Council of the European Union

PRESS

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BACKGROUND[1]
Brussels, 14 February 2020

ECONOMIC AND FINANCIAL AFFAIRS COUNCIL

Tuesday, 18 February in Brussels

Ministers will meet at 9:00 for a breakfast meeting. They will receive a debrief of the Eurogroup meeting of 17 February and will take stock of the process for selecting a new EBRD president.

The Ecofin Council is scheduled to start at 10:00. It will be chaired by Croatia's Deputy Prime Minister and Minister of Finance, Zdravko Marić.

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The Council is expected to adopt a revised list of non-cooperative jurisdictions for tax purposes in the framework of new conclusions on the matter. Part of the EU's external strategy for taxation, the list is intended to contribute to ongoing efforts to promote good tax governance worldwide.

The Commission will present its communication on the review of EU economic governance published on 5 February.

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

Finance ministers will prepare upcoming G20 Finance meetings.

The Council will adopt the recommendation on the discharge to be given to the Commission in respect of the implementation of the budget for 2018 as well as the Council conclusions on the budget Guidelines for 2021.

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The Eurogroup will meet in a regular format from 15:00 to discuss the Commission's priorities for the economic and monetary union, the euro-area related issues of the economic governance review, the economic situation in the euro-area and the 2020 euro-area recommendation. Ministers will also hold a thematic discussion on tax wedge on labour and take stock of the 12th post programme surveillance mission to Ireland.

As of 18:00, the Eurogroup will meet in an inclusive format to discuss the report on a possible intergovernmental agreement in the framework of the budgetary instrument for convergence and competitiveness.

Press conferences:

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

Ecofin meeting page
Eurogroup meeting page
Press conferences and public events by video streaming
Ecofin - video coverage in broadcast quality (MPEG4) and photo gallery
Eurogroup - video coverage in broadcast quality (MPEG4) and photo gallery

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

European Semester 2020

The Council is due to adopt the following texts related to the 2020 European Semester economic policy coordination process:

- conclusions on the annual sustainable growth strategy for 2020;
- conclusions on the "alert mechanism report", marking the starting point of the annual macroeconomic imbalances procedure;
- a Council recommendation on the economic policies of the euro area.

The 2020 European Semester will conclude in July with the adoption of country-specific recommendations.

Annual sustainable growth strategy

The Commission's report is the starting point of the 2020 European Semester. It outlines the most pressing priorities on which the EU and the member states should focus in the economic and social field.

The report replaces the "annual growth survey" as of this year it sets out a new strategy on how to address not only the short-term economic challenges but also the economy's longer-term challenges. These include the transition to a sustainable and inclusive economy, technological progress, sustainable solutions and demographic changes, in line with the priorities set out in the European green deal.

For 2020, the Commission notes that the European economy is at its seventh consecutive year of growth and is forecast to continue expanding, although at a more moderate pace.

Alert mechanism report

The Commission's report identifies 13 member states that may have a macroeconomic imbalance and should be subject to an in-depth review in 2020.

These are Bulgaria, Croatia, Cyprus, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Romania, Spain, and Sweden.

Each of these member states were subject to a review in the previous annual cycle of Macroeconomic Imbalances Procedure (MIP) and were found to experience imbalances or excessive imbalances. The new reviews will help to assess whether those imbalances are being corrected.

Recommendation on the economic policies of the euro area

This annual recommendation is a key part of the European Semester. It enables a focus on euro-area priorities when preparing country-specific recommendations in the spring.

In line with the new economic strategy, this year's recommendation has a stronger focus on tackling long-term challenges such as climate change, deteriorating demographics and technological transformation.

The Commission also recommends to all member states to improve productivity, further deepen the single market and super a fair an inclusive transition towards a competitive, green and digital economy. It also calls for strengthening education, training systems and investment in skills.

On the fiscal side, the Commission puts the focus on differentiation: high-debt level members need to put debt on a sustainable downward path and those with a favourable fiscal position should use it to further boost high quality investments.

Finally, the Commission calls for ambitious progress in deepening the economic and monetary union, by completing the banking and capital markets union, with the perspective to strengthen the international role of the euro and Europe's economic sovereignty.

Council's timeline on the 2020 European Semester exercise

Economic governance review

The Commission will present its communication on the review of EU economic governance published on 5 February.

The review assesses how effective the economic surveillance framework has been in achieving the following objectives:

- ensuring sustainable government finances and economic growth, as well as avoiding macroeconomic imbalances;
- enabling closer coordination of economic policies; and
- promoting convergence in member states' economic performance.

The cornerstones of the current setup are the six-pack and two-pack legislations, adopted respectively in 2011 and 2013, to address the vulnerabilities exposed by the economic and financial crises. The economic context has evolved materially since the rules were established. The European economy has experienced seven years of consecutive growth. No member state is now subject to the corrective arm of the Stability and Growth Pact, the so-called "excessive deficit procedure", down from 24 member states in 2011.

The Commission is legally required to report on the application of existing rules and has chosen the start of the new political cycle to assess the effectiveness of the current framework for economic and fiscal surveillance.

The Commission does not make any legislative proposal and presents its analysis as a starting point for a public debate of which it will take stock by end-2020. Based on these results, it may consider to submit further initiatives.

The review finds that the surveillance framework has supported the correction of existing macroeconomic imbalances and the reduction of public debt. This, in turn, has helped to create the conditions for sustainable growth, strengthened resilience and reduced vulnerabilities to economic shocks. It has also promoted sustained convergence of member states' economic performances and closer coordination of fiscal policies within the euro area.

However, the review also considers that public debt remains high in some member states and that national fiscal stances have frequently been pro-cyclical. Moreover, the composition of public finances has not become more growth-friendly, with member states consistently opting to increase current expenditure rather than to protect investment. In addition, the review finds that the fiscal framework has become excessively complex as a result of the need to cater for a wide variety of evolving circumstances while pursuing multiple objectives. This complexity means that the framework has become less transparent and predictable, which hampers communication and political ownership.

The review proposes a number of questions to be the object of a large consultation, in particular how to improve the current EU fiscal framework to:

- ensure sustainable public finances in all member states and to help eliminate existing macroeconomic imbalances and avoid new ones arising;
- ensure responsible fiscal policies that safeguard long-term sustainability, while allowing for short-term stabilisation;
- incentivise member states to undertake key reforms and investments needed to help tackle today and tomorrow's economic, social, and environmental challenges while preserving safeguards against risks to debt sustainability;
- simplify the EU framework and improve the transparency of its implementation;
- ensure effective enforcement, including the role of pecuniary sanctions, reputational costs and positive incentives;
- strengthen national fiscal frameworks and improve their interaction with the EU fiscal framework.

Preparation of February G20 meetings

The Council will discuss preparations for the EU participation in G20 meetings on 20-23 February 2020 in Riyadh (Saudi Arabia). Ministers are expected to approve the G20 EU terms of reference for this meeting.

Finance ministers and central bank governors will meet on 22-23 February. The meeting will feature discussions on the global economy, enhancing access to opportunities, financial resilience and development, infrastructure investment, international taxation and financial sector issues.

The G20 meeting of finance ministers and central bank governors provides a forum for key countries in the international financial system to discuss major international economic issues and to coordinate to achieve stable and sustainable growth of the global economy. The meeting has been convened annually since 1999.

Participants in the meeting are: finance ministers and central bank governors of the G20 members (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the EU), representatives of international organisations including the IMF and World Bank and of invited countries. The EU delegation is composed of the finance minister of the EU Council presidency, the European Commission and the president of the European Central Bank.

Saudi Arabia currently holds the G20 presidency. It will focus discussions, forums, working groups and ministerial meetings on the theme of "realising opportunities of the 21st century for all". The G20 leaders' summit is scheduled to take place on 21-22 November 2020 in Riyadh.

Website of the Saudi Arabia's 2020 G20 presidency

EU budget

Discharge for 2018

The Council is expected to recommend that the European Parliament give a discharge to the Commission for the implementation of the EU's 2018 budget. The decision is to be taken by the Parliament. The recommendation has been prepared on the basis of the Court of Auditors' annual report on the implementation of the budget, published in October 2019.

The estimated level of error in payments from the EU budget increased slightly in 2018 (2.6%) compared to 2017 (2.4%). Nevertheless, for 2018, for the third time in a row, the Court issued a qualified (rather than an adverse) opinion on payments from the EU budget. This means that a significant part of the audited expenditure was not affected by a material level of error (error rate is below the materiality threshold of 2 %). And as for each year since 2007, the Court gave a clean opinion on the reliability of the accounts.

The Council is also due to adopt recommendations on the discharge to be given to the directors of 32 EU 'decentralised' agencies, 6 executive agencies and 8 joint undertakings for the implementation of their 2018 budgets.

These recommendations follow the Court's 2018 annual reports on EU agencies and Joint Undertakings. They will be adopted without discussion.

The recommendations require a qualified majority for adoption by the Council. (Legal basis: article 319 of the Treaty on the Functioning of the European Union).

Draft Council recommendation on the 2018 budget discharge

Court of Auditors report on management of the EU's general budget for 2018

Draft Council recommendation on 2018 discharge to the decentralised agencies

Draft Council recommendation on 2018 discharge to the executive agencies

Draft Council recommendation on 2018 discharge to the joint undertakings

Guidelines for 2021

The Council will adopt by consensus its conclusions on the guidelines for the budget 2021. The guidelines are intended as input for the Commission when it prepares the draft EU budget for 2021, which will be submitted for negotiations between the European Parliament and the Council.

The draft guidelines underline that the budgetary procedure for 2021 will be the first of the programming period 2021-2027. In this regard, the budget will play an important role in the development and delivery of the Union's objectives and priorities.

The Council emphasizes the need for all Union's institutions and bodies to respect and comply with all elements of the new multiannual financial framework (MFF) when establishing and implementing the budget for 2021.

The Council considers that the budget for 2021 should ensure prudent budgeting and leave sufficient margins under the ceilings to deal with unforeseen circumstances. At the same time sufficient resources should be allocated to the implementation of the Union's programmes and actions that contribute most towards achieving Union policies. In addition, the budget should allow commitments already made under the current MFF to be paid in due time, in order to avoid any unpaid claims.

The Council considers that budgetary discipline must be maintained at all level. It also stresses the need to respect budgetary principles.

The Council stresses the need for predictability, both of member states' contributions to the EU budget and of payments from the EU budget to member states. The Council invites the Commission to provide accurate forecasts of all revenues, including the annual amount payable by the United Kingdom in 2021 in accordance with the Withdrawal Agreement.

As regards EU's administrative expenditure, the Council considers that the level of staff should reflect the MFF agreement and needs to be kept under continuous monitoring and control. In addition, the Council urges all EU institutions to respect their establishment plans, the financial envelopes and the level of full-time equivalents (FTEs) for contractual agents. The Council encourages the Commission to internally offset an adequate level of FTEs when delegating tasks to executive agencies or similar bodies.

Draft Council budget guidelines for 2021

Other items

Financial services legislation

Under 'other business', the Council will be updated regarding work on legislative proposals.

February 2020 note on the progress on financial services legislative files

EU list of non-cooperative tax jurisdictions:

Without discussion, the Council is expected to adopt conclusions on a revised EU list of non-cooperative jurisdictions for tax purposes.

Part of the EU's external strategy for taxation, the list is intended to promote good tax governance worldwide.

The list of non-cooperative jurisdictions, first established in December 2017, is based on a continuous and dynamic process of:

- establishing criteria in line with international tax standards;
- screening countries against these criteria and inviting jurisdictions to commit to reforms;
- engaging with countries which do not comply;
- listing and de-listing countries as they commit or take action to comply;
- monitoring developments to ensure jurisdictions do not backtrack on previous reforms.

The list includes jurisdictions that have either not engaged in a constructive dialogue with the EU on tax governance or failed to deliver on their commitments to implement reforms to comply with the EU's criteria on time.

Jurisdictions that do not yet comply with all international tax standards but committed to reform are considered cooperative and included in a state of play document (Annex II). The Council's code of conduct group on business taxation monitors that jurisdictions enact the necessary reforms. Once a jurisdiction meets all its commitments, it is removed from Annex II.

Ministers will be invited to review the status of jurisdictions which have committed to pass reforms by end-2019 and to endorse a revised state of play with respect to pending commitments set out in Annex II of the conclusions:

- jurisdictions that managed to implement all the necessary reforms to comply with EU tax good governance principles ahead of the deadline will be considered fully compliant and removed from Annex II.
- the EU list (Annex I) will be updated to include the jurisdictions that failed to meet EU's criteria by the deadline.
- Annex II will be updated to reflect the deadline extensions granted to some jurisdictions.

The revised list will continue to be taken into account in foreign policy, economic relations and development cooperation at EU as well as by all EU Member States in their tax policy defensive measures.

Council's page on the EU list of non-cooperative jurisdictions

Council's page on the Code of Conduct group on business taxation

VAT reforms

Without discussion, the Council is expected to adopt two reforms of the VAT rules:

- one reform concerns the VAT rules applicable to small businesses;
- the other facilitates detection of tax fraud in cross-border e-commerce transactions (text of the directive and regulation).

The Council reached a political agreement on both reforms in November 2019.