Council of the European Union

PRESS

EN

**BACKGROUND BRIEF**[1]
Brussels, 7 December 2023

# Economic and Financial Affairs Council
# Brussels, 8 December 2023

**Chair**: **Nadia Calviño,** First Vice-President of the Government of Spain and Minister for Economy, Trade and Companies

**European Commission's representatives**: Commission Vice-President **Valdis Dombrovskis**, Commissioner **Paolo Gentiloni,** Commissioner **Johannes Hahn**

**Starting time:** 10:00

**Press conferences:**

- after the Eurogroup meeting (Thursday 7 December at +/- 18:30)
- after the Economic and Financial Affairs Council (Friday 8 December at +/- 15:00)

*     *     *

The presidency will present a progress report on the adjusted package for the next generation of **own resources**.

The Council will seek a general approach on the proposed reform of the **economic governance framework**.

The presidency will present a progress report on the '**single currency package'**. The package consists mainly of proposals setting the legal framework for the possible introduction of a digital euro and on the legal tender status of euro cash.

Ministers will exchange views on the state of play of the economic and financial impact of **Russia's aggression against Ukraine**.

The Council will exchange views on the state of play of the implementation of the **Recovery and Resilience Facility** (RRF). It will aim to adopt implementing decisions approving the amended recovery and resilience plans of Belgium, Bulgaria, Croatia, Cyprus, Finland, Germany, Greece, Hungary, Ireland, Italy, Latvia, Poland and Romania.

The Council will take work forward on the **European Semester** with an exchange of views on the Annual Sustainable Growth Survey 2024, the Alert Mechanism Report 2024 and Recommendation on the economic policy of the euro area.

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

The Council will seek to approve conclusions on the progress achieved by the Code of Conduct Group and a report to the European Council on **tax issues**. The Council will take note of a presidency progress report on the **VAT in the Digital Age** package.

The Council will take note of a presidency progress report on the **customs union reform.**

The Presidency will present the state of play of legislative proposals in the field of **financial services**.

* * *

The **Eurogroup** will meet at 15:30 on Wednesday 7 December.

The Eurogroup will discuss:

In regular format:

- assessment of euro area member states' draft budgetary plans and of the budgetary situation and prospects of the euro area
- the euro area recommendations for 2024: presentation by the Commission
- functioning of the ERM II
- miscellaneous

In inclusive format:

- The future of European capital and financial markets: exchange of views with guests on the drivers for progress to develop European capital markets

* * *

In the margins of the ECOFIN meeting, an informal meeting of economy and finance ministers will take place on 7 December at 19.00 in the Europa building in Brussels on the subject of economic governance in the EU.

Eurogroup - meeting page

Economic and Financial Affairs Council - meeting page

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

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

Press conferences and public events by video streaming

* * *

## Own resources

The presidency will present a progress report on the adjusted package for the next generation of own resources. Discussions on the package will continue under the next presidency.

In 2020, the European Parliament, the Council and the Commission agreed on a roadmap for the introduction of new own resources that are sufficient to cover the repayment of the European Union Recovery Instrument (NextGenerationEU).

In December 2021, the Commission proposed three new own sources for the EU budget based on the Emissions Trading System (EU ETS), the EU Carbon Border Adjustment Mechanism (CBAM) and the uniform call rate of 15% to the share of residual profits of the multinational enterprises reallocated to member states and declared to the Commission, under the OECD/G20 Pillar 1 agreement.

On 20 June 2023, the Commission presented an updated package of new own resources, amending the own resources decision proposal from December 2021.

The package includes:

- the introduction of a new temporary statistical own resource that comes from a financial contribution linked to the corporate sector, based on statistics on company profits
- technical adjustments needed for the collection of ETS and CBAM as new own resources
- the package still includes the proposal for a Pillar 1 own resource.

The voting rule on the own resources decision within the Council is unanimity, after consulting Parliament. All member states would need to approve the agreement at national level, in line with their constitutional requirements.

Amended proposal for a Council Decision on own resources

EU budget 2021-2027 and recovery plan (infographic)

Financing the EU budget (background information)

## Economic governance review

The Council will seek a general approach on the proposed reform of the economic governance framework.

The EU's **economic governance framework** is a set of common rules for national fiscal and economic policies which apply to all member states. They serve to ensure the sustainability of public finances and promote convergence while addressing macroeconomic imbalances.

The economic governance framework is based on:

- **The Treaty on the functioning of the EU** – sets reference values for government deficits and debts (respectively 3% of gross domestic product (GDP) and 60% of GDP)

- **The stability and growth pact** – defines the rules for monitoring and coordination of national fiscal and economic policies

- **The six-pack** and **two-pack** legislations **–** reinforce fiscal surveillance after the financial crisis and create the macroeconomic imbalance procedure to ensure oversight of imbalances emerging outside the fiscal sphere

- **Code of conduct** documents - guidelines to interpret the six-pack and two-pack legislations

On 9 November 2022, the Commission released a communication on orientations for a reform. The main novelty concerning fiscal rules in the communication is the introduction of four-year medium-term fiscal structural plans outlining country-specific fiscal adjustment paths, based on a single operational fiscal indicator, currently known as the expenditure benchmark. The Commission would initially propose fiscal paths based on a debt sustainability analysis, while member states could request an extension of the four-year path against national reforms and investment.

On 14 March 2023, in a spirit of compromise, member states agreed on a way forward by means of Council conclusions. The Council conclusions **highlighted areas of convergence of views among member states** and identified issues for further work on a reformed framework. The conclusions resolved to process possible next steps in the Council with a view to concluding legislative work in 2023.

Subsequently, the Commission presented its legislative proposals on 26 April 2023. The legislative package focuses on fiscal matters. It contains **three proposals**:

- A proposal for a new regulation on the effective coordination of economic and multilateral budgetary surveillance, replacing the existing preventive arm regulation of the Stability and Growth Pact.
- A proposal to amend the existing regulation on speeding up and clarifying the implementation of the excessive deficit procedure (EDP), which is the set of rules that come into effect if a member state breaches the Treaty reference values of 3% and 60% of GDP for public deficit and debt respectively. This is the corrective arm of the Stability and Growth Pact.
- A third proposal to amend the Council directive on requirements for budgetary frameworks of member states.

The Council exchanged views on the proposed reform of the economic governance framework several times since April.

The European Council has given political guidance on the reform, most recently at its meeting on 26-27 October 2023.

One of the three legislative texts, the preventive arm regulation, is subject to the ordinary legislative procedure.

Recording of the discussion on 9 November 2023

Recording of the discussion on 17 October 2023

Recording of the discussion on 16 June 2023

Proposal for a new regulation on the effective coordination of economic policies and multilateral budgetary surveillance

Proposal to amend the regulation on the excessive deficit procedure

Proposal for a directive amending directive 2011/85/EU on requirements for budgetary frameworks of the member states

Economic governance framework: Council agrees its orientations for a reform (press release, 14 March 2023)

Economic governance framework (background information)

## Single currency package

The presidency will present a progress report on the ‘single currency package’. Discussions on the package will continue under the next presidency.

On 28 June 2023, the Commission put forward a 'single currency package' that consists of complementary legislative proposals. Under the new rules, the digital euro would complement cash and be available to the general public. As a central bank digital currency, it would be directly backed by the European Central Bank.

The package includes a proposal setting the legal framework for the possible introduction of the digital euro. Under the proposal, the digital euro would:

- potentially include a digital wallet, enabling people and businesses to pay with digital euros anytime and anywhere in the euro area
- exist alongside national and international private means of payment, such as cards or applications
- be available online and offline
- allow for payments and money transfers with a high degree of privacy

A related proposal aims to cover the provision of digital euro services by payment services providers incorporated in member states whose currency is not the euro.

The package also comprises a proposal on the legal tender status of ‘physical’ euro cash, i.e. banknotes and coins.

Under current EU law, euro cash is the only legal tender in the euro area. Its legal tender status means physical euro cash must generally be available and accepted to pay for services and goods and to discharge debts, subject to well-framed and monitored exceptions depending on the situation in individual member states.

The new proposal aims to clarify these rules, including the interplay with the digital euro to ensure consistency among the two forms of public money.

The proposal’s main provisions are about:

- safeguarding the acceptance of cash as a payment method throughout the euro area
- guaranteeing that people have access to basic cash services and are free to choose their preferred payment method

If the proposal to establish the legal framework for the digital euro is adopted by the European Parliament and Council, it will ultimately be for the European Central Bank to decide if and when to issue the digital euro.

Towards a digital euro (background information)

Proposal for a Regulation on the establishment of the digital euro

Proposal for a Regulation on the provision of digital euro services by payment services providers incorporated in Member States whose currency is not the euro

Proposal on a legal tender of euro cash

## Russia’s aggression against Ukraine

The Council will exchange views on the state of play of the economic and financial impact of Russia’s aggression against Ukraine. Ministers will receive an update from the Commission on the economic and budgetary situation in Ukraine and the implementation of EU’s restrictive measures.

EU solidarity with Ukraine (background information)

EU response to Russia's invasion of Ukraine (background information)

## Recovery and Resilience Facility

The Council will exchange views on the state of play of the implementation of the **Recovery and Resilience Facility** (RRF). It will aim to adopt implementing decisions approving the amended recovery and resilience plans of Belgium, Bulgaria, Croatia, Cyprus, Finland, Germany, Greece, Hungary, Ireland, Italy, Latvia, Poland and Romania.

Among other amendments, some countries have added new RepowerEU chapters to their updated plans.

The recovery and resilience facility (RRF) is the EU's large-scale financial support programme in response to the challenges the pandemic has posed to the European economy. It is the centrepiece of NextGenerationEU, a temporary recovery instrument that allows the Commission to raise funds to help repair the immediate economic and social damage caused by the COVID-19 pandemic.

To benefit from the facility's €724 billion (in current prices), member states submit recovery and resilience plans (RRPs) to the Commission, setting out the reforms and investments they intend to implement by the end of 2026.

To date, all RRPs have been approved, 40 payment requests have been received from 23 member states, and €175.63 billion have been disbursed.

Regulation 2023/241 as regards REPowerEU chapters, in force since 1 March 2023, increases the RRF financial envelope by €20 billion in new grants. In addition, member states are able to voluntarily transfer up to €5.4 billion from the Brexit Adjustment Reserve to the RRF to finance REPowerEU measures. This comes on top of the existing transfer possibilities of 5% from the cohesion policy funds (up to €17.9 billion).

All member states have submitted amendments to their national recovery and resilience plans at least once, to access the new REPowerEU grants, to request available loans, or to take into account the updated RRF allocation.

A recovery plan for Europe (background information)

REPowerEU: energy policy in EU countries' recovery and resilience plans (background information)

The REPowerEU plan explained (infographic)

## European Semester

The Commission will present the Annual Sustainable Growth Survey 2024, the Alert Mechanism Report 2024 and its proposal for a Council Recommendation on the economic policy of the euro area to ministers, who will have the opportunity to exchange views.

The 2024 exercise of the European Semester started on 21 November 2023 with the publication of the autumn package by the Commission. The elements of the package related to the European Semester are:

- The **Annual Sustainable Growth Survey** 2024, which outlines the economic and employment policy priorities for the EU for the coming 12 to 18 months. As has been the case since 2020, it is structured around four dimensions: environmental sustainability, productivity, fairness and macroeconomic stability. This year's Semester cycle will see a specific focus on the issue of competitiveness.
- The **Alert Mechanism Report** 2024 initiates the annual round of the macroeconomic imbalance procedure, the implementation of which is embedded in the European Semester. It also identifies the member states for which in-depth reviews should be undertaken to assess whether they are experiencing macroeconomic imbalances. This year's report concludes that in-depth reviews are warranted for 12 member states (compared to 17 in the previous European Semester cycle). These member states had all already been subject to an in-depth

review in the previous annual cycle.

- The Commission's recommendation for a Council **recommendation on the economic policies of the euro area** member states, that would call on euro area member states to:
    - take action individually and collectively to adopt **coordinated prudent fiscal policies** and **wind down energy support measures**, with a view to enhancing public finances' sustainability and avoiding fuelling inflationary pressures
    - ensure high and sustained levels of **public investment** and promote **private** investment through the acceleration of the implementation of the RRF and cohesion policy programmes
    - regarding the **labour market**, take into account competitiveness dynamics when supporting wage developments. Addressing labour and skill shortages, including through upskilling and reskilling
    - in order to **preserve macro-financial stability**, monitor risks related to tightening financial conditions, and strive to complete the Banking Union
    - remove **obstacles to private investments**, deepen the **Capital Markets Union** and ensure that public support to strategic sectors remains targeted and does not create distortions in the level playing field of the Single Market.
- The Commission's assessment of the 2024 **Draft Budgetary Plans** (DBPs), where the Commission is of the opinion that the DBPs of seven member states are in line with the Council Recommendations, whereas the DBPs of nine member states are not fully in line with the Council Recommendations and the DBPs of four member risk not being in line with the Council Recommendations. The Commission's assessments of DPBs will be discussed in the Eurogroup on seven December.
- And a proposal for a Joint Employment Report (JER). The JER falls into the remit of the Council in EPSCO formation.

Following the finalisation of the Euro area recommendation by the Eurogroup foreseen on 15 January 2024, and approval by the ECOFIN Council planned for 16 January 2024, the text will be transmitted to the European Council for discussion on 21-22 March 2024, and presented for subsequent adoption by the Council.

The Council will also seek to approve conclusions on the **Annual Sustainable Growth Survey** and the **Alert Mechanism Report** in January 2024.

Established in 2011, the European Semester enables EU member states to **coordinate their economic, fiscal and employment policies** throughout the year and address the economic challenges facing the EU.

The Commission assesses EU member states' national economic policies and budgetary strategies, based on national reform programmes and stability or convergence programmes prepared each year in April. On this basis, the Commission presents each country with a set of draft country-specific recommendations (CSRs) providing policy guidance on how to boost jobs and growth, while maintaining sound public finances.

The Council then adopts the CSRs and opinions. It provides explanations in cases where it does not follow those proposed by the Commission.

Annual Sustainable Growth Survey 2024

Alert Mechanism Report 2024

Recommendation for a Council Recommendation on the economic policy of the euro area

European Commission 2024 autumn package

The European Semester explained (background information)

## VAT in the Digital age

The Council will take note of a presidency progress report on the **VAT in the Digital Age** package.

In December 2022, the Commission presented the 'VAT in the digital age' package, which aims to help promote digitalisation in the fight against VAT fraud, support businesses and reduce administrative burden.

The package includes proposals for:

- **single VAT registration** for businesses across the EU
- **VAT rules for the platform economy**, related to passenger transport and short-term accommodation rental
- **digital reporting obligations** based on e-invoicing for businesses operating across borders in the EU

The package sets out to modernise the reporting obligations for VAT purposes by standardising the information that needs to be submitted by taxable persons on each transaction and by imposing the use of e-invoicing for cross-border transactions, which would contribute to the fight against VAT fraud.

It seeks to address the challenges of the platform economy by enhancing the role of platforms in the collection of VAT when they facilitate the supply of short-term accommodation rental or passenger transport services.

It also supports the aim of reducing the need to register for VAT purposes in multiple EU member states, by improving the functioning of and expanding the existing one-stop shop systems and reverse charge mechanisms.

The Council held a policy debate on the package on 16 June 2023. Work will continue under the next presidency.

Presidency progress report

Recording of the discussion on 16 June 2023

VAT in the digital age (European Commission)

## Taxation - Code of Conduct Group

The Council will seek to approve conclusions on the progress achieved by the Code of Conduct Group during the Spanish Presidency (July to December 2023), as an item without discussion.

The EU Code of Conduct (business taxation) promotes fair tax competition, both within the EU and beyond. The original Code of Conduct was agreed by the EU ministers of finance in 1997 as an intergovernmental, legally non-binding instrument.

It is used primarily to identify and assess preferential tax measures (i.e. measures that provide for a lower level of taxation than the level which is applicable in general) that are possibly harmful.

The Code of Conduct Group was established in 1998 to assess tax measures that may fall within the scope of the Code of Conduct. It is composed of high-level representatives of the member states and the European Commission. It is chaired by a representative of a member state, serving a mandate of two years, and assisted by the General Secretariat of the Council (GSC).

To encourage positive change in tax legislation and practices outside the EU, the Council established in 2017 the EU list of non-cooperative jurisdiction for tax purposes. The EU list is regularly revised by the EU ministers of finance following an in-depth review of the implementation of commitments taken by all third country jurisdictions that are part of the process.

The Code of Conduct Group, assisted by the GSC, conducts technical work, screenings and assessments of third country jurisdictions on the basis of the screening criteria and the agreed geographical scope to prepare revisions of the EU list. The Commission services assist the group by carrying out the necessary technical preparatory work.

The next revision of the EU list of non-cooperative jurisdiction for tax purposes is scheduled for February 2024.

Draft conclusions on the progress achieved by the Code of Conduct (Business Taxation) Group during the Spanish Presidency

Report of the Code of Conduct Group to the Council

Addendum 1-12 to the report

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

## Report to the European Council on tax issues

As an item without discussion, the Council will seek to approve the biannual report to the European Council on tax issues. This report provides an overview of the progress achieved in the Council during the term of the Spanish Presidency (July to December 2023), as well as an overview of the state of play of the most important items under negotiation in the area of taxation.

The report will, among others, touch upon:

– the progress in the negotiations on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and approved a statement on this subject;
– tax cooperation at the United Nations in relation to the conclusions of the report of the Secretary General of United Nations published on 8 August 2023;
– Council Directive amending Directive 2011/16/EU (DAC8);
– faster and safer relief of excess withholding taxes;
– VAT in the Digital Age package;
– rules to prevent the misuse of shell entities for tax purposes through the analysis of several new approaches with a view of bringing together the diverging views on important parts of the proposal;
– restructuring the Union framework for the taxation of energy products and electricity ;
– a Head Office Tax System for micro, small and medium sized enterprises (HOT);
– transfer pricing and a Council Directive on Business in Europe: Framework for Income Taxation (BEFIT);
– The Code of Conduct Group (Business Taxation), including on the EU list of non-cooperative jurisdictions for tax purposes, as set out in its six-monthly report.

Draft report to the European Council on tax issues

## Customs union

The Council will take note of a presidency progress report on the customs reform.

On 17 May 2023, the Commission put forward proposals for a comprehensive reform to modernise the EU Customs Union. The reform consists of a Commission Communication and three legislative proposals.

EU Customs currently operate under pressure, including a huge increase in trade volumes, especially in e-commerce, a fast-growing number of EU standards that must be checked at the border, and shifting geopolitical realities and crises.

The customs reform strives to set a modern vision for EU customs so that customs authorities in the EU are properly equipped for stopping non-compliant goods, collecting more customs duties and carrying out adequate controls without putting excessive burden on authorities and traders. The reform is expected to be rolled out in steps over the coming 15 years.

The main elements of the reform are:

– The establishment of a new structure called 'EU Customs Data Hub', which is expected to become a single online environment designed to collect and analyse data and deal with risk management. Over time, the EU Customs Data Hub would replace the existing customs IT infrastructure in member states. Businesses would submit their customs information to this single portal. The idea is for the customs authorities to have an overview of trade flows. The EU Customs Data Hub is planned to be put in place in 2028 to deal mainly with e-commerce and to be deployed gradually until it becomes fully operational in 2038.

– The establishment of an EU agency for customs, called the 'EU Customs Authority'. The EU Customs Authority would oversee the EU Customs Data Hub and carry out customs risk management. It would assume its tasks on 1 January 2028.

– Changes in the current Authorised Economic Operators (AEO) programme for trusted traders. In some cases, where business processes and supply chains are checked, the most trusted traders ('Trust and Check' traders) would be able to release their goods into circulation into the EU without any active customs intervention.

– Online platforms would be treated as official importers and would be responsible for ensuring that customs duties and VAT are paid at purchase (contrary to the current situation where the responsibility is on the individual consumer and carriers).

– At the same time, the reform suggests abolishing the current threshold whereby goods valued at less than €150 are exempt from customs duty.

Presidency progress report on the customs union reform

Commission Communication on the EU customs reform: taking the customs union to the next level

Proposal for a regulation of the European Parliament and the Council establishing the Union Customs Code and the European Union Customs Authority

Proposal for a Council regulation on the introduction of a simplified tariff treatment for the distance sales of goods and the elimination of the customs duty relief threshold

Proposal for a Council Directive on VAT rules relating to taxable persons who facilitate distance sales of imported goods

EU Customs Reform (European Commission)

## Financial services

The Presidency will present the state of play of current legislative proposals in the field of financial services. This is a recurrent item on the Council agenda.

Digital finance (background information)

Capital markets union (background information)