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OUTCOME OF THE COUNCIL MEETING

3699th Council meeting

Economic and Financial Affairs

Luxembourg, 14 June 2019

President **Eugen Teodorovici**
Romanian minister of finance

P R E S S

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- 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

ITEMS DEBATED

BANKING UNION

The presidency presented a progress report on the state of play concerning the banking union.

The progress report takes stock of the developments in the different workstreams related to the strengthening of the banking union and being dealt with by the Council's preparatory bodies, in particular as regards:

- risk reduction measures
- measures to tackle non-performing loans
- the proposal to establish a European Deposit Insurance Scheme (EDIS)

The report does not reflect work carried out in the context of the Eurogroup's work on deepening the economic and monetary union. In particular, the outcome of the work of the high level working group established by the Eurogroup to work on further steps regarding a EDIS is reflected in a separate report submitted to the Eurogroup of 13 June.

Risk reduction measures

Following the political agreement achieved between the Parliament and the Council on 4 December 2018, the Romanian presidency completed the adoption of the 'banking package', comprising reforms of prudential requirements and recovery and resolution rules for banks.

The new measures implement reforms agreed at international level following the 2007-2008 financial crisis to strengthen the banking sector and address remaining challenges to financial stability. They include in particular key measures such as:

– a leverage ratio requirement for all institutions as well as a leverage ratio buffer for all global systemically important institutions

– a net stable funding requirement

– a new total loss absorbing capacity (TLAC) requirement for global systemically important institutions

– enhanced Minimum Requirement for own funds and Eligible Liabilities (MREL)

– subordination rules for global systemically important institutions (G-SIIs) and other large banks

– a new moratorium power for the resolution authority

On 14 May, the Council adopted the final package of measures, which was published in the Official Journal on 8 June.

Measures to tackle non-performing loans (NPLs)

Following the political agreement reached between the Parliament and the Council on 18 December 2018, the Romanian presidency completed the process of adoption of the regulation on the minimum loss-coverage for non-performing loans, the so-called 'NPLs prudential backstop'.

The new rules set capital requirements which apply to banks with NPLs on their balance sheets. The aim of the reform is to ensure that banks set aside sufficient own resources when new loans become non-performing and to create appropriate incentives to avoid the accumulation of NPLs.

On 9 April 2019, the Council adopted the regulation, which was published in the Official Journal on 25 April 2019.

On 27 March 2019, EU ambassadors approved the Council's position on a proposed directive encouraging the development of secondary markets for NPLs. The aim of the new rules is to reduce banks' stocks of NPLs and prevent their accumulation in the future by harmonising the rules for how non-credit institutions can buy credit agreements from banks.

In parallel, the presidency continued technical discussions on the proposal to setup an efficient mechanism of out-of-court value recovery from secured loans - the so-called "Accelerated Extrajudicial Collateral Enforcement".

European Deposit Insurance Scheme (EDIS)

The Romanian presidency organised one working party meeting to discuss technical issues related to the EDIS proposal.

During the meeting, the Commission presented three analyses that served as a basis for member states' discussions:

– an overview of the banking sectors in non-Banking Union member states

– an analysis of the impact of EDIS on banks' profitability

– an overview of the implementation of alternative funding arrangements under the deposit guarantee schemes directive

In parallel, negotiations at technical level have been tackled by the Eurogroup's high level working group on EDIS.

FINANCIAL TRANSACTION TAX

Member states participating in enhanced cooperation in this area updated the Council on the state of play and next steps regarding the financial transaction tax (FTT), on the basis of a note by Germany.

A proposal for a directive on a common system of FTT was submitted by the Commission to the Council in 2011. Given that unanimous agreement by all member states could not be reached, the Commission tabled a proposal aimed at introducing an FTT through the instrument of 'enhanced cooperation' in 2013. Currently, 10 countries are participating in the negotiations on the proposed directive: Belgium, Germany, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia.

Although all member states are participating in deliberations, the adoption of the directive will require the unanimous agreement of the participating countries within the Council, after consulting the European Parliament.

Technical work on the file has been carried out in the Council and ministers have regularly reviewed the state of play on this dossier at ECOFIN meetings. The last ministerial debate was held on 6 December 2016.

On 11 March 2019, finance ministers of the states participating in the enhanced cooperation met informally in the margins of the ECOFIN meeting. At the working party meeting of 7 May 2019, participating member states indicated that they were discussing the option of an FTT based on the French model of the tax, and the possible mutualisation of the revenues among the participating member states as a contribution to the EU budget.

According to the German note, the FTT currently being considered by participating member states would be levied on the acquisition of shares of listed companies which have their head office in a member state of the EU and market capitalisation in excess of €1 billion on 1 December of the preceding year. The tax would be levied on the transfer of ownership when shares of listed public limited companies are acquired. Initial public offerings, market making and intraday trading would not be taxable. The tax rate would be no less than 0.2%. The revenue would flow into the EU budget or the still-to-be-created euro area budget. Revenue levied nationally would be distributed among the member states according to a distribution mechanism to be further defined.

In order to reach a final agreement among the member states participating in the enhanced cooperation, further work in the Council and its preparatory bodies will be required in order to ensure that the competences, rights and obligations of non-participating EU member states are respected.

FOLLOW-UP TO THE G20 MEETING IN FUKUOKA

G20 and spring IMF and World Bank meetings

The presidency and the Commission reported on the G20 meeting of finance ministers held in Fukuoka on 8-9 June 2019.

The G20 meeting featured discussions of the priorities set by the Japanese presidency in the finance track, namely:

– risks and challenges to the global economy, including the surveillance of global economic risks, global imbalances and the policy implications of ageing

– actions towards robust growth, in particular quality infrastructure investment, resilience against natural disasters, debt sustainability and transparency of low income countries and the strengthening of health financing in developing countries

– the response to structural changes caused by innovation and globalisation in the areas of international taxation, financial market fragmentation and financial innovation

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 the 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 countries (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States), the finance minister of the EU Council presidency, the commissioner for economic and monetary affairs of the European Commission and the president of the European Central Bank, representatives of international organisations including the IMF and World Bank and of invited countries.

Official communiqué following the Fukuoka G20 Finance meeting

Fukuoka G20 finance meeting's webpage

EUROPEAN SEMESTER - COUNTRY-SPECIFIC RECOMMENDATIONS

Ministers exchanged views on relevant issues addressed in the country-specific recommendations on the basis of a horizontal note (9956/19) prepared by the Economic and Financial Committee (EFC). The outcome of the debate will feed into the European Council discussions on 20-21 June.

Due to the European elections, the Commission delayed publication of the proposals on the country-specific recommendations (CSRs) to 5 June. This did not allow sufficient time for member states to coordinate their positions and for the preparatory committees to examine the proposals. Therefore, as an exception to the established practice, the ECOFIN Council did not aim to approve the CSRs but only to hold a horizontal debate.

The formal adoption of the CSRs is expected to take place according to the usual schedule, at the ECOFIN meeting of 9 July.

The European Semester is an annual process for monitoring 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

– 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 CSRs and opinions and adopts them each year in July.

STABILITY AND GROWTH PACT

Spain

The Council closed the excessive deficit procedure for Spain, confirming that it has reduced its deficit below the EU's 3% of GDP reference value.

The Council thereby abrogated its decision of April 2009 on the existence of an excessive deficit in Spain. As a consequence, no member state remains subject to an excessive deficit procedure. Procedures were open for 24 member states in 2010-11 at the height of the euro crisis.

Member states are required by article 126 of the Treaty on the Functioning of the European Union (TFEU) to avoid excessive government deficits. The procedure is used to support a return to sound fiscal positions.

Once it has exited an excessive deficit procedure, a member state is subject to the preventive arm of the EU's fiscal rulebook, the Stability and Growth Pact.

Spain's general government deficit amounted to 2.5% of GDP in 2018, down from 3.1% of GDP in 2017. The Commission's spring 2018 economic forecast projects deficits of 2.3% of GDP in 2019 and 2.0% of GDP in 2020, thus remaining below the EU's 3% of GDP reference value over the forecast horizon.

The structural balance, which is the general government balance adjusted for the economic cycle and net of one-off and other temporary measures, improved by 0.4% of GDP over the past three years.

The ratio of gross government debt to GDP decreased to 97.1% in 2018 from 98.1% in 2017, mainly due to debt-reducing impact of real growth and inflation, while the primary balance is close to zero. The Commission's spring 2019 forecast projects the debt ratio will decrease to 96.3% in 2019 and 95.7% in 2020.

Spain has been subject to an excessive deficit procedure since February 2009, when the Council called for its deficit to be corrected by 2012.

That deadline has been extended four times. The first three times in December 2009, July 2012 and June 2013, the deadline was pushed to 2013, 2014 and 2016 respectively, considering the major unfavourable consequences for government finances resulting from unexpected adverse economic events. In July 2016, the Council noted the lack of effective action undertaken to remedy the situation of an excessive deficit and set an new deadline for correction by 2018.

In the light of the latest data, the Council concluded that Spain's deficit has now been corrected.

Hungary

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

For the third time, the Council issued:

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

On 22 June 2018, the Council recommended Hungary take the necessary measures to ensure that the nominal growth rate of net primary government expenditure did not exceed 2.8 % in 2018, corresponding to an annual structural adjustment of 1.0 % of GDP.

On 4 December 2018 the Council decided that Hungary had not taken effective action in response to the Council recommendation of 22 June 2018 . On that basis, on 4 December 2018 the Council issued a revised recommendation for Hungary to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3 % in 2019, corresponding to an annual structural adjustment of 1.0 % of GDP.

Based on the Commission 2019 spring forecast published on 7 May 2019, the growth of net primary expenditure is projected to amount to 6.5 % in 2019, well above the recommended rate of 3.3 %. The structural balance is set to improve by 0.4 % of GDP relative to 2018, falling short of the recommended adjustment of 1.0 % of GDP. Therefore, both indicators point to a deviation from the recommended adjustment. In addition, since the Commission's autumn 2018 forecast, the Hungarian authorities have announced new expansionary measures on the expenditure side.

Taking into account the overall assessment of Hungary's budgetary situation, the Council called for urgent action to put Hungary's fiscal policy back on a prudent path.

The Council recommended measures to ensure that the nominal growth of net primary government expenditure does not exceed 3.3% in 2019 and 4.7% in 2020, corresponding to an annual structural adjustment of 1% of GDP in 2019 and 0.75% in 2020.

The Council set a deadline of 15 October 2019 for Hungary to report on action taken.

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 fourth 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 June 2017 and June 2018, the Council found that there had been a significant deviation from the medium-term budgetary objective or from the adjustment path towards it in Romania. On each occasion, in view of the established significant deviation, the Council issued a recommendation for Romania to take the necessary measures to address the significant deviation.

On 20 April 2018, the Romanian authorities submitted a report on action taken in response to the Council recommendation of 4 December 2018. In the report, the authorities reiterated that their targets for 2019 are a headline deficit of 2.8% of GDP and a marginal decrease of the structural deficit. The fiscal impact of the reported measures falls significantly short of the requirement stated in the Council recommendation.

In 2019, based on the Commission's spring 2019 forecast, the growth of net primary government expenditure is set to amount to 11.6%, well above the expenditure benchmark of 4.5%. The structural balance is set to deteriorate by 0.7% of GDP in 2019, reaching a deficit of 3.6% of GDP. This is the opposite of the recommended structural improvement of 1.0% of GDP relative to 2018. Therefore, both pillars point to a deviation from the recommended adjustment.

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 and 5.1% in 2020, representing an annual structural adjustment of 1% of GDP in 2019 and 0.75% in 2020.

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

CLEAN PLANET FOR ALL

The Council held a policy debate on the communication for a strategic long-term vision for a climate neutral economy which the Commission published on 28 November 2018.

The Commission's vision for a climate neutral future covers nearly all EU policies and is in line with the Paris Agreement objective to keep temperature increase to well below 2°C, and pursue efforts to keep it to 1.5°C. It aims to achieve this goal by investing in realistic technological solutions, empowering citizens, and aligning action in key areas such as industrial policy, finance, or research. Two of the eight scenarios proposed by the Commission spell out how the EU could reach net zero emissions by 2050.

The exchange of views between finance ministers is part of a series of sectoral debates held in different Council formations over the past few months aimed at tackling the different aspects of the Commission's strategy.

The outcome of the ECOFIN discussion will be consolidated in a presidency letter meant to feed into the preparations of European Council's discussions on climate change at its meeting of 20-21 June 2019.

Finance ministers focused their discussion on investment and finance-related aspects of the Commission's communication. Estimates suggest that the current annual investment volume of about 2% of GDP will have to increase to nearly 3%, or more than 500 billion euros, per year over the 2031-2050 period.

Ministers recognised the importance of climate-related challenges and the necessity to address them. The global dimension of the matter was recognised, as well as the necessity to ensure a level-playing field for businesses. Some ministers highlighted the challenges of the economic transition for sectors that still greatly depend on carbon, as well as the need to address social consequences and differences between member states and regions.

In this context, the Commission's communication highlights two aspects in particular:

– the need to redirect capital flows towards investments with a positive impact on the environment and to encourage investment strategies that take into account social and environmental objectives, through initiatives in the context of the capital markets union

– On this issue, the Commission tabled three legislative proposals in May 2018. The Council and the Parliament reached a political agreement in spring 2019 on disclosure requirements relating to sustainable investments and on the setup of new categories of benchmarks giving more information on an investment portfolio's carbon footprint. Work is ongoing on the third proposal which aims at creating a unified classification system of environmentally sustainable economic activities

- the role of taxation as a tool of environmental policy, using environmental taxes, carbon pricing systems and revised subsidy structure to steer transition efforts and to promote energy efficiency, reduce greenhouse gas emissions and enhance the circular economy

ANY OTHER BUSINESS

– ***Non-performing loans***

The Commission presented the state of play of the implementation of the action plan to tackle non-performing loans in Europe.

Fourth Commission progress report on the reduction of non-performing loans in the Banking Union

MEETINGS IN THE MARGINS OF THE COUNCIL

– ***Eurogroup***

Ministers of the eurozone member states attended a meeting of the Eurogroup on 13 June 2019.

In regular format, the IMF presented its report on the IMF Article IV consultation. The Eurogroup also had a thematic discussion on inequality and took stock of the 6th post-programme surveillance mission to Cyprus.

In inclusive format, the Eurogroup continued to discuss the deepening of the economic and monetary union. It agreed on a report to be transmitted to the leaders ahead of the June Euro-Summit.

Ministers agreed a term sheet on the budgetary instrument for convergence and competitiveness. Read the press release.

Eurogroup main results

– ***ESM board of governors***

The board of governors of the European Stability Mechanism held its annual meeting on 13 June 2019.

– ***EIB board of governors***

Ahead of the ECOFIN meeting, finance ministers met in their capacity as governors of the European Investment Bank for the EIB's annual governors' meeting.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

EU list of non-cooperative tax jurisdictions

The Council today decided to remove Dominica from the EU list of non-cooperative tax jurisdictions, following the steps undertaken by this jurisdiction to comply with its commitments on exchanges of information.

The EU list is contributing to ongoing efforts to prevent tax avoidance and promote good governance principles, such as tax transparency, fair taxation and international standards against tax-base erosion and profit shifting.

For more information, see the press release.

Capital markets union

The Council today adopted two key reforms in the framework of the Capital Markets Union.

They adopted:

– a regulation providing greater choice for people who wish to save for their retirement and expanding the market for personal pensions through the creation of a ‘pan-European pension product’ (PEPPs)

– a package of measures aimed at removing existing barriers to the cross-border distribution of investment funds

For more information, see the press release.

Code of Conduct on business taxation

The Council adopted a report and the following conclusions:

"With regard to the Code of Conduct (Business Taxation), the Council:

1. WELCOMES the progress achieved by the Code of Conduct Group during the Romanian Presidency as set out in its report (doc. 9652/19 + ADDs 1 to 10), in particular the revision of the EU list of non-cooperative jurisdictions in March 2019;

2. INVITES the Group to continue its work under its multiannual work package 2018 (doc. 10420/18);

3. WELCOMES the review undertaken by the Group of its subgroups' mandates and ENDORSES their reorganisation as proposed in the report;

4. ENDORSES the standstill and rollback assessments agreed by the Group and ASKS the Group to continue monitoring standstill and the implementation of the rollback;

5. NOTES WITH SATISFACTION the completion of the alignment of Member States' patent box regimes with the agreed nexus approach;

6. WELCOMES the ongoing monitoring by the Group of the implementation of its past guidance notes, thereby demonstrating the impact of the Code of conduct on Member States' practices;

7. INVITES the Group to continue its work on the elaboration of a draft guidance on notional interest deduction regimes for Member States that would wish to implement such a regime;

8. WELCOMES that the Group has taken stock of the state of play on transfer pricing issues following the Council conclusions of 8 December 2015 and 6 December 2016, and ENDORSES the conclusions reached by the Group in this area;

9. WELCOMES the effective interactions conducted by the Chair of the Group with jurisdictions in preparation of the relevant Group/Council decisions;

10. ENDORSES the way the Group has resolved the procedural and political issues that arose in the process of monitoring the implementation of commitments taken by jurisdictions;

11. ENDORSES in particular the technical guidance on collective investment funds (CIVs) in the context of criterion 2.2;

12. UNDERLINES that no grandfathering, further delays or replacement by measures of a similar effect will be accepted regarding the jurisdictions that have introduced harmful measures in replacement of their old harmful preferential regimes;

13. WELCOMES the publication of outcomes of proceedings on all the measures examined under EU listing criteria 2.1 and 2.2 for which the rollback had been endorsed by the Council, as well as the Group's broader efforts to increase the visibility and transparency of the EU listing process;

14. ENCOURAGES the Group to seek coherence with the OECD in respect of international tax good governance standards and listing criteria;

15. INVITES the Group to continue monitoring that jurisdictions fulfil their respective commitments and comply with new EU listing criterion 3.2 in accordance with the agreed deadlines;

16. INVITES the Group to resume discussions on further coordinated defensive measures in the tax area against non-cooperative jurisdictions, without prejudice to Member States' obligations under EU and international law;

17. INVITES the Group to report back to the Council on its work during the Finnish Presidency."

Report on tax issues

The Council approved a six-monthly report to the European Council on tax issues.

ECOFIN report to the European council on tax issues

JUSTICE AND HOME AFFAIRS

Immigration liaison officers

The Council adopted a regulation to improve the functioning of the European network of immigration liaison officers (PE-CONS 50/19). The new rules will contribute to strengthening cooperation and coordination between liaison officers deployed to third countries by member states or the EU to deal with immigration-related issues.

For more information, see the press release.

Law enforcement access to financial information

The Council adopted a directive laying down rules to facilitate the use of financial and other information for the prevention, detection, investigation or prosecution of certain criminal offences (PE-CONS 64/19). The new rules will strengthen the capacity of law-enforcement authorities to fight terrorism and serious crime by improving their access to financial information.

For more information, see the press release.

GENERAL AFFAIRS

Regulatory procedure with scrutiny - alignment with the Lisbon Treaty

The Council adopted a regulation aligning 64 legislative acts which refer to the so-called ‘regulatory procedure with scrutiny’ with the Lisbon Treaty (PE-CONS 65/19).

A number of legislative acts in force contain references to this procedure, which continues to apply in those acts until they are formally amended and adapted to the Lisbon Treaty. The Commission submitted its proposals – the so-called general omnibus and justice omnibus regulations – in 2016 (5623/17 + ADD 1 REV 1 and 5705/17 + ADD 1).

The regulation adopted by the Council covers part of the acts covered by the general omnibus proposal. In the majority of cases it replaces the regulatory procedure with scrutiny with references to delegated acts and in some cases to implementing acts.

The Council, Parliament and Commission will continue to work on the alignment of the remaining acts during the term of the next European Parliament.

For more information, see the press release.

INTERNAL MARKET AND INDUSTRY

Regulation on platforms-to-business relations*

The Council approved the European Parliament’s position at first-reading on a draft regulation aimed at providing businesses with a more transparent, fair and predictable online business environment, as well as an efficient system for seeking redress.

The regulation addresses relations between online platforms and businesses and is intended to establish a legal framework that guarantees transparent terms and conditions for business users of online platforms, as well as effective possibilities for redress when those terms and conditions are not respected.

The regulation is therefore adopted in the wording which corresponds to the position of the European Parliament (PE-CONS 56/19).

For more information, see the press release.

Regulation on market surveillance and compliance*

The Council approved the European Parliament's position at first-reading on a draft regulation aimed at reinforcing single market surveillance and enhancing the enforcement of EU rules in a bid to increase consumers' confidence in products placed on the EU’s single market. The Slovak delegation voted against and the Bulgarian and Luxembourg delegations abstained.

The regulation is therefore adopted in the wording which corresponds to the position of the European Parliament (PE-CONS 45/19).

For more information, see the press release.

Regulation on explosives precursors*

The Council approved the European Parliament's position at first-reading on a draft regulation aimed at imposing stricter rules regarding the marketing and use of explosive precursors throughout the EU, with a view to limiting their availability to the general public and ensuring the appropriate reporting of suspicious transactions throughout the supply chain.

The regulation is therefore adopted in the wording which corresponds to the position of the European Parliament (PE-CONS 46/19).

For more information, see the press release.

AGRICULTURE

International Olive Council: EU decisions in connection with trade standards and the accession of Georgia

The Council adopted a proposal for a Council decision on the position to be taken on behalf of the EU in the Council of Members of the International Olive Council (IOC) in connection with trade standards applying to olive oils and olive pomace oils (10117/19).

The International Agreement on Olive Oil and Table Olives was signed on behalf of the EU in accordance with Council decision (EU) 2016/18921 on 18 November 2016 at the United Nations headquarters in New York. The agreement entered into force provisionally on 1 January 2017.

The Council of Members of the IOC has the power to adopt decisions that modify trade standards applying to olive oils and olive pomace oils.

The adopted Council decision concerns decisions to be taken at the Council of Members session to be held from 17 June to 21 June 2019.

Furthermore the Council adopted a decision on the position to be taken by the EU in the Council of Members of IOC in connection with the accession of Georgia to the International Agreement on Olive Oil and Table Olives.