

**EU2009.CZ**

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Czech Presidency  
of the European Union

Présidence tchèque  
de l'Union européenne

2009



Programme  
of the Economic and Financial Affairs Council (ECOFIN)  
under the Czech Presidency  
in the first half of 2009

*15 December 2008*

The Czech Republic is assuming the Presidency in the EU Council in very difficult times for the European and global economy. As a consequence of the global financial crisis and the marked slowdown in economic growth, Europe is facing unprecedented economic challenges, to which a swift, adequate and coordinated response is required. The present situation is a test for the European economic and political integration, from which the EU should emerge stronger and more united.

In the ECOFIN Council, as one of the key Council formations, the Czech Presidency aims to provide enough space for discussion on the specific ways to tackle these challenges. The Presidency is convinced that the current economic distress will not reverse the efforts to reach the set medium- and long-term goals. In the first half of 2009, the Czech Presidency will, therefore, focus, under the motto "Europe without barriers", on strategic objectives in the areas of competitiveness, energy and climate change, and an open and secure Europe. Continued structural reforms in these areas will help to restore the economic growth and resilience of the European economies. At the same time, they will strengthen the position of the EU as an important global player.

The Czech Presidency will build on the work of the preceding French Presidency. In close cooperation with the future Swedish Presidency and together with its partners in the ECOFIN Council, the Commission and the European Parliament, the Czech Presidency will focus on the following priorities:

- finding effective responses to the economic downturn in order to bring the EU economies back onto a growth path as soon as possible,
- ensuring financial stability and restoring confidence in the European and global financial market,
- ensuring effective coordination of economic and fiscal policies and compliance with the frameworks provided in the Stability and Growth Pact and the Lisbon Strategy,
- removing obstacles to the functioning of the Single Market, its modernization, and adaptation to new conditions, particularly in the areas of financial services and taxation.

In accordance with the European Economic Recovery Plan agreed by the December 2008 European Council, the ECOFIN Council will work on implementation of the approved measures, their monitoring and assessment. If the need arises, the Council will prepare

further necessary measures that will help to stabilize and restore the growth and resilience of the European economies.

The developments on the financial markets have shown that coordination is absolutely necessary. The Presidency will promote continued application of the principles of fair competition and transparency in the provision of state aid. The Presidency firmly believes that protectionism is an obstacle to prosperity and that the EU must make every effort to eliminate protectionism in international trade.

The Czech Presidency wants to ensure that the EU continues to play a leading role in reforming the global financial architecture. The Presidency will be actively involved in implementing the action plan approved by the G20 summit in November 2008 and will report to its colleagues in the Council on the progress of work. The Presidency believes that the key to success is to prepare the common EU positions of the 27 Member States, in particular, the ECOFIN Council's contribution to the common EU position for the G20 summit in April 2009 and the positions for the joint meetings of the Bretton Woods institutions in spring 2009. The Presidency is committed to promote these common European positions at meetings with international partners.

On 1 May 2009, five years will have passed since the biggest enlargement of the European Union. The Presidency will use this opportunity to reflect in the ECOFIN Council and other Council formations on the economic impact of this enlargement on the whole Union.

The events of the past months have often required immediate action by finance ministers. Aware of the current extraordinary circumstances, the Presidency stands ready to respond flexibly and adapt the work programme to any new conditions and urgent issues that might arise.

In order to achieve the above objectives, the Czech Presidency will work in the ECOFIN Council in the following specific areas:

## **STABILITY, GROWTH AND EMPLOYMENT**

### **Economic and financial situation**

In 2009, the European economy will continue to be affected by persisting uncertainties that result primarily from the economic recession in the United States, a significant economic slowdown for other main EU trading partners, and continued instability on the global financial markets. Despite the good economic performance and employment results in past years, the EU and its member states are faced with the economic recession. The Czech Presidency is committed to ensure the implementation of coordinated policies aimed at restoring growth and employment. At the same time, the Presidency sees the economic downturn as an opportunity to promote and speed up reforms enhancing European competitiveness, employment and the long-term sustainability of public finances.

In the first quarter of 2009 the Presidency will concentrate on identifying the key issues for the year 2009 and adequate responses of the economic and budgetary policies as well as in the area of financial stability. The Presidency plans to open the debate by putting the regular procedures of economic policy coordination and budgetary surveillance into the current context. A horizontal discussion on the measures already taken and further common challenges will follow. As a final step, the Council will proceed to the assessment and drafting of country specific recommendations. The Presidency will aim to propose to the European Council a comprehensive and ambitious policy response to the realities Europe will be facing in 2009.

### **Stability and Growth Pact**

Under the Czech Presidency, the ECOFIN Council will assess the stability and convergence programmes of the Member States. This regular round of assessment provides an opportunity for broader considerations on the design of budgetary and economic policies. In the first half of 2009, the ECOFIN Council will, where necessary, take steps to enhance budgetary surveillance in countries with an excessive government deficit or in countries where there is a risk of an excessive deficit.

The Presidency will focus on ensuring the informed application of the Stability and Growth Pact from an economic and legal standpoint. For the first time since the 2005 reform, the Pact will be tested in bad economic times. The current economic outlook, along with the need to support economic activity, can lead, in some Member States, to an increase in medium-term fiscal risks related to deteriorating budgetary balances. The

Czech Presidency believes that it essential to find the right response to the current economic problems while not deflecting from the primary long-term role of the ECOFIN Council, which is to ensure macroeconomic stability, responsible budgetary and structural policies, and sustainable growth. The Presidency is convinced that the Stability and Growth Pact provides the right framework for our policies, even in this difficult situation.

### **Quality and sustainability of public finances**

The ageing populations, increasing globalization, and temporarily also the extraordinary expenditures to support the financial markets and economic growth will weigh heavily on the public finances of EU countries. Promoting the quality and sustainability of public finances thus becomes a precondition for sustaining stable economic growth and an appropriate level of welfare. The two aspects of public finances are key elements of the renewed Lisbon Strategy and the Stability and Growth Pact.

The Presidency wants to address the existing challenges for public finances in a comprehensive and clear manner. An update of the economic and budgetary effects of ageing populations will be published in spring 2009. The Czech Presidency will use this analysis as a basis for discussing the economic consequences of ageing. At the same time, this analysis will allow the Member States to reflect the effects of ageing in their medium-term budgetary plans and thus provide the governments with guidance for more responsible policies to the benefit of both present and future generations. The Presidency intends to contribute to the discussion on the effective and efficient use of public finance with an analysis of the changes in the structure of public spending.

### **Lisbon Strategy**

The substantial slowdown in the EU economy is a test for the resilience of EU economies and the effectiveness of structural reforms undertaken in past years. The current economic situation calls for reconciling short-term oriented policies to mitigate the impact of the crisis with a medium-term structural reform agenda to boost growth and employment. The Presidency is of the view that the present situation should not lead to a slowdown in or diversion from the strategy of structural reforms, for which the Lisbon Strategy offers an appropriate framework. Joint efforts should continue to target the four priority areas of the renewed Lisbon Strategy agreed at the spring 2006 European Council meeting: knowledge and innovation, employment, business potential, and energy and climate change. Fulfilling this vision gives the EU a chance to emerge from the crisis as a stronger and more competitive force. Furthermore, the Presidency will continue the debate on the directions for the Lisbon Strategy post 2010.

Under the Czech Presidency, the first year of the second three-year cycle of the Lisbon Strategy will be evaluated. The Presidency will focus on ensuring that specific measures recommended to the individual Member States are a coherent tool both for tackling the present economic situation and for the medium-term growth strategy.

Proper functioning of the single market without barriers is fundamental for achieving the priorities of the Lisbon Strategy. The emphasis on removing barriers is indeed the focal point of the Czech Presidency's priority "Competitive Europe". When reviewing the progress in strengthening the single market, the Czech Presidency in the ECOFIN Council will primarily focus on its economic aspects. Better regulation is also a way to increase the competitiveness of the EU – under the Czech Presidency, the ECOFIN Council will concentrate on reducing the administrative burden.

### **Climate change**

The transition to a low-carbon economy will be a credible signal of the EU's global responsibility. In the first half of 2009, the ECOFIN Council will discuss the economic dimension of implementing the energy and climate change package and will look specifically at the issue of international financing of climate change impacts in the post-Kyoto period after 2012.

### **Economic and Monetary Union**

The Czech Presidency will take forward the ongoing discussion on how to maximize the benefits of the single currency. In line with the conclusions of the October 2008 ECOFIN Council, the Czech Presidency supports the current trend of deepening and broadening the surveillance of economic policies in the spirit of the revised Stability and Growth Pact. In close cooperation with the Eurogroup, the Presidency will work to translate these initiatives into the current procedures.

## **FINANCIAL STABILITY AND FINANCIAL SERVICES**

### **Enhancing financial stability**

As has been shown by the developments on the global financial markets, financial stability is a precondition for sustainable positive macroeconomic development and the proper functioning of our economies. The Presidency will monitor the financial market's stability and is committed to ensure coordinated action at the European level whenever necessary.

A priority for the Czech Presidency will be implementation and update of the roadmaps adopted by the ECOFIN Council in response to the financial crisis and the principles endorsed by the October 2008 European Council, as well as reflection on future European directions for financial markets and services.

The financial crisis has demonstrated the need to adapt the prudential framework for the functioning of financial institutions. The Czech Presidency will make every effort to finalize the negotiations on the key proposals in the banking sector (the Capital Requirements Directive) and the insurance sector (the Solvency II Directive).

In parallel with the international discussion, the Czech Presidency will discuss the reform of the regulatory framework for European financial markets. This discussion will build on the lessons learned from the crisis and on the assessment of steps taken within the framework of the agreed roadmaps. The Presidency will endeavour to ensure that all proposals for changes in the current supervisory arrangements for cross-border financial groups are underpinned by proper analyses of the potential risks of the proposed system from the perspective of both home and host countries. Any new arrangements must also be effective in crisis prevention. The Presidency considers that an essential step to render the communication and coordination of measures adopted at the EU level more effective is the existence of a strong and independent national supervisor covering all segments of the financial market. In this context, the Presidency anticipates any contributions to the debate on future organization of the EU financial market supervision, including the report of the High Level Expert Group chaired by Jacques de Larosière.

The ECOFIN Council will also pursue work on the proposal for a Regulation on credit rating agencies with the objective to establish an appropriate regulatory framework for the effective functioning of this industry in the EU, including improvements to the rating process and creation of an effective supervisory mechanism.

### **Further integration of retail financial markets**

The Czech Presidency will continue to remove barriers to the smooth and safe cross-border provision of retail financial services. An important priority in this area is the Commission's initiative aimed at levelling the playing field for the distribution of substitute retail investment products. The Czech Presidency will seek to extend the scope of this debate to cover distribution on the whole financial market. The main objective should be to ensure a balanced and comparable level of consumer protection across financial market sectors and an adequate regulatory framework.

In the area of payment services, the Czech Presidency will primarily focus on the Regulation of Cross-border Payments in Euro and the E-money Directive, which the Presidency considers an important tool to support further development of this EU market with clear benefits for citizens.

## **TAXATION**

### **Combating tax fraud and tax evasion**

The fight against tax fraud and tax evasion is a key priority of the Czech Presidency in the area of taxation. The main objective is to improve tax administration and cooperation among the Member States in a way that, on the one hand, will not lead to an excessive increase in the administrative burden for either enterprises or tax administrations and that, on the other, will not put tax revenues of the Member States at risk. In the area of VAT, the Czech Presidency will concentrate on enhancing the conventional measures, which do not alter the current tax system, in particular, VAT exemption for imports of goods that are further supplied or transferred to another Member State, and common standards for tax registration. The Presidency will also endeavour to adopt a proposal modernizing and making more effective the system of tax recovery by the tax administrations of the individual Member States with a view to its rapid implementation. As regards direct taxation, the Czech Presidency will continue the ongoing work on the review of the Directive on taxation of income from savings in order to close the loopholes in the current arrangements that enable tax avoidance. The Czech Presidency will also work on improving administrative cooperation between the Member States by introducing the most up-to-date forms of cooperation, which would contribute to more effective taxation of incomes that are not covered by the Savings Directive. Last but not least, the Czech Presidency will support the work of the Code of Conduct (business taxation) Group on the basis of the agreed working plan.



### **Modernization and simplification of the existing tax rules**

In order to improve the functioning of the internal market and to reduce administrative burdens for businesses, the Czech Presidency will also strive for modernization, increased transparency, and simplification of the current tax rules, including elimination of the remaining barriers on the internal market. Bearing these goals in mind, the Czech Presidency will endeavour to reach progress in discussing the legislative proposals on VAT rules for financial and insurance services, with a focus on new definitions for these services. The Czech Presidency will also try to achieve political agreement on reduced VAT rates. In the area of excise duties, the Czech Presidency will seek to adopt the proposed Tobacco Taxation Directive. The Presidency also intends to open a discussion on the amendments to the Directive on taxation of energy products and electricity, provided the relevant proposal is tabled.

### **EU BUDGET**

The Czech Presidency will put emphasis on the rigorous application of the principles of sound financial management and strict budgetary discipline. These standards will be promoted both in implementation of the 2009 budget and preparation of the Council Guidelines for the 2010 budget. Efforts to improve the financial management of EU funds must continue with increased intensity. The Czech Presidency will, therefore, pay particular attention to the procedure for the 2007 budget discharge and the discussion on ways that would allow the European Court of Auditors to issue a positive Declaration of Assurance (DAS) on EU spending in the medium term.