Council of the European Union

PRESS
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BACKGROUND[1]
Brussels, 14 June 2017

ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Friday 16 June 2017 in Luxembourg

*The Council is expected to agree on two **banking** proposals, regarding the ranking of unsecured debt instruments in insolvency proceedings and phase-in provisions related to the new accounting standard IFRS 9. It will take note of progress on other banking proposals.*

*They will be called on to agree proposals on reduced VAT rates for **electronic publications** and a generalised reversal of VAT liability to prevent **VAT fraud**.*

*The Council is due to close excessive deficit procedures for **Croatia and Portugal**. It is expected to approve **country-specific recommendations** on the member states' economic and fiscal policies, under the 2017 'European Semester'.*

*Ministers will discuss the Commission's mid-term review of progress on the **capital markets union** plan.*

***Non-performing loans** in the banking sector and **terrorist financing** are also on the agenda.*

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*On Thursday 15 June at 12.30, ministers will attend the annual meeting of the board of governors of the **European Stability Mechanism**.*

*The **Eurogroup** will also meet on 15 June, starting at 15.00. It will discuss the second review of Greece's economic adjustment programme, the IMF's annual recommendations to the euro area and implementation of the EU's framework for the resolution of unviable banks. It will also hold a thematic discussion on the quality of public finances.*

*Proceedings on 16 June will begin with a ministerial breakfast at 9.00 to discuss the **economic situation**. Ministers will also discuss **Portugal**'s intention to proceed with early repayment to the IMF of financial assistance loans. The Council is scheduled to start at 10.00.*

***Press conferences**:*

- after the ESM board of governors meeting *(Thursday afternoon)*;
- after the Eurogroup meeting *(Thursday evening)*;
- at the end of the Council *(Friday afternoon).*

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.

VAT rates for electronic publications

The Council will be called on to agree a proposal that would allow member states to apply reduced VAT rates to electronic publications.

Under the current VAT rules (directive 2006/112/EC), electronically supplied services must be taxed at the standard VAT rate, i.e. minimum 15%, whereas publications on a physical support may benefit from non-standard rates.

For ‘physical’ publications, member states have the option of applying a reduced VAT rate, i.e. minimum 5%. Some have been authorised to apply VAT rates below 5% (super-reduced rates) or so-called zero rates, which involve VAT deductibility.

The draft directive is aimed at aligning the rules and thereby contributing to the EU’s ‘digital single market’ plan.

The text has broad support within the Council, though some member states have reservations.

Ministers debated the proposal on 21 March 2017. As concerns super-reduced and zero rates, it was agreed that member states should only be allowed to apply them if they may already do so for ‘physical’ publications.

The presidency accordingly presented a new compromise proposal.

The Council needs unanimity to adopt the directive, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.) The Parliament voted its opinion on 1 June 2017.

- June 2017 note on VAT rates applied to books, newspapers and periodicals
- April 2017 draft directive on VAT rates applied to books, newspapers and periodicals

VAT fraud - 'Reverse charge' mechanism

The Council will be called on to agree a proposal that would allow member states – as a means of preventing VAT fraud – to temporarily apply a generalised reversal of VAT liability.

The so-called reverse charge mechanism involves shifting liability for VAT payments from the supplier to the customer. It thereby derogates from the general principles of the EU's VAT system.

The proposal was issued in December 2016 at the request of member states particularly affected by VAT fraud.

Under the draft directive, member states that wish to apply the reverse charge mechanism would be able do so in a generalised but temporary manner. The directive would apply under certain conditions to all domestic supplies above an invoice threshold of €10 000.

Weaknesses in the VAT system leave member states vulnerable to fraud, sometimes with serious consequences for government treasuries. This is particularly the case with cross-border transactions.

The problem can be assessed by the 'VAT gap', i.e. the difference between expected VAT revenue and the amount of VAT collected. Part of the VAT gap is attributable to fraud. According to the Commission, the VAT gap has reached nearly €160 billion annually, of which cross-border fraud accounts for about €50 billion of lost revenue each year.

A common fraud scheme is 'missing trader' or 'carousel' fraud, where supplies are rapidly traded several times without payment of VAT.

The reverse charge mechanism can already be applied on a temporary basis, but not in a generalised manner. Under the current rules, it is limited to a pre-determined list of sectors. It may only be used by a member state that has made a specific request and if authorised to do so by the Council.

The directive would offer a short-term solution pending the preparation of a new VAT system where supplies would be taxed in the country of destination. The Commission announced this 'definitive' new VAT system in an April 2016 VAT action plan.

Opinion on the proposal is divided, however. Whilst a number of member states support the principle of a generalised reverse charge mechanism, roughly as many others are sceptical. Ministers debated the proposal on 21 March 2017. In successive compromise proposals, the presidency has addressed concerns cited by both sets of countries.

The latest proposal is intended to strike a compromise as concerns four main aspects:

- scope of the directive. The directive as it stands would apply only to goods and services above an invoice threshold of €10 000;
- conditions for obtaining a derogation. A member state would be able to apply the generalised reverse charge mechanism if (a) it has a VAT gap at least 5 percentage points above the EU average, (b) carousel fraud accounts for more than 25% of that VAT gap and (c) it establishes that other control measures are not sufficient to prevent carousel fraud. Additionally, the member state would have to establish that (d) the estimated gains in tax compliance and collection outweigh the expected additional burdens on businesses and tax administrations by at least 25%, and (e) businesses and tax administrations will not as a result incur costs that are higher than for other control measures;
- role of the Council and the Commission in repealing the derogations. This issue arises in the event of the generalised reverse charge mechanism having a ‘considerable negative impact’ (as defined by the directive) on the EU single market. The presidency proposes a ‘reverse unanimity’ procedure whereby a Commission proposal to repeal all derogations would be deemed to be adopted unless the Council decides unanimously within 30 days to reject it;
- duration of the derogation. The presidency proposes a five-year duration until 30 June 2022. The directive would apply until 30 September 2022.

The Council needs unanimity to adopt the directive, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.)

- June 2017 note on the proposed generalised VAT reverse charge mechanism
- June 2017 draft directive on a generalised VAT reverse charge mechanism
- VAT action plan, "Towards a single EU VAT area"

Strengthening of the banking union - Risk-reduction measures

The Council is expected to agree its stance on two banking proposals:

- a draft directive on the ranking of unsecured debt instruments in insolvency proceedings (bank creditor hierarchy);
- a draft regulation on transitional arrangements for introduction of the IFRS 9 international accounting standard, and on the large exposures treatment of public sector debt denominated in non-domestic currencies.

If agreement is reached, ministers will ask the presidency to start negotiations with the European Parliament.

The Council will take note of progress on other banking proposals.

Creditor hierarchy in insolvency proceedings

Directive 2014/59/EU on bank recovery and resolution subordinates uncovered deposits (above €100 000) to covered deposits in the event of insolvency proceedings. It establishes a preference for natural persons and SMEs. It does not specify, however, what 'preferred creditor' means and how depositor preference relates to other classes of preferred creditors.

In particular, the existing rules do not provide subordination for unsecured debt securities versus other forms of unsecured debt claims.

Such a specification is now necessary in view of the Financial Stability Board's November 2015 'total loss-absorbing capacity' (TLAC) standard. To be implemented by global systemically important banks in 2019, the TLAC standard requires the holding of subordinated instruments ('subordination requirement').

The draft directive therefore requires member states to create a new class of 'non-preferred' senior debt, eligible to meet the subordination requirement.

It will thereby facilitate the application of EU bail-in rules in cross-border situations and avoid distortions of the EU single market. A number of member states have amended or are in the process of amending their insolvency laws. The absence of harmonised EU rules creates uncertainty for banks and investors alike.

The draft, which mainly amends article 108 of the bank recovery and resolution directive, has been prioritised amongst a November 2016 package of banking proposals. The aim is to provide legal certainty for banks and investors.

- May 2017 draft directive on the ranking of unsecured debt instruments

IFRS 9 and non-domestic currency exposures

The draft regulation sets out to mitigate the potential negative impact on banks of the introduction of International Financial Reporting Standard (IFRS) 9.

IFRS 9 is aimed at improving the financial reporting of financial instruments by addressing concerns that arose during the financial crisis. It responds to the G20's call for a more forward-looking model for the recognition of expected credit losses on financial assets.

Use of IFRS 9 may however lead to a sudden increase in expected credit loss (ECL) provisions and a consequent sudden fall in capital ratios. Transitional arrangements are needed for 1 January 2018, consistent with use of the new standard. It was therefore decided to split and prioritise provisions from a broader November 2016 proposal amending regulation 575/2013 on bank capital requirements.

The presidency prepared the resulting draft regulation, which would allow banks to include in their 'common equity tier 1' capital a portion of the increased ECL provisions during a five-year transitional period. That portion would decrease to zero during the course of the transitional period.

IFRS 9 was published by the International Accounting Standards Board in July 2014. Regulation 2016/2067 requires EU banks to use it in their financial statements for financial years starting on or after 1 January 2018.

The draft directive also provides for a three-year phase-out of an exemption to a large exposure limit for public sector debt denominated in non-domestic currencies.

The exemption is used by banks in several non-eurozone member states for their holdings of those member states' euro-denominated public debt. Unless regulation 575/2013 is amended, it will cease to apply after 31 December 2017. The phase-out is intended to soften the impact of its termination.

- May 2017 draft regulation on the transitional period for introduction of IFRS 9

Progress on banking proposals

The Council will take note of progress on the following proposals:

- proposal for a regulation amending regulation 575/2013 on bank capital requirements as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures and reporting and disclosure requirements;

- proposal for a directive amending directive 2013/36/EU on bank capital requirements as regards exempted entitites, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures;
- proposal for a directive amending directive 2014/59/EU on bank recovery and resolution as regards the loss-absorbing and recapitalisation capacity of banks;
- proposal for a regulation amending regulation 806/14 on the EU's single resolution mechanism as regards the loss-absorbing and recapitalisation capacity of banks;
- proposal for a regulation establishing a European deposit insurance scheme (EDIS).

The first four proposals are aimed at reducing risk in the financial system by making banks more resilient to external shocks. They were issued by the Commission in November 2016.

They incorporate into EU law standards agreed at the global level by the Basel Committee on Banking Supervision and the Financial Stability Board. The aim is also to make the regulatory framework more growth-friendly and proportionate to the complexity of banks and their size and business profile. These proposals include measures to support SMEs and investment in infrastructure.

The fifth proposal, issued in November 2015, sets out to establish an EU-level insurance scheme (EDIS) to strengthen the protection of bank deposits. Whereas deposit guarantee schemes provide protection at national level in the event of bank failure, they remain vulnerable to local shocks.

EDIS would constitute a third ‘pillar’ of the EU’s banking union, alongside the single supervisory mechanism (SSM) and the single resolution mechanism (SRM). It would be established in three stages.

In June 2016, the Council agreed that negotiations on EDIS at political level would start as soon as sufficient progress has been made on measures to reduce risks in the financial sector. Work has meanwhile continued at technical level.

- June 2017 progress report on strengthening of the banking union/risk reduction measures
- Press release on the Commission's November 2016 banking proposals
- Proposal for a regulation on a European deposit insurance scheme
- June 2016 Council conclusions on a roadmap to complete the banking union
- Basel Committee on Banking Supervision
- Financial Stability Board

Background

The banking union is aimed at placing Europe’s banking industry on a sounder footing, whilst ensuring that unviable banks are resolved without recourse to taxpayers’ money. Launched in 2012 to address the bank-sovereign nexus in Europe, it involves a transfer of responsibility to the EU level. It currently comprises the 19 countries of the euro area, whilst 7 other member states have also indicated their intention to join.

An ad hoc Council working group was established in January 2016 to examine all issues related to the strengthening of the banking union. In June 2016, the Council adopted conclusions setting out priorities and milestones for further work.

All the proposed regulations and directives require a qualified majority for adoption by the Council, in agreement with the European Parliament. (Legal basis: articles 53(1) and 114 of the Treaty on the Functioning of the European Union.)

Non-performing loans

The presidency will update the Council regarding work on non-performing loans (NPLs) in the banking sector.

A sub-group of the Council's financial services committee (FSC) has prepared a report on the subject. The Council is expected to discuss the report and adopt conclusions setting out an action plan addressing NPL issues at its meeting on 11 July 2017.

Non-performing loans are a heritage of the financial crisis that still affects the banking industry. They remain at historically high levels in the EU. High NPL levels can drag heavily on investment, and hence on the economy.

According to the report, NPLs amounted to nearly €1 trillion at the end of 2016, roughly 6.7% of GDP and 5.1% of total bank loans.

However there are large variations within the EU, where ratios vary from 1% to 46%. In some countries NPLs are concentrated in real estate, whilst in others they are scattered across the economy.

High NPL ratios can generate negative cross-border spill-overs in terms of market reactions, especially within the EU banking union. On the other hand, NPL resolution could be beneficial in terms of reducing financial fragmentation and facilitating capital flows.

Persistently high NPL levels pose a problem, as they:

- are a drag on bank profitability due to administrative costs and higher funding costs for banks. Provisioning needs deplete banks' capital base;
- pose a risk for the viability of high-NPL banks;
- lock up capital to back unproductive assets, thus weighing down on monetary policy transmission and on the financing of the economy.

The FSC sub-group was established to look into the problem, and recommends a mix of policy actions at national and possibly European level. Actions are envisaged in the following areas:

- bank supervision;
- structural issues, including insolvency;
- NPL secondary markets;
- structural reforms to enable the banking industry better manage the timely resolution of NPLs.

Ministers and central bank governors discussed the issue on 7 April 2017 at an informal meeting in Valletta.

- 2017 report of the FSC subgroup on non-performing loans

Terrorist financing

The Commission will report on implementation of various initiatives set out in its action plan on the prevention of terrorist financing.

The Council will hold an exchange of views.

The action plan was launched in February 2016 in response to a spate of terrorist attacks in Europe. It proposed 20 actions in various areas, most of which were to be completed by the end of 2016.

The plan was built on existing EU rules and practices, in line with international standards, adapting them to new threats. Whilst responding to the need for increased security, it set out to preserve a balance, at the same time preserving economic freedoms and citizens' rights.

Work has also proceeded meanwhile at the UN and in other international bodies.

The plan complemented the Commission's 'European agenda on security' and other measures, including a 2015 proposal for a directive on terrorism.

In February 2016, the Council asked the Commission to report on progress every 6 months.

- Factsheet on the February 2016 action plan on the prevention of terrorist financing
- February 2016 Commission action plan for strengthening the fight against terrorist financing
- February 2016 Council conclusions on the fight against the financing of terrorism

Capital markets union

The Council will discuss the Commission's mid-term review of the EU's capital markets union action plan.

The plan, launched in September 2015, is aimed at securing a fully functioning EU capital markets union by the end of 2019.

It includes measures to strengthen capital markets so as to attract more investment, including foreign investment, for European companies and infrastructure projects. It sets out in particular to improve access to finance for European SMEs and start-ups, especially in innovative industries.

European capital markets have expanded over recent decades but remain fragmented. Banks remain the predominant source of financing for businesses. It is expected that stronger capital markets would make the financial system more resilient to shocks, as they would broaden the range of available funding sources.

Nearly two years into the plan, economic recovery in the EU is gaining momentum with a fifth consecutive year of growth. However investment rates are still below pre-crisis levels, and this continues to drag on longer-term growth.

A number of challenges to financial integration have arisen, and with them a need to strengthen the capital markets reform agenda. According to the Commission, the future departure of the United Kingdom from the EU justifies a reassessment of the plan.

Drawing on the results of a public consultation, the Commission announces 9 new priority actions for the coming months:

- strengthening the powers of the European Securities and Markets Authority in promoting consistent supervision across the EU and beyond;
- delivering a more proportionate regulatory environment for SME listing on public markets;
- reviewing the prudential treatment of investment firms;
- assessing the case for an EU licensing and 'passporting' framework for 'fintech' activities (technology used to support or enable banking and financial services);
- measures to support secondary markets for non-performing loans (see separate item above), and initiatives to strengthen the ability of secured creditors to recover value from secured loans;
- follow-up to the recommendations of a Commission high-level expert group on sustainable finance;
- facilitating the cross-border distribution and supervision of mutual funds ('UCITS') and alternative investment funds;
- providing guidance on EU rules for the treatment of cross-border investments, and a framework for the amicable resolution of investment disputes;
- exploring measures to support capital market development at local and regional level.

The Commission intends moreover to pursue outstanding 2015 actions and will present legislative proposals:

- for a pan-European personal pension product to help people finance their retirement;
- for an EU framework for covered bonds to help banks finance their lending activity;
- to increase legal certainty on the ownership of securities in a cross-border context.

Good progress has been made on the plan so far. The mid-term review confirms that around two thirds of actions have been delivered. The European Parliament and the Council have agreed in principle on three major initiatives:

- proposals on securitisation aimed at providing new investment possibilities and an additional source of financing for households and enterprises;
- new rules on venture capital funds aimed at boosting investment in start-ups and innovation;
- new rules that will simplify the publication of prospectuses for the issuing and offering of securities.

Regulatory reform is only one part of the plan. The capital markets union involves action at different levels (EU, national and subnational), both legislative and non-legislative, depending on the issues to be addressed.

It is broader in scope than Europe's banking union, as it encompasses all 28 member states.

- Mid-term review of the capital markets union action plan
- Commission action plan on capital markets union
- Press release on May 2017 adoption of new prospectus rules
- Press release on May 2017 agreement on securitisation
- Press release on May 2017 agreement on venture capital rules

Economic and fiscal policies - Country-specific recommendations

The Council is due to approve, under the 2017 'European Semester' monitoring process, draft recommendations to 27 member states[2] on their economic and fiscal policies.

The draft recommendations assess the economic policies set out in the member states' 'national reform programmes'. They include draft opinions on the fiscal policies set out in their 'stability' and 'convergence' programmes.

The texts will be forwarded to the General Affairs Council on 20 June, and to the European Council for endorsement at its meeting on 22 and 23 June 2017. Similar preparations will be made by the Employment, Social Policy, Health and Consumer Affairs Council on 15 June as concerns the member states' employment policies. The whole package is due to be adopted in July 2017.

The European Semester is an annual process for the simultaneous monitoring of the member states' economic, employment and fiscal policies.

In the light of policy guidance given by the European Council annually in March, the member states present each year in April:

- national reform programmes, which include a macroeconomic scenario for the medium term, national targets for implementing the 'Europe 2020' strategy for jobs and growth, identification of the main obstacles to growth, and measures for growth-enhancing initiatives in the short term;

[2] All except Greece, which is subject to a macroeconomic adjustment programme. To avoid duplication, there is no country-specific recommendation for Greece.

- stability/convergence programmes. Eurozone countries present stability programmes, whereas non-euro member states present convergence programmes. These set out medium-term budgetary objectives, the main assumptions about expected economic developments, a description of fiscal and economic policy measures, and an analysis of how changes in assumptions will affect fiscal and debt positions.

The Council then agrees country-specific recommendations and opinions and, after endorsement by the European Council annually in June, adopts them each year in July.

It requires a qualified majority to adopt the texts. (Legal basis of the recommendations: articles 121(2) and 148(4) of the Treaty on the Functioning of the European Union.)

- June 2017 draft country-specific recommendations
- Explanations of modifications to the June 2017 draft country-specific recommendations

Stability and Growth Pact – Croatia, Portugal and Romania

The Council is due to take a number of decisions under the Stability and Growth Pact, the EU's fiscal rulebook, under both the corrective and preventive arms of the Pact.

It is expected to close excessive deficit procedures for Croatia and Portugal, thereby confirming that they have reduced their deficits below 3% of GDP, the EU's reference value for government deficits.

As a consequence, only four of the EU's 28 member states will remain subject to excessive deficit procedures (France, Greece, Spain and the United Kingdom), continuing an improvement observed since 2011. A peak was reached during a 12-month period in 2010-11 when procedures were open for 24 member states.

The texts abrogate decisions the Council took in December 2009 and January 2014 on the existence of excessive deficits in Portugal and Croatia, respectively.

The Council is also expected to issue a recommendation to Romania for correcting a significant deviation from the adjustment path towards its medium-term budgetary objective.

Croatia

Croatia has been subject to an excessive deficit procedure since January 2014, when it was found to be in breach of both deficit and debt criteria. The Council issued a recommendation calling for the deficit to be corrected by 2016.

The Council noted that Croatia planned a general government deficit of 5.5% of GDP for 2014, above the 3% of GDP reference value. It planned a general government gross debt reaching 62% of GDP in 2014, thus exceeding the EU's 60% debt-to-GDP reference value for government debt.

The Council set deficit targets of 4,6 % of GDP for 2014, 3,5 % of GDP for 2015 and 2,7 % of GDP for 2016.

Croatia's general government deficit amounted to 0.8% of GDP in 2016, down from 3.4% of GDP in 2015. The Commission's 2017 spring economic forecast projects the deficit to rise to 1.1% of GDP in 2017, and to fall back to 0.9% of GDP in 2018. The deficit is thus set to remain below the 3% of GDP reference value over the forecast horizon.

Croatia's gross government debt-to-GDP ratio peaked at 86.7% in 2015 and fell to 84.2% in 2016. The spring forecast projects it to decrease further to 79.4% in 2018, backed by strong nominal GDP growth. In that manner, the 2016 debt ratio fulfils the forward-looking element of the EU's debt reduction benchmark.

The Council is expected to conclude that Croatia's deficit has been corrected and that its January 2014 decision should therefore be abrogated.

- 2017 draft decision abrogating decision 2014/56/EU on an excessive deficit in Croatia

Portugal

Portugal has been subject to an excessive deficit procedure since December 2009, when the Council issued a recommendation calling for its deficit to be corrected by 2013.

In April 2011 however, after several months of market pressure on its sovereign bonds, Portugal requested assistance from international lenders. It obtained a €78 billion package of loans from the EU, the euro area and the IMF. In October 2012, the Council extended the deadline for correcting the deficit by one year to 2014, given the recession at that time in Portugal.

Economic prospects deteriorated further, and the general government deficit reached 6.4% of GDP in 2012. In June 2013, the Council extended the deadline for correcting the deficit by another year, to 2015.

Portugal exited its economic adjustment programme in June 2014.

However, its general government deficit came out at 4.4% of GDP in 2015 and it thereby missed the deadline set by the Council. Portugal’s fiscal effort fell significantly short of what the Council had recommended.

In July 2016, the Council concluded that Portugal 's response to its June 2013 recommendation had been insufficient.

A month later, following a reasoned request from Portugal, the Council decided not to impose a fine. It stepped up the excessive deficit procedure, calling for the deficit to be corrected by 2016 and giving notice of measures to be taken. It called on Portugal to reduce its general government deficit to 2.5% of GDP in 2016 and to implement consolidation measures amounting to 0.25% of GDP during the year.

Portugal’s general government deficit amounted to 2.0% of GDP in 2016. The Commission’s 2017 spring economic forecast projects deficits of 1.8% of GDP in 2017 and 1.9% of GDP in 2018, thus remaining below the 3% of GDP reference value over the forecast horizon. The potential deficit-increasing impact of bank support measures should not put at risk the durable reduction of the deficit.

Portugal’s gross government debt-to-GDP ratio reached 130.4% in 2016. The spring forecast projects it to decrease to 128.5% in 2017 and 126.2% in 2018, due to primary surpluses.

The Council is expected to conclude that Portugal's deficit has been corrected and that its December 2009 decision should therefore be abrogated.

- 2017 draft decision abrogating decision 2010/288/EU on an excessive deficit in Portugal

Romania

In July 2016, the Council recommended Romania to limit a deviation from its medium-term budgetary objective observed in 2016 by means of a 0.5% of GDP fiscal adjustment in 2017.

According to the Commission’s 2017 spring economic forecast, Romania’s structural balance deteriorated in 2016 from a position above its –1% of GDP medium-term objective to –2.6% of GDP. This points to a 1.6% of GDP deviation, whilst a 2.0% of GDP deviation is observed in relation to the expenditure benchmark.

Both indicators confirm a significant deviation in 2016 from the requirements of the preventive arm of the Stability and Growth Pact. Moreover the spring forecast projects a general government deficit of 3.5% of GDP in 2017, above the 3% of GDP reference value.

The Commission proposes that the Council recommend measures to ensure a nominal growth of net primary government expenditure not exceeding 3.3% in 2017, corresponding to an annual structural adjustment of 0.5% of GDP. This will put the country on an appropriate adjustment path towards its medium-term budgetary objective. Any windfall gains should be used for deficit reduction.

The Council will set a deadline of 15 October 2017 for Romania to report on action taken.

- 2017 draft recommendation to Romania on a significant deviation from the adjustment path

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The decisions and recommendations require:

- for Croatia and Romania (non-eurozone countries), a qualified majority amongst 27 of the EU's 28 member states;
- for Portugal (a eurozone country), a qualified majority amongst 18 of the 19 eurozone member states.

The member state concerned does not vote.

(Legal bases: article 121(4) of the Treaty on the Functioning of the European Union for the recommendation to Romania; article 126(12) TFEU for the decisions on Croatia and Portugal.)

Other items

The Council will be updated regarding work on legislative proposals on **financial services**.

- June 2017 progress report on financial services dossiers.

Without discussion, the Council is expected to:

- endorse a revised code of conduct on implementation of the **Stability and Growth Pact**, the EU's fiscal rulebook;
  - 2017 revised code of conduct on implementation of the Stability and Growth Pact
- adopt conclusions and endorse a six-monthly report on implementation of a code of conduct aimed at eliminating situations of **harmful tax competition**;
  - June 2017 report of the code of conduct group on business taxation
  - June 2017 draft conclusions on the code of conduct on business taxation
- approve a six-monthly report to the European Council on **tax issues**;
  - June 2017 report to the European Council on tax issues
- take note of a progress report regarding work on a package of proposals regarding **VAT on electronic commerce**.
  - June 2017 progress report regarding VAT on electronic commerce
  - June 2017 compromise proposal on VAT on electronic commerce

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