Latvian Presidency of the Council of the European Union
EU2015.LV

MINISTRY OF FINANCE
REPUBLIC OF LATVIA

**BACKGROUND information for MEDIA**

*Riga, 22 April 2015*

# Informal Meeting of Ministers for Economic and Financial Affairs (ECOFIN)

Friday 24 April and Saturday 25 April in Riga

The Informal Meeting of Ministers for Economic and Financial Affairs (ECOFIN) will be chaired by Jānis REIRS, the Minister of Finance of the Republic of Latvia.

The Eurogroup meeting will be held on the morning of Friday 24 April. During the meeting, it is planned, inter alia, to discuss the state of play in Greece and to receive a debriefing on the G7 meeting.

A press conference will be held after the meeting, followed by a working lunch for ECOFIN ministers and a separate lunch for central bank governors. During the lunch meeting, a debriefing from the Eurogroup will take place, followed by discussions on the "EU budget: short-term and long-term challenges". The two main topics of the discussions on EU budget-related issues will be: ministers' expectations of the MFF midterm review, and the Commission's initiative to facilitate a performance-oriented EU budget.

On Friday afternoon, the first session of the informal ECOFIN working session will discuss two issues: 1) ministers and governors will hold a free exchange of views on the economic situation in the EU and financial stability issues; 2) the growth potential of the European Union – structural reforms for growth: key policy measures. During the discussion on the second question, ministers and governors will be invited to:

- share their views on ways to raise growth potential in the EU, most notably via structural reforms and investment;
- discuss the main barriers to investment and share their experience, in particular with regard to challenges and success stories regarding reform implementation;
- share their views on the implementation of CSR and a structured follow-up, and on potential policy actions at EU level to address the investment gap;
- provide information on their priorities in the 3rd pillar of the investment plan.

A gala dinner will be held on the evening of April 24 with a keynote address by the Prime Minister of the Republic of Latvia, Laimdota Straujuma.

The ECOFIN meeting will reconvene for its second session on the morning of Saturday 25 April to discuss 1) the Capital Markets Union initiative, and 2) Base Erosion and Profit Shifting (BEPS). Based on information from the European Commission's Green Paper and publications on the topic of the Capital Markets Union (CMU), the ministers and the governors will be invited to engage in a discussion on possible building blocks and the main obstacles to the creation of the CMU, and to suggest which related policy initiatives should be addressed as part of a long-term structural policy agenda aimed at improving access to financing, diversifying funding sources and improving the effectiveness of markets. For the discussions on BEPS, the ministers will be invited to take stock of new developments in the field of BEPS, and to identify more general considerations that they would like to be taken into account in future work in this field at EU level.

The informal ECOFIN meeting in Riga will conclude with the second ECOFIN press conference, followed by an informal buffet lunch.

Press conferences:

12.30 – 13.00 Press conference (Eurogroup)
Venue: "Ziedoņa" Hall, 1st floor; simultaneous interpretation: LV/EN/FR/DE

18.00 – 18.30 Press conference (ECOFIN)
Venue: "Ziedoņa" Hall, 1st floor; simultaneous interpretation: LV/EN/FR/DE

12.00 – 12.30 Press conference (ECOFIN)
Venue: "Ziedoņa" Hall, 1st floor; simultaneous interpretation: LV/EN/FR/DE

The handshakes, doorsteps, tour-de-table and press conferences will be broadcast live on www.eu2015.lv.

The Latvian Presidency's audio-visual database https://adb.eu2015.lv/. The source of the material should be indicated as EU2015.LV

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## BACKGROUND INFORMATION

# Growth potential of the European Union – structural reforms for growth: key policy measures

The reversal of the downward trend in potential output in the EU was one of the top policy challenges even before the crisis. The most recent estimates suggest little improvement in the trend. Despite all the recent reform efforts, Europe is losing global competitiveness and its attractiveness for global investment, thus putting at risk the future of our businesses, economic welfare and the employment opportunities that are essential to fund our public services, sustain our social protection systems and support social cohesion.

Alarmingly, a return to the pre-crisis growth path remains elusive for the majority of European countries. Policy-makers across the EU are faced with the same challenges: weak demand, low inflation, slowing productivity, high long-term unemployment and falling labour force participation.

The key labour and product market reforms include making labour markets more adaptable and reactive, liberalising the services sectors, enhancing competition in product and services markets, improving the business environment, and fostering innovation, education and competitiveness. Further efforts to enhance the provision and regulation of infrastructure are also essential, even for the increasingly services-based economies. Innovation and global market integration in general are key drivers of productivity gains and should be strongly encouraged.

People must be given the possibility to develop and adapt skills throughout their working life. This starts with good basic education and the need to provide equal access to high-quality schools. In the shorter term, this requires raising job opportunities and the earnings potential of low-skilled workers and giving young people access to education, training or employment. Efforts should focus on averting the harm that current youth unemployment will cause to those affected today and to society at large tomorrow. Reducing labour tax wedges to boost job creation, and reforming active labour market policies to help match workers with jobs are key policy priorities.

At the EU level, improving the investment environment will entail providing greater regulatory predictability, removing barriers to investment across Europe, and further reinforcing the single market by developing a truly connected digital single market and making the most of the single market in energy and transport. These efforts should, in turn, be supported by reforms in individual Member States that improve the investment environment at the national level and remove country-specific barriers. In addition, investment in the EU should also benefit from the European Central Bank's monetary policy decisions and from substantial progress made towards the Banking Union that will help to reduce financial fragmentation in the EU.

The political economy of implementing fiscal consolidation and structural reforms tells us that a crisis offers a window of opportunity for reform, as it makes the deficiencies of the status quo apparent. Seven years down the road from the last crisis, this window of opportunity may be closing. Overcoming resistance to structural reforms requires 1) pursuing reform as part of packages in which different reforms affect different sectors or stakeholders, as this would dilute the perception of unfair targeted actions, and 2) actively seeking the support of the stakeholders set to benefit from the reforms, including by raising awareness of the expected benefits.

## Capital Markets Union (CMU)

EU capital markets have expanded over recent decades, but remain underdeveloped and fragmented. Bank financing remains the predominant source of funding for business in Europe. However, stronger capital markets would unlock more investment for companies and infrastructure projects, attract foreign investment, contribute to job creation and make the financial system more robust and resilient to shocks. In February, the Commission published a Green Paper and launched a public consultation aimed at identifying building blocks for the creation of a Capital Markets Union. The Commission is expected to publish an action plan in the autumn.

In the Commission's view, once completed, a Capital Markets Union would bring the EU closer to a situation where the costs of investing and access to investment products converge across the Union, where raising finance through capital markets is increasingly straightforward, and where obtaining funding in another Member State is not impeded by legal or supervisory barriers. The initiative encompasses all 28 Member States and, as such, is wider in scope than the Banking Union. Therefore, in order for the Capital Markets Union to have a real added value, it is essential that it encompasses all Member States – both those with large capital markets and those with smaller, less developed capital markets – and addresses the needs of both smaller and larger companies.

The Treaty prohibits, subject to a number of limited exceptions, restrictions on the movement of capital and payments. There are still a number of national barriers which do not fall foul of this prohibition, but which nevertheless discourage cross-border investment in the area of financial services. Barriers also arise from national measures in cross-cutting areas such as taxation, insolvency and company law. A collaborative process has recently been launched with a view to mapping out existing barriers and eliminating the most harmful ones.

Improving access to finance and diversifying the sources of financing for EU business, in particular SMEs and start-ups (many of which are rapidly growing firms in innovative industries), is one of the main objectives of the Capital Markets Union. Issuing debt and equity on public markets through public offers or listing/trading on organised markets is now a well-established funding source in the EU – especially for large and medium-sized firms. However, SMEs and start-ups, notably those from certain sectors and countries that have been most affected by the crisis, continue to experience difficulties in accessing funding.

## Base Erosion and Profit Shifting (BEPS)

Base Erosion and Profit Shifting (BEPS) is a consequence of divergent national tax rules. This makes it possible to artificially separate the allocation of profits from the countries in which they are generated in order to shift them to low-tax jurisdictions. Many multinationals have used this opportunity to reduce their tax burden considerably. BEPS not only constitutes a serious risk to tax revenues, but also affects the fairness of tax systems and fair competition among companies.

Following discussions at the Council, the Presidency circulated the EU-BEPS Presidency roadmap, setting out a number of priorities for its term and highlighting other issues on which work could be foreseen for the medium or longer term (i.e. beyond June 2015).

In line with the roadmap, the Presidency is currently focusing on the short-term issues, such as the Interest and Royalties Directive, the Commission's proposal to introduce the automatic exchange of information on tax rulings, the Common Consolidated Corporate Tax Base and the work of the Code of Conduct Group (business taxation).