



ECONOMIC and FINANCIAL AFFAIRS COUNCIL

Friday 27 January in Brussels

*The Council will discuss Basel Committee **banking reforms**, the priorities of the **Maltese presidency** and a report on **EU own resources**.*

*The Commission will present a proposal that would allow a temporary reversal of VAT liability ('reverse charge' mechanism) for the prevention of **VAT fraud**.*

*As part of the European Semester monitoring process, 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**.*

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On Thursday 26 January, the current and two future presidencies will hold an informal meeting with representatives of the European Parliament, starting at 9.00. The discussion will focus on EU banking union, capital markets union, taxation, the European fund for strategic investments and EU economic and monetary union.

*The **Eurogroup** will meet on Thursday at 15.00. It will discuss implementation of Greece's economic adjustment programme and post-programme surveillance in Ireland and Portugal. It will also discuss the IMF's annual consultation with the euro area, the draft Council recommendation on the economic policies of the euro area and Lithuania's and Spain's draft budgetary plans for 2017.*

On Friday 27 January at 9.00, ministers will hold a breakfast meeting to discuss the economic situation. The Council meeting is scheduled to start at 10.00.

Press conferences:

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

VAT fraud - 'Reverse charge' mechanism

The Commission will present a proposal that would allow a generalised but temporary reversal of VAT liability to be applied in order to prevent VAT fraud.

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

The proposal was issued in December 2016 following a request by member states particularly affected by VAT fraud.

Under the directive, member states that wish to apply the reverse charge mechanism would be able to do so in a generalised but temporary manner for domestic supplies above a specified threshold.

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 using the 'VAT gap', i.e. the difference between expected VAT revenue and the amount of VAT actually collected. A significant 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 proposed 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. This 'definitive' VAT system was announced by the Commission in an April 2016 VAT action plan.

Under the proposal, a generalised reverse charge mechanism would apply until 30 June 2022. Member states would be able to apply the mechanism – on a voluntary basis and under certain conditions – to all supplies above an invoice threshold of €10 000.

The Commission would have three months to authorise or reject member state requests to apply the mechanism, depending on whether the requirements are fulfilled. In the event of a considerable negative impact on trade within the EU's internal market, the Commission would be required to repeal the authorisation after a six-month period.

Under the current rules, member states may apply the reverse charge mechanism on a temporary basis, but not in a generalised manner. They can only do so within a pre-determined list of sectors.

The directive requires unanimity for adoption by the Council, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.)

- [December 2016 proposal on a VAT generalised reverse charge mechanism](#)
- [VAT action plan, "Towards a single EU VAT area"](#)

Presidency programme

The Maltese presidency will present its work programme for economic and financial affairs for the duration of its term, which runs from January to June 2017.

The Council will hold an exchange of views.

Extending the lifespan of the European fund for strategic investments and developing an EU capital markets union are cited amongst the presidency priorities.

The programme covers the EU budget, economic governance, financial services and banking union, taxation, fraud, money laundering and investment.

- [2017 Maltese presidency programme](#)

Economic governance - 2017 European Semester

The Council is due to:

- adopt conclusions on two key aspects of the 2017 'European Semester' policy monitoring process;
- approve a draft 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 2017 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 the member states should focus in the economic and employment sphere.

The 2017 survey emphasises the need to strengthen economic recovery and invest strongly in young people and jobseekers, business start-ups and SMEs. It highlights the need for a recovery that benefits all, notably the weaker sections of society, and which strengthens fairness and the social dimension of the EU's single market. It identifies a number of ways in which to create more jobs, economic growth and investment.

A number of positive developments have highlighted the resilience of the European economy, despite broader uncertainty worldwide. All member states are experiencing growth, whilst investment has started to pick up and 8 million new jobs have been created since 2013. If current trends continue, the 75% employment rate target set under the EU's Europe 2020 economic strategy could be reached. A rise in activity rates despite the crisis is further testimony of structural improvements to labour markets. The average general government deficit level, which was over 6% of GDP during the crisis years, is now below 2% of GDP and set to decline further. Government debt levels have stabilised and are expected to decrease.

However, the Commission cautions against complacency as the recovery remains fragile. Growth, employment and investment are held back by the legacy of the crisis, as well as by structural deficiencies dating back to the pre-crisis years. Joblessness remains far too high in many parts of Europe, and the protracted spell of high unemployment is taking its toll on many member states. GDP and productivity growth rates remain below full potential and investment levels below pre-crisis levels. There are still significant imbalances and broader risks within both the euro area and the EU, with convergence stalled in many cases. In addition, globalisation and demographic and technological developments are important sources of change.

For 2017, the Commission proposes to focus efforts on:

- boosting investment;
- pursuing structural reforms;
- responsible fiscal policies.

The Council is expected to broadly share the Commission's analysis and to agree on the broad priority policy areas outlined in the report.

- [Draft Council conclusions on the 2017 annual growth survey](#)
- [2017 annual growth survey](#)

Macroeconomic imbalances

The Commission's report identifies 13 member states that may currently have a macroeconomic imbalance. For these, further analysis will be undertaken through 'in-depth reviews'.

They are the same 13 countries identified as having imbalances in in-depth reviews carried out under the previous European Semester: Bulgaria, Croatia, Cyprus, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia, Spain and Sweden.

They do not include Greece, which is subject to enhanced surveillance under its macroeconomic adjustment programme.

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

The Commission is due to publish its in-depth reviews in February 2017. It will assess whether the imbalances are unwinding, or otherwise persisting or worsening.

Macroeconomic imbalances risk hindering the smooth functioning of both the European economy and the EU's monetary union. They were amongst factors that contributed to the sovereign debt crisis in the euro area.

The macroeconomic imbalances procedure was introduced in 2011 as an annual process aimed at preventing and correcting such imbalances. Euro area countries can be fined under the procedure 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 rates; export market shares; nominal unit labour costs.
 - Internal imbalances: house prices; private sector credit flow; private sector debt; general government sector debt; unemployment rate; total financial sector liabilities.
 - Employment indicators: activity rate; long-term unemployment rate; youth unemployment rate.
- [Draft Council conclusions on the 2017 alert mechanism report](#)
 - [2017 alert mechanism report](#)

Recommendation for the euro area

The draft recommendation covers fiscal policy, competitiveness and productivity, labour market and social issues, EU banking union and the further development of economic and monetary union.

The Commission presented its draft in November 2016, at an early stage in the European Semester. Its aim in doing so is to place greater focus on eurozone priorities when country-specific recommendations will be prepared in the spring.

Whereas the Commission recommended a fiscal expansion of up to 0.5% of GDP for 2017, the draft prepared for the Council calls for an appropriate balance in fiscal policies. By balancing the need for fiscal sustainability with the need to support investment, the aim is an appropriate aggregate fiscal stance and a more balanced policy mix.

The language has also been adjusted as concerns banking union.

The draft recommendation will be referred to the European Council in March, with a view to adoption by the Council on 21 March 2017. The Employment, Social Policy, Health and Consumer Affairs Council approved the social and employment policy aspects on 8 December 2016.

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

- [Draft 2017 Council recommendation on the economic policy of the euro area](#)

Banking reform - Basel Committee

The Commission will report on negotiations within the Basel Committee on Banking Supervision on post-crisis banking reform.

It will report on progress made since November 2016 and on next steps.

The Council will hold an exchange of views.

The Basel Committee is a forum of supervisory authorities aimed at enhancing cooperation and improving bank supervision worldwide. It currently has 28 members, including the EU and some of its member states, and its secretariat is based in Basel.

- [Basel Committee on Banking Supervision](#)

EU budgetary own resources

The president of a high-level group on EU own resources, Mario Monti, will present a final report on the work of the group.

The Council will hold an exchange of views.

Own resources are EU revenue that has to completely cover EU expenditure.

The high-level group was set up in February 2014, in line with the agreement on the EU's multi-annual financial framework for 2014-2020. It is an independent body composed of personalities nominated by the European Parliament, the Commission and the Council.

The group's task was to reflect on more transparent, simple, fair and democratically accountable ways to finance the EU budget. Its report will serve as an input for the Commission's reflection on whether to propose a reform of the own resources system for the period after 2020.

In its report, the high-level group recommends:

- focusing expenditure on EU policies that can bring the most added value;
- introducing new revenue sources directly linked to the European dimension;
- complementing budgetary net balance calculations with cost-benefit analyses that better reflect the benefits of policies and public goods with European added value.

There are currently three types of own resources:

- 'traditional' own resources, mainly customs duties and sugar levies;
- VAT-based own resources;
- GNI-based own resources that play the role of the residual resource funding the part of the EU budget that is not covered by other own resources.

GNI-based own resources account for around 75% of EU revenue. Traditional and VAT-based own resources cover about 12% each.

- [December 2016 report and recommendations of the high-level group on own resources](#)
- [Commission webpage on the high-level group on own resources](#)

Other business

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

- **financial services:** the Council will be updated as concerns work on legislative proposals;
 - **investment in neighbouring countries:** the president of the European Investment Bank, Werner Hoyer, will report on implementation and fundraising for the EIB's so-called resilience initiative in the EU's southern neighbourhood and the Western Balkans.
 - [January 2017 secretariat note on progress on financial services legislative dossiers](#)
 - [EIB press release on humanitarian efforts for refugees by building economic resilience](#)
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