Council of the European Union

PRESS
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BACKGROUND[1]
Brussels, 23 January 2015

ECONOMIC and FINANCIAL AFFAIRS COUNCIL

Tuesday 27 January in Brussels

*A meeting of the **Eurogroup** will be held on Monday 26 January, starting at 15.30.*

On Tuesday, ministers will attend a breakfast meeting, starting at 9.00, to discuss the economic situation in the EU, financial assistance to Ukraine and measures to stop the financing of terrorist organisations. The Council meeting will start at 10.00.

*The Council will discuss the Commission's proposed action plan on **investment**, specifically a proposal to establish a European fund for strategic investments.*

*It is expected to adopt an amendment to the EU's parent-subsidiary directive, adding an anti-abuse clause to prevent the directive from being used for **corporate tax avoidance**.*

*The Council will discuss **work programmes** of the Latvian presidency and the Commission.*

***Flexibility** under the EU's Stability and Growth Pact, review of **economic governance** and preparation of a February **G20 finance** meeting are also on the agenda.*

***Press conferences**:*

- after the Eurogroup meeting *(Monday evening)*;
- at the end of the Council *(Tuesday lunchtime).*

Press conferences and public events by video streaming: video.consilium.europa.eu.

Video coverage in broadcast quality (MPEG4): tvnewsroom.consilium.europa.eu.

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

Measures in support of investment - European fund for strategic investments

The Commission will present a proposal on the establishment of a European fund for strategic investments (EFSI). The Council will hold an exchange of views.

The fund is one of the core elements of the Commission's "investment plan for Europe", published in November 2014. It is expected to mobilise at least €315 billion in private and public investment across the EU.

[Communication from the Commission on the investment plan]

The EFSI will be built on €16 billion in guarantees from the EU budget and €5 billion in cash from the European Investment Bank. In order to ensure orderly execution of the budget despite potential calls on the guarantee, the proposed regulation provides for the creation of a guarantee fund that would gradually reach €8 billion (i.e. 50% of total EU guarantee obligations) by 2020.

Member states and other third parties would be able to join the EFSI agreement by means of capital contributions. The Commission has indicated that it would take a favourable attitude towards such contributions when assessing member states' public finances.

The proposed regulation would also set up a "European investment advisory hub" to help with the identification, preparation and development of projects across the EU. It would further establish a "European investment project pipeline" to improve investors' knowledge of existing and future projects. In December 2014, a task force, co-chaired by the EIB and the Commission, already identified about 2000 projects worth €1,3 trillion.

The EFSI's role would be to ensure enhanced risk-bearing capacity and to support investments, mainly from private sources, in energy, broadband and transport infrastructure, and to back risk finance for SMEs. By taking on part of the risk of new projects through a first-loss liability, the fund is estimated to reach an overall multiplier effect of 1:15 in real investment.

The EFSI would be governed by a steering board that would set the strategic orientation of the fund, asset allocation and operating policies and procedures, including the investment policy of projects that the EFSI can support and the EFSI's risk profile. Moreover, an investment committee accountable to the steering board would assess specific projects and select those receiving EFSI support, without geographic or sectorial quotas. The committee would consist of a managing director and six independent market experts.

The Council is due to agree its position on the draft regulation in March 2015 and to conclude negotiations with the European Parliament in May 2015. This would allow the regulation to be adopted in June 2015. The European Council in December 2014 called for the proposal to be agreed in June to allow for new investments as early as mid-2015.

The Council has set up an ad-doc working group of experts to work on the draft regulation. The group has met twice so far.

The Commission's "investment plan for Europe" is based on three mutually reinforcing strands:

- The mobilisation of at least €315 billion in new investments between 2015 and 2017, maximising the impact of public resources and unlocking private investment. This will be done by establishing the EFSI in the EIB Group
- Targeted initiatives to ensure this extra investment meets the needs of the real economy
- Measures to provide greater regulatory predictability and to remove barriers to investment.

The proposed regulation creates a legal framework and provides budgetary allocations for the first two strands.

The European Council called for the establishment of an EFSI in December 2014. It supported the intention of the Commission and the EIB to strengthen technical assistance to projects at the European level by creating an investment advisory hub to be operational as of mid-2015.

Presidency work programme

The Latvian presidency will present a work programme on economic and financial affairs for the duration of its term, which runs from January to June 2015. The Council will hold an exchange of views.

Presidency work programme for economic and financial affairs

The presidency intends to continue work aimed at enabling a sustainable economic recovery in Europe. This will involve fiscal responsibility, in line with the EU's Stability and Growth Pact, and initiatives to develop growth. In particular, the presidency will work to implement the Commission's "investment plan for Europe" by June 2015, as decided by the European Council in December 2014 (see separate item above).

Under the Latvian presidency, the Council will continue a review of economic governance reforms made in 2011 and 2013 (see separate item below). It will complete a review of the EU's 2020 strategy for growth and jobs. The presidency will ensure a smooth handling of the "European Semester" policy monitoring process, integrating improvements initiated by the Commission. In March, it will organise a debate on implementation of key structural reforms.

Further to decisions taken by the European Council in October 2014, the presidency will continue work towards a stronger, better-functioning and more resilient economic and monetary union.

The presidency will also continue work on financial sector regulations and on measures to prevent tax fraud and tax evasion.

Together with the Commission and the European Central Bank, it will represent the EU at meetings of G20 finance ministers and central bank governors.

The presidency will moreover prioritise work on macro-financial assistance to Ukraine.

Commission work programme

The Commission will present its work programme for 2015, focusing on actions planned in the area of economic and financial affairs.

Commission work programme

In this area, the Commission emphasises its intended efforts to boost jobs, growth and investment. As part of its "investment plan for Europe", investments will be mobilised through a new European fund for strategic investments (see separate item above). Additionally, the Commission will double the use of innovative financial instruments to increase the impact of the EU's structural and investment funds for the 2014-20 period. It will also present proposals to improve the business environment by removing regulatory and non-regulatory barriers to investment and further strengthen the EU's single market.

As concerns financial services, the Commission will seek to complete and implement the current overhaul of the regulatory framework, including new rules on bank supervision and bank resolution. It will examine how the single market for retail financial services can deliver more benefits to consumers.

The Commission announces an action plan to build a capital markets union. In the short term, it will propose a framework for high-quality securitisation and consider how to extend successful private placement schemes. It will also review the prospectus directive with a view to reducing administrative burdens on SMEs.

Regarding economic and monetary union, the Commission is developing proposals that will involve further steps towards pooled sovereignty in matters of economic governance. There will also be actions to reinvigorate social dialogue at all levels.

The Commission will step up efforts to combat tax evasion and tax fraud and promote tax fairness and tax transparency. It will set out an action plan, and rapidly present a proposal on the automatic exchange of information on cross-border tax rulings. Work also continues in relation to VAT.

Economic governance review - Flexibility under the Stability and Growth Pact

The Council will discuss two communications from the Commission dealing with the EU's fiscal rules and processes.

Economic governance review

The first provides a review of reforms made in 2011 and 2013 to EU economic governance rules.

Commission communication on the review

The 2011 and 2013 reforms strengthened fiscal rules and processes under the Stability and Growth Pact and introduced a macroeconomic imbalances procedure.

The aim was to:

- achieve closer coordination of fiscal and economic policies;
- enable a sustained convergence of the economic performances of the member states;
- ensure transparency, credibility and democratic accountability.

In its communication, the Commission assesses to what extent the new rules (nicknamed the six-pack and the two-pack) have been effective in achieving their objectives. It confirms that the rules have significantly strengthened the EU's economic governance framework. It also reveals scope for improved transparency and simplified policymaking, and for a better impact on growth, imbalances and convergence.

However, given the limited experience gained under the new rules, the Commission does not suggest concrete measures. It instead calls on the Council and the European Parliament to discuss the issues.

Press release on the 2011 reform

Press release on the 2013 reform

Flexibility under the Stability and Growth Pact

In the second communication, the Commission sets out how intends to make the best use of flexibility within the existing rules of Stability and Growth Pact.

Commission communication on flexibility

The Stability and Growth Pact is aimed at ensuring that fiscal discipline is maintained in the member states. It sets reference values of 3% of GDP for annual budget deficits and 60% of GDP for public debt.

The flexibility envisaged by the Commission in its communication covers three main elements:

- Structural reforms. Member states will be granted conditional flexibility under the preventive arm of the pact in relation to structural reforms. They will be allowed temporary deviations of up to 0.5% of GDP from the fiscal adjustment paths leading to their medium-term budgetary objectives. This on condition that the reforms are major, that they are implemented, and that they have verifiable long-term budgetary benefits. Similarly, when opening an excessive deficit procedure (corrective arm of the pact), the Commission may recommend a later deadline for correction of the deficit. When the member state is already subject to an excessive deficit procedure, it may recommend an extension of the deadline.

- o Public investments. The communication clarifies flexibility that was already granted in the past under the preventive arm of the pact. Member states are allowed temporary deviations from their fiscal adjustment paths. This on condition that: (a) GDP growth is negative or the output gap greater than 1.5% of GDP; (b) the deviation does not lead to the 3% of GDP limit being breached and a safety margin is preserved; (c) investment levels are increased as a result; (c) eligible investments are co-funded by EU programmes; (d) the deviation is compensated within the timeframe of the member state's fiscal programme (stability or convergence programmes). Additionally, member state contributions to the European fund for strategic investments (see separate item above) will not be counted when defining a fiscal adjustment under either the preventive or the corrective arm of the pact. Nor will funds provided to co-finance EFSI projects.
- o Cyclical conditions. Under the preventive arm of the pact, the Commission will be more responsive to the economic cycle of a member state. It will use a more complex method to specify its fiscal adjustment path, depending on whether it is in good or in difficult economic times. Under the excessive deficit procedure (corrective arm of the pact), in line with past practice, the Commission will distinguish as much as possible those budgetary developments attributable to government control from those linked to an unexpected decline in economic activity.

The communication sets out merely the Commission's interpretation of flexibility under the Stability and Growth Pact. It suggests no changes to the rules themselves, and therefore makes no legislative proposals.

Preparation of G20 ministerial meeting in Istanbul

The Council is expected to endorse EU terms of reference for a meeting of G20 finance ministers and central bank governors in Istanbul on 9 and 10 February 2015.

The terms of reference, prepared by the Economic and Financial Committee, constitute a common position for EU representatives and those member states that participate in the G20.

The Istanbul meeting is expected to cover six main topics: the global economy, the framework for growth, investment and infrastructure, international financial architecture, financial regulation and taxation issues.

Turkey chairs the G20 from December 2014 to November 2015. The 2015 G20 summit will take place in Antalya on 15 and 16 November.

Preventing corporate tax avoidance - Anti-abuse clause

The Council is expected to adopt, without discussion, an amendment to a directive to prevent it being used by corporate groups for tax avoidance and aggressive tax planning. To this end, it will introduce a binding anti-abuse clause in the EU's parent-subsidiary directive.

Agreement on the amending directive was reached at the Council's meeting on 9 December 2014.

Text of the draft amending directive

The aim is to prevent misuses of the parent-subsidiary directive and to achieve greater consistency in its application in different member states. The anti-abuse clause will apply as a "de minimis" rule, meaning that member states can apply stricter national rules, as long as they meet minimum EU requirements.

The clause will prevent governments from granting the benefits of the directive to arrangements that are not "genuine", i.e. that have been put into place to obtain a tax advantage without reflecting economic reality.

The issue of corporate tax avoidance is a high political priority internationally. The OECD's work on base erosion and profit shifting has been endorsed as the way forward at recent G20 and G8 meetings.

The parent-subsidiary directive (2011/96/EU), adopted in November 2011, is intended to ensure that profits made by one cross-border groups are not taxed twice. It requires member states to exempt from taxation profits received by parent companies from their subsidiaries in other member states.

In November 2013, the Commission proposed to amend the directive with the twofold objective of tackling hybrid loan mismatches and introducing a general anti-abuse rule.

In May 2014, the Council decided to split the proposal and to address the two issues separately. In July 2014, it adopted as a first step provisions to prevent corporate groups from using hybrid loan arrangements to benefit from double-non taxation under the directive.

Press release on provisions to prevent double non-taxation derived from hybrid loan arrangements

Member states will have until 31 December 2015 to introduce an anti-abuse rule into national law. The same deadline applies for transposition of the amendments to tackle hybrid loan mismatches.

The amending directive requires unanimity for adoption by the Council, after consulting the European Parliament. (Legal basis: article 115 of the Treaty on the Functioning of the EU.)

Other issues

Under "other business", the Council will take stock of:ongoing work on financial services dossiers.