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CONTENTS[1]

ITEMS DEBATED

DIGITAL SERVICES TAX 4

STRENGTHENING OF THE BANKING UNION 5

– Banking package 5

– European deposit insurance scheme 5

IMPLEMENTATION OF STABILITY AND GROWTH PACT 7

– Romania 7

– Hungary 8

EUROPEAN SEMESTER 9

Annual growth survey 9

Alert mechanism report 10

Recommendation on the economic policies of the euro area 10

ACTION PLAN TO TACKLE NON-PERFORMING LOANS 11

OTHER BUSINESS 12

– Financial services 12

– Follow-up to Achmea judgment 12

MEETINGS IN THE MARGINS OF THE COUNCIL 12

– Eurogroup 12

– Ministerial breakfast 12

[1]
- Where declarations, conclusions or resolutions have been formally adopted by the Council, this is indicated in the heading for the item concerned and the text is placed between quotation marks.
- Documents for which references are given in the text are available on the Council's internet site (http://www.consilium.europa.eu).
- Acts adopted with statements for the Council minutes which may be released to the public are indicated by an asterisk; these statements are available on the Council's internet site or may be obtained from the Press Office.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

– Anti-money laundering action plan ... 13

– VAT rates - short-term fixes ... 13

– Taxation - non-cooperative jurisdictions ... 13

– Taxation - harmful tax competition ... 13

– Taxation - report to European Council on tax issues ... 14

– Derogations to the common system of VAT ... 14

– Stability and growth pact - report by the European Court of Auditors ... 14

ITEMS DEBATED

DIGITAL SERVICES TAX

Ministers held a policy debate on the proposal to establish a digital services tax.

The proposal, published by the Commission on 21 March 2018 as part of a "digital taxation package", is meant as an interim solution aimed at addressing the most urgent gaps in the taxation of digital activities, while ensuring a level playing field for all businesses.

Following a thorough analysis of all technical issues, the presidency put forward a compromise text containing the elements that have the most support from member states. However, at this stage a number of delegations cannot accept the text for political reasons as a matter of principle, while a few others are not yet satisfied with some specific points in the text. That text did not gain the necessary support and was not discussed in detail.

Ministers examined a joint declaration by the French and German delegations. The presidency recommended that the Council working group should continue to work on the basis of the latest presidency compromise text and the elements proposed by France and Germany, with the aim of reaching an agreement as soon as possible.

For the time being there is no agreement at international level on how to respond to such challenges. The OECD has taken up work on this issue and published an interim report in March 2018. Its "Task Force on the digital economy" is aiming to produce a final report by 2020.

Franco-German joint declaration on the taxation of digital companies and minimum taxation

November 2018 presidency note on the digital services tax

November 2018 presidency compromise text on the digital services tax

STRENGTHENING OF THE BANKING UNION

– ***Banking package***

The Council endorsed the result of negotiations with the European Parliament on a set of key risk reduction measures of the so-called "banking package".

The measures deliver on three key objectives set out by the Council roadmap on completing the banking union agreed in June 2016:

- setting out an enhanced framework for bank resolution
- introducing the possibility for resolution authorities to suspend banks' payments when it is under resolution
- strengthening bank capital requirements, by including a binding leverage ratio, a binding net stable funding ratio and setting risk sensitive rules for trading in securities and derivatives.

The endorsement paves the way to making further progress in the sharing of risk within the EU's banking union.

For more details, see press release

November 2018 presidency note on the banking package

– ***European deposit insurance scheme***

The Council took note of progress on a proposal for a European deposit insurance scheme (EDIS), on the basis of a presidency report assessing the outcome of work within the Council working group.

Presented in November 2015, the EDIS proposal is aimed at establishing an EU-level insurance scheme to strengthen the protection of bank deposits.

While deposit guarantee schemes provide protection at national level in the event of bank failure, they remain vulnerable to local shocks. As a remedy to this, EDIS is envisaged as a third "pillar" of the EU's banking union, alongside the single supervisory mechanism for the banking sector and the single resolution mechanism for unviable banks.

According to the Commission's original proposal, EDIS would be established in three stages.

In June 2016, the Council agreed that negotiations at political level would start as soon as progress had been made on measures to reduce risk in the financial sector (see sub-item above).

To address diverging views, the Commission made some suggestions in a communication issued in October 2017.

It suggested a more gradual introduction of EDIS, with only two phases:

- during a more limited reinsurance phase than in its original proposal, EDIS would provide liquidity coverage to national deposit guarantee schemes (DGSs). It would temporarily provide the means for full pay-outs in the event of a bank being in crisis. National DGSs would pay back this support, ensuring that any losses would continue to be covered at national level;

- during a coinsurance phase, EDIS would also progressively cover losses.

Since June 2018, the Council working group has met four times to discuss the proposal. Work was of a technical nature because political discussions were on hold pending sufficient progress on reducing risk.

The Austrian presidency focused the work on thoroughly exploring the technical issues linked to different alternatives for the initial model of EDIS. In particular, the Council working group explored the technical features of a "hybrid model" presented by the presidency, which combined a system of re-insurance based on ideas featured in the October 2017 Commission communication and a mandatory lending scheme.

Moreover, the working party discussed transitional aspects in the context of the introduction of EDIS, the impact of EDIS on non-banking union member states, alternative measures and the calculation of risk-based contributions.

November 2018 presidency progress report on EDIS

IMPLEMENTATION OF STABILITY AND GROWTH PACT

The Council took stock of the ongoing significant deviation procedures of Hungary and Romania. Ministers issued decisions confirming that effective actions have not been taken, as well as new recommendations on measures to take to correct the deviations.

The decisions and recommendations require a qualified majority among 27 of the EU's 28 member states. The member state concerned does not vote.

– ***Romania***

Romania has been subject to a significant deviation procedure since June 2017.

It is responsible for a significant deviation from the agreed adjustment path towards its medium-term budgetary objective.

For the third time, the Council issued:

- a decision establishing that Romania has failed to take effective action;

- a recommendation on measures to take to correct the significant deviation.

In 2016, Romania's structural balance deteriorated significantly. But contrary to the 0.5% of GDP structural improvement recommended by the Council in June 2017, the Commission's autumn 2017 economic forecast suggested a further deterioration.

In December 2017 and again in June 2018, the Council established that Romania had not taken effective action. It called for measures to ensure that the nominal growth of net primary government expenditure does not exceed 3.3% in 2018 and 5.1% in 2019, representing an annual structural adjustment of at least 0.8% of GDP.

However, the Commission's autumn 2018 forecast suggests that Romania's structural balance has stabilised in 2018 after reaching -3.4% of GDP in 2017. Its net primary government expenditure was well above the benchmark set by the Council. Both indicators confirm a significant budgetary deviation in 2018.

The failure to act upon earlier recommendations – and the risk of exceeding the EU's 3% of GDP reference value for government deficits – call for urgent action.

The Council recommended measures to ensure that the nominal growth of net primary government expenditure does not exceed 4.5% in 2019, representing an annual structural adjustment of 1% of GDP.

This will put Romania on an appropriate adjustment path towards its medium-term budgetary objective. Any windfall gains should be used for deficit reduction, and budgetary consolidation measures should secure a lasting improvement.

The Council set a deadline of 15 April 2019 for Romania to report on action taken.

– ***Hungary***

Hungary has been subject to a significant deviation procedure since June 2018.

For the second time, the Council will issue:

- a decision establishing that Hungary has failed to take effective action;
- a recommendation on measures to take to correct the significant deviation.

It is responsible for a significant deviation from the agreed adjustment path towards its medium-term budgetary objective.

In June 2018, the Council issued a recommendation for Hungary to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 2.8% in 2018, corresponding to an annual structural adjustment of 1% of GDP.

However, based on the Commission 2018 autumn forecast, Hungary's structural deficit increased by 1.7% of GDP to 3.4 % in 2017 and it is projected to deteriorate further by 0.4 % of GDP to 3.8% in 2018. As a result, the structural deficit is estimated to be 2.3 % of GDP away from the medium-term budgetary objective of 1.5 % in 2018. This confirms a significant budgetary deviation in 2018.

The Council recommended measures to ensure that the nominal growth of net primary government expenditure does not exceed 3.3% in 2019, representing an annual structural adjustment of 1% of GDP.

This will put Hungary on an appropriate adjustment path towards its medium-term objective. Any windfall gains should be used for deficit reduction, and budgetary consolidation measures should secure a lasting improvement.

The Council set a deadline of 15 April 2018 for Hungary to report on action taken.

EUROPEAN SEMESTER

The Council initiated the annual 'European Semester' process for the monitoring of the member states' economic, employment and fiscal policies.

The Council held an exchange of views on three documents presented by the Commission:

– an annual growth survey, highlighting the main conclusions for 2019;

– an 'alert mechanism report', marking the starting point of the annual macroeconomic imbalances procedure;

– a draft Council recommendation on the economic policies of the euro area.

It is scheduled to approve the recommendation and conclusions on the two reports at a meeting on 22 January 2018. The 2019 European Semester will conclude in July with the adoption of country-specific recommendations.

Annual growth survey

The Commission's survey is the starting point of the 2019 European Semester. It outlines the most pressing priorities on which the EU and the member states should focus in the economic and social field.

For 2019, the Commission notes a less dynamic economic growth context in Europe. It calls on member states to continue efforts along the lines of the previous annual growth survey:

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

Alert mechanism report

The Commission's report identifies 13 member states that may have a macroeconomic imbalance. For these, it will present in-depth reviews in February 2018.

11 of the 13 countries were subject to a macroeconomic imbalance procedure last year: Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain and Sweden.

In addition, Romania and Greece, which exited its macroeconomic adjustment programme in August 2018, will also be subject to a review.

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.

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 eurozone priorities when preparing country-specific recommendations in the spring.

In its draft, the Commission recommends in particular:

– deepening the single market and making reforms that will support productivity, growth and investment;

– improving the quality and composition of public finances in all countries and rebuilding fiscal buffers in countries with high levels of public debt;

– shifting taxes away from labour and strengthening education systems and investment in skills;

– making progress on the different work-streams related to the reform of the Economic and Monetary Union.

ACTION PLAN TO TACKLE NON-PERFORMING LOANS

The Commission reported on work to implement the Council's July 2017 action plan on non-performing loans (NPLs) in the banking sector.

Non-performing loans are bank loans that are subject to late repayment or are unlikely to be repaid without requiring 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 report shows overall NPL levels to have dropped from nearly €1 trillion at the end of 2016 to €82 billion according to the latest figures. The ratio of NPLs in proportion to total bank loans has decreased from 5.4% in June 2016 to 3.4%. However, NPL ratios remain uneven across the EU – ranging from 0.6 % to 44.9 % – and slow progress in some Member States remains a source of concern.

In its July 2017 conclusions, the Council highlighted the need for action in order to reduce levels of NPLs and to prevent their build-up in the future, in particular 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.

In response to the Council's call for action, the Commission proposed in March 2018 a package of measures to address the NPLs issues, including a prudential backstop which would make banks set aside funds to cover risks with associated NPLs, measures encouraging the development of secondary markets where banks could sell their NPLs to investors and an efficient mechanism of out-of-court value recovery from secured loans.

On 31 October 2018, EU ambassadors approved the Council's position on the NPL prudential backstop. Negotiations with the European Parliament will start as soon as the Parliament has agreed its stance.

The Commission's proposals on secondary markets and an out-of-court enforcement mechanism are still under discussion in the Council working group, with the first issue more advanced than the second. The Austrian presidency intends to make as much progress possible on secondary markets aspects, with a view to reaching a partial general approach by the end of the year.

OTHER BUSINESS

– ***Financial services***

The presidency updated ministers regarding work on legislative proposals in the field of financial services. The Commission also reported on the implementation of adopted legislation.

December 2018 progress report on financial services legislative proposals

– ***Follow-up to Achmea judgment***

The Commission informed ministers on the follow-up to the Achmea judgment of 6 March 2018, relating to the compatibility with EU law of arbitration clauses contained in intra-EU bilateral investment treaties.

MEETINGS IN THE MARGINS OF THE COUNCIL

– ***Eurogroup***

Ministers of the eurozone member states attended a meeting of the Eurogroup on 3 November.

In regular format, ministers discussed the overall budgetary situation and prospects in the euro area and conducted a review of the economic and fiscal situation of the member states concerned. The outcome of this discussion was reflected in a Eurogroup statement.

Ministers also took stock of post-programme surveillance missions in Spain and Cyprus, as well as the first enhanced surveillance mission to Greece. The IMF presented its main findings from its euro area Article IV interim mission.

The Eurogroup adopted its work programme for the first half of 2019.

In an inclusive format, the Eurogroup continued preparations ahead of the December Euro Summit, which is expected to take concrete decisions and provide guidance on the way forward on EMU deepening. The Eurogroup endorsed a report to the leaders on EMU deepening.

Eurogroup main results

– ***Ministerial breakfast***

Ministers held a breakfast meeting to discuss the economic situation in the EU, the international role of the euro and the follow-up to the informal Ecofin lunch of September 2018 on EIB-related issues.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

Anti-money laundering action plan

The Council adopted conclusions on an action plan to better tackle money laundering and terrorist financing.

The conclusions set out a number of short-term non-legislative actions to enhance the supervision of anti-money laundering activities and encourage cooperation between competent authorities.

See press release.

VAT rates - short-term fixes

The Council adopted three short legislative acts aimed at adjusting some of the EU's VAT rules in order to fix four specific issues pending the introduction of a new VAT system.

See press release.

Taxation - non-cooperative jurisdictions

The Council approved a number of amendments to its conclusions of December 2017 on the EU's list of non-cooperative tax jurisdictions.

In particular, the Council decided to **remove Andorra and San Marino from annex II** of the Council conclusions of 5 December 2017. (14380/18 + COR1)

Taxation - harmful tax competition

The Council adopted conclusions and a six-monthly report on implementation of a code of conduct aimed at eliminating situations of harmful tax competition, including an update on the process of monitoring commitments taken by jurisdictions in the context of cooperation with third country jurisdictions.

November 2018 report of the code of conduct group on business taxation

November 2018 draft conclusions on the code of conduct on business taxation

Taxation - report to European Council on tax issues

The Council adopted a report to the European Council providing an overview of the progress achieved in the Council during the term of the Austrian presidency, as well as an overview of the state of play of the most important dossiers under negotiations in the area of taxation.

The report mentions in particular the common corporate tax base, the digital taxation package, developments at international level with regard to digital taxation, VAT, excise duties, the Fiscalis programme and the financial transaction tax, as well as matters relating to tax policy coordination. (14601/18)

Derogations to the common system of VAT

The Council adopted implementing decisions authorising the following derogations to the common system of value tax added:

- a derogation authorising the United Kingdom to fix the proportion of VAT relating to expenditure on fuel used for private purposes in business cars (14426/18, 13816/18).
- a derogation authorising Poland to continue to exempt from VAT taxable persons whose annual turnover is no higher than €40 000 (14428/18, 13998/18).
- a derogation authorising the Netherlands to exempt from VAT a taxable person whose annual turnover is no higher than €25 000 (14429/18, 13999/18).
- a derogation authorising Latvia to restrict the right of VAT deduction in relation to certain passenger cars (14431/18, 14315/18).
- an extension of derogation for Lithuania in relation to determining the person liable for the payment of VAT (14432/18, 14002/18

Stability and growth pact - report by the European Court of Auditors

The Council adopted conclusions on the European Court of Auditors' special report on the preventive arm of the stability and growth pact. (13710/18)

Special report of the European Court of Auditors