Council of the European Union

PRESS

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BACKGROUND[1]
Brussels, 18 January 2018

ECONOMIC AND FINANCIAL AFFAIRS COUNCIL
Tuesday 23 January in Brussels

Ministers will hold a breakfast meeting, starting at 9.00, to discuss the **economic situation**. The Council is scheduled to start at 10.00.

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The Council is expected to remove a number of jurisdictions from the **EU list of non-cooperative jurisdictions** in taxation matters. This follows commitments made by the jurisdictions concerned since the list was published in December 2017.

Ministers will discuss the further development of EU **economic and monetary union**, as well as implementation of an action plan on **non-performing loans** in the banking sector.

The Council is due to adopt conclusions on the Commission's **annual growth survey** and on **macroeconomic imbalances** in the member states. It will also approve a draft recommendation on the **economic policies** of the euro area.

The **Bulgarian presidency** work programme is amongst the other items on the agenda.

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On Monday 22 January, the current and two future presidencies will hold an informal meeting with representatives of the European Parliament, starting at 13.00. Discussions will focus on economic and monetary union, as well as EU banking union and capital markets union.

The **Eurogroup** will meet on Monday at 15.00. It will discuss Greece's macroeconomic adjustment programme, post-programme surveillance in Portugal and the IMF's annual consultation with the euro area. It will also discuss the draft recommendation on the economic policies of the euro area and the further development of economic and monetary union. It is expected to confirm the appointment of Hans Vijlbrief as chairperson of the Eurogroup working group.

Press conferences:

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

Eurogroup agenda highlights

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.

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Taxation - Non-cooperative jurisdictions

The Council is expected to remove Barbados, Grenada, the Republic of Korea, Macao SAR, Mongolia, Panama, Tunisia and the United Arab Emirates from the EU's list of non-cooperative jurisdictions in taxation matters.

This follows commitments made by these jurisdictions since the list was published on 5 December 2017. Letters signed at political level have been assessed, and member states agree that the commitments made justify removing these 8 jurisdictions from the list.

The decision is due to be taken without discussion, by an amendment to the Council's December conclusions. The 8 jurisdictions will be moved from annex I of the conclusions (non-cooperative jurisdictions) to annex II (cooperation with respect to commitments taken).

Implementation of the commitments made, as well as of recommendations made by the Council to address open issues, will be carefully monitored.

The decision will leave 9 of the original 17 jurisdictions on the list of non-cooperative jurisdictions. These are American Samoa, Bahrain, Guam, Marshall Islands, Namibia, Palau, Saint Lucia, Samoa and Trinidad and Tobago. Annex I of the conclusions includes recommendations on steps to take to be de-listed.

Part of the EU's external strategy for taxation, the EU list is intended to contribute to ongoing efforts to prevent tax fraud and promote good governance worldwide. It was prepared in 2017 in parallel with the OECD global forum on transparency and exchange of information for tax purposes.

Whereas the list is to be revised at least once a year, the working group responsible for preparing it can recommend an update at any time.

Letters are due to be sent in February 2018 to 8 jurisdictions in the Caribbean, requesting that commitments be made to remedy EU concerns. These jurisdictions were included in the initial screening process that led to establishment of the list. However, the screening was put on hold following the tropical storms that struck the Caribbean region in September 2017.

- December 2017 Council conclusions on the EU list of non-cooperative jurisdictions
- December 2017 press release on the EU list of non-cooperative jurisdictions

Economic and monetary union

The Commission will present proposals for the further development of the EU's economic and monetary union.

Ministers will hold an exchange of views on the proposals and on the process to be followed in handling them.

The Commission's package, published on 6 December 2017, includes four main initiatives:

- a proposal to create a European Monetary Fund (EMF) to replace the European Stability Mechanism (ESM) that was created during the sovereign debt crisis to provide financial assistance to member states in difficulty. Retaining the ESM's financial and institutional structures, the EMF would also provide a common backstop for the EU's fund aimed at resolving unviable banks;
- a proposal to integrate the main elements of the EU's fiscal compact ('Treaty on Stability, Coordination and Governance in the Economic and Monetary Union') into the EU legal framework;
- a communication on new budgetary instruments for the euro area. These could include support to member states for structural reforms, a convergence facility for member states joining the euro, an EMF/ESM backstop for the EU's banking union and a stabilisation function to protect investments in the event of asymmetric shocks;

- a communication setting out the possible functions of an EU minister for economy and finance. The minister would also serve as vice-president of the Commission and president of the Eurogroup. The new function would thus be aimed at strengthening the coherence, efficiency, transparency and democratic accountability of economic policymaking for the EU and the euro area
- a communication on further steps towards completing economic and monetary union, including as regards the EU's banking union and capital markets union.

The Commission also published proposals to strengthen the EU's structural reform support programme.

It calls on the European Parliament and the Council to agree on the package by mid-2019. This would make it possible to implement these initiatives before the next Commission takes office.

The proposal for a regulation on the ESM requires unanimity within the Council and the consent of the European Parliament. (Legal basis: article 352 of the Treaty on the Functioning of the European Union.)

The proposal for a directive related to the fiscal compact requires unanimity within the Council and opinions of the Parliament and the European Central Bank. (Legal basis: second subparagraph of article 126(14) of the TFEU.)

The proposal for a regulation on the structural reform support programme requires a qualified majority within the Council, in agreement with the Parliament. (Legal basis: articles 175(3) and 197(2) TFEU.)

- 2017 communication on further steps towards completing economic and monetary union
- 2017 proposal for a regulation on the establishment of a European Monetary Fund
- 2017 proposal for a directive to strengthen fiscal responsibility in the member states
- 2017 communication on new budgetary instruments for a stable euro area
- 2017 communication on a European minister for economy and finance
- 2017 proposal for a regulation on the structural reform support programme

Presidency work programme

The Bulgarian presidency will present its priorities for economic and financial affairs (Ecofin) for the duration of its term, which runs from January to June 2018.

Ministers may hold an exchange of views.

In the area of Ecofin, the Bulgarian presidency foresees:

- strong emphasis on reducing risk in the banking sector and completing the EU's banking union. The presidency will strive for an agreement on proposals for reducing risk, and for progress on a proposal for a European deposit guarantee scheme;
- continued work on developing the EU's capital markets union, including on legislative proposals in this field;
- continued work on a proposal to establish a pan-European pension product;
- discussion of proposals aimed at strengthening EU financial supervision;
- discussion on the further development of the EU's economic and monetary union, starting in January (see separate item above). Smooth implementation of the 2018 European Semester policy monitoring process (see separate item below);
- in the area of direct taxation, efforts to agree on a proposal for enhanced administrative cooperation and the exchange of information amongst member states, and progress on a proposal for a common corporate tax base. The presidency will also give priority to a planned proposal on the taxation of the digital economy;

- regarding indirect taxation, progress on the establishment of a single VAT area, starting with the establishment of a definitive VAT system and a proposal on enhanced administrative cooperation to prevent VAT fraud.

  - 2018 Bulgarian presidency work programme

Economic governance - 2018 European Semester

The Council is due to:

– adopt conclusions on two key aspects of the 2018 'European Semester' policy monitoring process;

– approve its draft 2018 recommendation on the economic policies of the euro area.

The conclusions relate to the Commission's 'annual growth survey' and its 'alert mechanism report', the starting point for the annual macroeconomic imbalances procedure.

The 2018 European Semester will conclude in July with the adoption of country-specific recommendations on the member states' economic, employment and fiscal policies.

Annual growth survey

The annual growth survey outlines the most pressing priorities on which the EU and its member states should focus their efforts in the area of the economy and employment.

The 2018 survey notes that the recovery has now reached all member states. Growth is up, surpassing expectations; unemployment is down, investment levels are recovering and public finances are improving. The economy has grown over the past four and a half years in both the EU28 and the euro area.

However, nearly 19 million people are still without a job, investment levels are still too low, wage growth is subdued, slack persists on the labour market, and core inflation is forecast to stay low. In some member states, high debt levels remain a drag on growth.

The Commission believes that a further strengthening of economic and social convergence could speed up the recovery. It calls for structural reforms to boost investment, to help real wages grow, thus boosting domestic demand, and to support internal and external rebalancing in the euro area. It recommends that fiscal policies strike a balance between sustainability and support for the recovery. And it calls for a strengthened structure for the EU's economic and monetary union.

The 2018 survey also focuses on the EU's 'pillar of social rights' endorsed at an informal meeting of the EU's 28 heads of state and government in Gothenburg in November 2017.

For 2018, the Commission proposes to again focus efforts on:

– boosting investment;

– pursuing structural reforms;

– ensuring responsible fiscal policies.

The Council is expected to broadly share the Commission's analysis and agree on the policy priorities proposed for 2018.

- Draft Council conclusions on the 2018 annual growth survey
- 2018 annual growth survey
- November 2017 press release on the European pillar of social rights

Macroeconomic imbalances

The Commission's report identifies 12 member states that may have a macroeconomic imbalance. For these, it will present in-depth reviews in March 2018.

These 12 member states, amongst 13 identified under the previous European Semester, are: Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia, Spain and Sweden.

Greece is not on the list, as it is subject to enhanced surveillance under a macroeconomic adjustment programme. The 13th member state (Finland) exited the macroeconomic imbalances procedure in February 2017.

The Council is expected to broadly share the Commission's analysis, welcoming the progress made by member states in correcting their imbalances.

The Commission's in-depth reviews will assess whether the imbalances are unwinding, persisting or worsening.

Macroeconomic imbalances risk hindering the smooth functioning of the European economy and of the EU's monetary union. They were amongst the factors that contributed to the sovereign debt crisis in the euro area, which started nearly a decade ago.

The macroeconomic imbalances procedure was introduced in 2011 as an annual process aimed at preventing and correcting such imbalances. Fines can be imposed on eurozone countries if they repeatedly fail to comply with the Council's recommendations.

To identify imbalances, the Commission applies the following "scoreboard" of economic indicators:

- External imbalances and competitiveness: current account balance; net international investment position; real effective exchange rate; export market share; nominal unit labour cost index.
- Internal imbalances: house price index; private sector credit flow; private sector debt; general government gross debt; unemployment rate; total financial sector liabilities.
- Employment indicators: activity rate; long-term unemployment rate; youth unemployment rate.

  - Draft Council conclusions on the 2018 alert mechanism report
  - 2018 alert mechanism report

Recommendation for the euro area

This annual recommendation is a key part of the European Semester. It sets priorities for the euro area, on which country-specific recommendations for the eurozone member states should be based.

For 2018, the Council is expected to recommend a broadly neutral fiscal stance for the euro area. It will call for a balanced policy mix that ensures sustainable public finances whilst supporting the economy. Member states with current account deficits or high external debt should aim at containing growth in unit labour costs, and seek to improve their competitiveness. Those with large current account surpluses should promote wage growth, foster investment and support domestic demand and growth potential.

As regards labour markets, the Council is expected to call for reforms help create quality jobs, equal opportunities and access to the labour market and fair working conditions. It will also recommend reforms to support social protection and inclusion.

As concerns the EU's banking union, the Council will call for work to continue with regard to sharing risk and reducing risk in the banking sector. It will call for swift progress on completing the EU's economic and monetary union.

The draft recommendation will be referred to the European Council on 22 and 23 March 2018 for endorsement. The Employment, Social Policy, Health and Consumer Affairs Council approved the social and employment policy aspects in December 2017.

The recommendation requires a qualified majority for approval by the Council. (Legal basis: articles 121(2) and 136 of the Treaty on the Functioning of the EU.)

- Draft 2018 Council recommendation on the economic policy of the euro area

Non-performing loans

The Commission will present a communication on measures to address non-performing loans (NPLs) in the banking sector.

Ministers will hold an exchange of views.

The Commission plans measures to implement a Council action plan, aimed at reducing levels of NPLs and preventing their build-up in the future.

Non-performing loans are bank loans that are subject to late repayment or are unlikely to be repaid without the sale of collateral.

High NPL levels can drag heavily on investment, and hence on the economy. A legacy of the financial crisis, they remain at historically high levels within the EU.

The Council approved its action plan in July 2017, in the light of a report prepared by a sub-group of its financial services committee (FSC). The group recommended a mix of policy actions at national and European level.

In October 2017, the ECB launched a public consultation on new guidance it had prepared for banks on NPLs. The guidance provides for measures that are stricter than the Council's action plan. In November 2017, the European Banking Authority published a report showing progress made by EU banks in cleaning up their balance sheets.

The EBA's report shows NPL levels in the EU to have dropped from nearly €1 trillion at the end of 2016 to €893 billion in November 2017. The ratio of NPLs in proportion to total bank loans also decreased, but it remained above 10% in around one third of member states, with large variations between countries and between sectors. In some countries NPLs are concentrated in real estate, whilst in others they are scattered across the economy.

The Council's July 2017 plan highlights the need for action as regards:

- bank supervision;
- the reform of insolvency and debt recovery frameworks;
- the development of secondary markets for NPLs ('distressed assets');
- restructuring of the banking industry.

The Commission is due to present a 'blueprint' for setting up asset management companies at national level, building on best practices observed in the member states. It envisages legislative proposals to facilitate the development of secondary markets for NPLs, and measures to enable creditors to recover value from secured loans.

These initiatives are scheduled for spring 2018.

- January 2018 communication on measures to address non-performing loans (5213/18)
- Press release on 2017 Council action plan on non-performing loans
- 2017 report of the FSC subgroup on non-performing loans

Other issues

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

- **Financial services**: Ministers will be updated regarding work on legislative proposals;
  - January 2018 note on financial services legislative proposals
- **VAT**: The Commission will present proposals aimed at simplifying VAT requirements for SMEs and simplifying VAT rates.
  - Commission press release on January 2018 VAT proposals

Without discussion, the Council is expected to remove a number of jurisdictions from the EU's list of **non-cooperative jurisdictions** in taxation matters (see separate item above).