of the EU's revenue. They have remained the same over the last decades and consist of:

- traditional own resources: customs duties
- value-added tax (VAT) based contributions from member states
- gross national income (GNI) based contributions from member states, which are adjusted to balance revenue and expenditure

The share of the different EU sources of revenue varies slightly from year to year. In 2018, for instance, the EU's total revenue of 144.8 billion euros was:

- 97% – own resources
- 1% – surplus
- 2% – other sources

The Council decides the maximum amount of own resources and their types at the same time as the limits for expenditure within the multiannual financial framework.

Once they have been agreed, these resources are automatically directed to the EU budget, without the need for any further decision by the national authorities.

Presidency progress report on new own resources of 10 June 2022

EU budget 2021-2027 and recovery plan (infographic)

EU budget (background information)

Corporate taxation: fair and effective taxation for multinational groups

In public session, ministers will revert on the proposal for a Council directive on **ensuring a global minimum level of taxation for multinational groups** in the Union with the aim of reaching a position on the proposal.

The aim of the directive is to transpose into EU law part of the agreement by the OECD/G20 Inclusive Framework (IF) on base erosion and profit shifting (BEPS), which provides for a global two-pillar reform of the rules on international corporate taxation. This international agreement, which brings together 137 countries and jurisdictions, constitutes a **major milestone on the path towards an effective and fair system of profit taxation**. The directive concerns the 'second pillar' of the reform, which precedes the 'first pillar', on which technical work is still ongoing within the OECD's Inclusive Framework on BEPS.

Once unanimously adopted by the Council, the directive would require member states to transpose the necessary elements of the globally agreed rules on the minimum effective taxation of the profits of the largest multinational corporations.

Background

On 8 October 2021, the OECD/G20 BEPS IF reached an agreement on a statement and a detailed implementation plan (link below). The October statement is not the final agreement, but rather a political commitment: the parties supporting the statement undertake to continue their negotiations on all remaining details and associated draft legal texts, model rules and commentaries.

The reform of international corporate tax rules will consist of two pillars.

Pillar 1 covers the new system of attributing taxing rights over the largest multinational enterprises to jurisdictions where profits are earned. The key element of this pillar will be an international convention to be opened for signature in mid-2022.

Pillar 2 contains rules aimed at reducing the opportunities for tax base erosion and profit shifting to ensure that the agreed minimum rate of corporate tax is paid. The core element of Pillar 2 is a set of model rules and commentary on them. Jurisdictions are expected to draw up their domestic rules on the basis of this model.

On 22 December 2021, the Commission tabled its proposal for a directive, the purpose of which is to ensure a consistent implementation of the new rules in the EU in a manner compatible with EU law.

Recording of the discussion at Ecofin Council on 15 March 2022

Recording of the discussion at Ecofin Council on 18 January 2022

(5015/22; 15294/21). Fair taxation: Commission proposes swift transposition of the international agreement on minimum taxation of multinationals (European Commission)

Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy – 8 October 2021 (OECD)

Taxation (background information)

Anti-money laundering

The Council will take note of a progress report on the state of play as regards the legislative package on anti-money laundering.

Anti-money laundering and countering the financing of terrorism (AML/CFT) – Progress report (and 9698/22)

Fight against money laundering and terrorist financing (background information)

Solvency II

The Council will aim to agree its position (general approach) on amendments to the Solvency II directive, the EU's main piece of legislation in the insurance area.

The insurance and reinsurance sector can provide private sources of financing to European businesses and can make the economy more robust by supplying protection against a wide range of risks. With this dual role, the sector has a great potential to contribute to the achievement of the Capital Market Union and to the financing of the green and digital transitions.

This review will make the insurance and reinsurance sector more resilient and prepared for future challenges, whilst stabilising insurers' capital requirements, giving them room to manoeuvre in the short term.

The existing legislative framework had been generally working well since the adoption of Solvency II in 2009, but improvements were proposed in September 2021 by the Commission. The revision notably aimed at improving proportionality, long-term guarantee measures, cross-border supervision issues and creating macroprudential tools.

Background

On 22 September 2021, the Commission transmitted to the Council its proposal to amend the Solvency II directive. The proposal aims to review the prudential framework applicable to the insurance sector in a comprehensive fashion, covering a broad range of topics, in particular:

- the proportionality of measures in consideration of the variety of undertakings being covered;
- the quality of supervision;
- reporting;
- long-term guarantee measures;
- macroprudential tools;
- adapting the framework to the European Green Deal;

- supervision of groups and of cross-border insurance business;
- and other issues including transitional measures.

The proposal was part of a package comprising also a directive establishing a framework for recovery and resolution of insurance and reinsurance undertakings, and a communication on the review of the EU prudential framework for insurers and reinsurers in the context of the EU's post pandemic recovery.

EU economy and finance ministers had a policy debate on the proposal at the Ecofin Council of 5 October 2021. Work at technical level followed, with the aim of reaching broad agreement among member states on an updated version of the text.

Recording of the policy debate on the revision of Solvency II (Ecofin Council of 5 October 2021)

Commission proposal

Risk management and supervision of insurance companies (Solvency II) (background information, European Commission)

Alternative investment fund managers directive

To improve the European capital market and strengthen investor protection, the Council will aim to reach agreement on its position (general approach) on a review of the alternative investment fund managers directive, which is the legislative framework which governs managers of hedge funds, private equity funds, private debt funds, real estate funds and other so-called alternative investment funds in the Union.

The proposal aims at improving the integration of asset management markets in Europe while modernising the framework for key regulatory aspects. It not only updates the alternative investment funds managers (AIFM) directive, but also the rules applicable to undertakings for the collective investment in transferable securities (UCITS) which is the regulatory framework that allows for the sale of cross-Europe mutual funds.

The proposal has four main objectives:

- Achieve further market integration for alternative investment funds and therefore a broader capital market integration;
- Improve companies' access to more diversified forms of financing;
- Strengthen investor protection;
- Enhance the ability of fund managers to deal with liquidity pressure in stressed market conditions.

Background

The Commission presented its capital markets union (CMU) package - of which this proposal forms part - on 25 November 2021. The capital markets union is the EU's initiative to create a truly single market for capital across the EU. It aims to get investment and savings flowing across all member states for the benefit of citizens, businesses and investors.

EU economy and finance ministers had an exchange of views on the CMU package at the Ecofin Council of 7 December 2021.

Commission proposal

Capital markets union - Consilium (europa.eu)

Implementation of the Recovery and Resilience Facility (RRF): Poland

Ministers will take stock of the implementation of the Recovery and Resilience Facility (RRF), following a presentation by the European Commission on the state of play.

The Council will exchange views on the recovery and resilience plan (RRP) of Poland and adopt its implementing decision on the approval of the Polish recovery plan.

Following the formal adoption of the decision, Poland will be able to use the facility's funds to foster its economic recovery from the COVID-19 pandemic.

The Recovery and Resilience Facility is the EU's programme of large-scale financial support in response to the challenges the pandemic has posed to the European economy. The facility's €672.5 billion are used to support the reforms and investments outlined in the member states' recovery and resilience plans.

Recovery fund: ministers welcome assessment of national plans for Bulgaria and Sweden (press release, 3 May 2022)

Recovery fund: ministers welcome assessment of Estonia's, Finland's and Romania's plans (press release, 28 October 2021)

Council gives go-ahead to Malta's recovery plan (press release, 5 October 2021)

Recovery fund: ministers welcome assessment of Czechia's and Ireland's plans (press release, 6 September 2021)

Recovery fund: ministers welcome assessment of four more national plans (press release, 26 July 2021)

Council gives green light to first recovery disbursements (press release, 13 July 2021)

A recovery plan for Europe (background information)

The Recovery and Resilience Facility (European Commission)

The EU as a borrower – investor relations (European Commission)

Enlargement of the euro area: Croatia

The Council will adopt a recommendation which is the first part of a legal process which will enable Croatia to become a member of the euro area and to benefit from using our common currency, the euro, as of next year.

This recommendation is set to be adopted by the Ecofin Council (by a qualified majority vote of the euro area member states) at its meeting of 17 June 2022. The Council is also expected to endorse a letter by the President of the Ecofin Council to the European Council. The European Council will discuss the matter at its meeting on 23-24 June.

The process will conclude with the adoption by the Council (after it has consulted the European Parliament and the European Central Bank) of three legal acts that are necessary to enable Croatia to introduce the euro on 1 January 2023. The adoption of these acts is expected to take place in July.

Background

Croatia will be the 20th EU member state to adopt the euro as its currency. It follows the footsteps of Lithuania, which joined the euro area as 19th EU member state in 2014.

This has become possible as Croatia succeeded in fulfilling all convergence criteria:

- The price stability criterion - in April 2022, the average inflation over 12 months stood at 4.7%, slightly below the reference value of 4.9%. Inflation developments in Croatia overall have been closely aligned with those of the euro area over the decade preceding the COVID-19 crisis, with annual deviations never exceeding 1 percentage point. The divergence has been more marked in the first four months of 2022 (on average 7.2% in Croatia and 6.5% in the euro area), but this is expected to be temporary and inflation is projected to re-converge to euro area levels over the forecast horizon.

- As for the public finances-related criteria - the deficit declined in 2021 to below 3% of GDP and is expected to decline further in 2022 and 2023. The government debt has been decreasing and is projected to fall to 75% of GDP in 2022. Croatia is not subject to excessive deficit procedure (following the Commission's decision earlier this year not to propose opening excessive deficit procedures in spring 2022).
- Regarding the exchange rate criteria, the Croatian kuna has participated in ERM II and has been broadly stable during the last two years up to May 2022. The kuna remained very close to its ERM II central rate against the euro during that time without any signs of tensions.
- Croatia also fulfils the long-term interest rates criterion - the average Croatian rate was well below the reference value of 2.6%.
- Croatia's monetary-policy and national-bank-related legislation is compatible with the Treaty and the Statute of the ESCB and the ECB.

Convergence Report 2022 by the European Central Bank

Convergence Report 2022 by the European Commission

International role of the euro (background information)

Joining the euro area (background information)

Financial services legislation

The Presidency will present the state of play as regards current legislative proposals in the field of financial services.

Progress on financial services legislative files

Digital finance (background information)

Conclusions on Code of Conduct Group (business taxation)

The Council will aim to adopt conclusions on the progress achieved by the Code of Conduct Group (Business Taxation) during the French Presidency.

The Council will also approve the 6-monthly COCG report to Ecofin, reflecting the main elements and views, which were discussed under specific items and reporting also on the monitoring concerning (non-) compliance with agreed guidance. This report from the COCG encompasses the work of the Group in the first half of 2022 during the term of the French Presidency of the Council.

Code of Conduct Group (Business Taxation) (background information)

EU list of non-cooperative jurisdictions for tax purposes (background information)

Energy taxation directive

As an item without discussion, the Council will take note of a progress report on the revision of the energy taxation directive.

Progress report by the French Presidency

How the EU delivers the green transition (infographic)