Council of the European Union

PRESS

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BACKGROUND[1]
Brussels, 13 February 2015

ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Tuesday 17 February in Brussels

Proceedings will start on Monday 16 February at 11.00 with a dialogue on macroeconomic issues with the social partners: employers and trade unions at EU level and representatives of public enterprises and SMEs. The dialogue will focus on the priorities of the Latvian presidency, the economic situation and outlook, and the various policy responses.

A meeting of the ***Eurogroup*** *will be held on Monday, starting at 15.00. It will continue discussion of the situation in Greece, considering the forthcoming expiry of the country's current economic adjustment programme. It will discuss the economic situation in the euro area, in the light of the Commission's winter forecast. The Eurogroup will discuss Portugal's plans for early repayment of a part of its IMF loans, and will also discuss the economic adjustment programme in Cyprus. It will be briefed on the results of the EU summit on 12 February 2015, in particular as concerns EU economic and monetary union.*

On Tuesday at 8.30, ministers will convene in their capacity as governors of the European Investment Bank for the an ***EIB governors****' meeting. They will discuss a Commission-EIB partnership for jobs, growth and investment.*

They will then hold a breakfast meeting, starting at 10.00, to discuss the economic situation in the light of the Commission's winter economic forecast, Portugal's plans for early repayment of IMF loans and further support to Ukraine. The Council meeting will start at 11.00.

The Council will discuss the Commission's proposed action plan on ***investment****, specifically a proposal to establish a European fund for strategic investments.*

It is due to adopt conclusions on the Commission's ***annual growth survey*** *and on* ***macroeconomic imbalances*** *in the member states.*

The Council is due to set priorities for the EU's ***budget for 2016*** *and to adopt a recommendation on the budget* ***discharge for 2013****. The chairman of a high-level group on* ***own resources*** *will present a first assessment report on the EU's financing system.*

The follow-up to a February ***G-20 finance*** *meeting is also on the agenda.*

Press conferences:

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

Press conferences and public events by video streaming: video.consilium.europa.eu.

Video coverage in broadcast quality (MPEG4): tvnewsroom.consilium.europa.eu.

Photographic library for photos in high resolution: www.consilium.europa.eu/photo.

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

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European fund for strategic investments

The Council will take stock of progress on a proposal for a regulation establishing a European fund for strategic investments (EFSI).

- Proposal on the European fund for strategic investments

The fund is one of the core elements of the Commission's "investment plan for Europe", published in November 2014. It is expected to mobilise at least €315 billion in private and public investment across the EU.

- Communication from the Commission on the investment plan

The presidency's intention is for the Council to agree the proposal in March. It will issue a first compromise text in the days after the meeting, in the light of comments made by ministers.

The European Council in December 2014 called for an agreement to be reached between the European Parliament and the Council in June. This would allow for new investments as early as mid-2015.

The EFSI would be established within the European Investment Bank by an agreement between the Commission and the EIB. Member states and other third parties would be able to join the EFSI agreement by means of capital contributions. The Commission has indicated that it would take a favourable attitude towards such contributions when assessing member states' public finances under EU fiscal rules.

The fund would be built on €16 billion in guarantees from the EU budget and €5 billion in cash from the EIB. To facilitate the payment of potential guarantee calls, a guarantee fund would be established that would gradually reach €8 billion (i.e. 50% of total EU guarantee obligations) by 2020. EU funding would mostly come from diverting grants from the Horizon 2020 programme (research and innovation) and the Connecting Europe facility, as well as unused margins in the budget.

The EFSI would enhance risk-bearing capacity. By taking on part of the risk of new projects through a first-loss liability, the fund would attract private investors who would join under more favourable conditions. Thereby the EFSI is estimated to reach an overall multiplier effect of 1:15 in real investment.

The fund would be active in a broad range of areas, including transport, energy and broadband infrastructure, education, health, research and risk finance for SMEs.

Under the Commission's proposal, the EFSI would have a two-tier governance structure:

- a steering board would set the overall strategy, investment policy and risk profile of the fund. Its members would be appointed by the contributors of risk bearing capacity with voting power proportional to the size of contributions. This is still under discussion in the Council;
- an investment committee would select projects to receive EFSI support. Accountable to the steering board, it would consist of a managing director and six independent market experts.

Any project supported by the EFSI would require approval by the EIB.

The proposed regulation would also set up a "European investment advisory hub" to help with the identification, preparation and development of projects across the EU. It would further establish a "European investment project pipeline" to improve investors' knowledge of existing and future projects. In December 2014, a task force, co-chaired by the EIB and the Commission, already identified about 2000 projects worth €1,3 trillion.

The Commission's "investment plan for Europe" foresees:

- The mobilisation of at least €315 billion in new investments between 2015 and 2017, maximising the impact of public resources and unlocking private investment. This will be done by establishing the EFSI in the EIB Group;
- Targeted initiatives to ensure this extra investment meets the needs of the real economy;
- Measures to provide greater regulatory predictability and to remove barriers to investment.

The proposed regulation creates a legal framework and provides budgetary allocations for the first two work strands.

The regulation requires a qualified majority for adoption by the Council, after consulting the European Parliament. (Legal basis: articles 172, 173, 175(3) and 182(1) of the Treaty on the Functioning of the EU.)

Economic governance

- **Annual growth survey**
- **Macroeconomic imbalances**

The Council will discuss growth prospects and macroeconomic imbalances under the "European Semester", the EU's annual policy monitoring process.

The Council's discussion will focus on two documents from the Commission:

- The annual growth survey, highlighting the Commission's main conclusions for 2015;
- An "alert mechanism report", marking the starting point of the EU's annual macroeconomic imbalances procedure.

It is expected to adopt conclusions.

- Draft Council conclusions on the annual growth survey and the alert mechanism report under the 2015 European Semester

The 2015 European Semester will conclude in July, with the adoption of country-specific recommendations on economic, employment and fiscal policies.

Annual growth survey

The annual growth survey suggests priority actions to be taken by member states to ensure better-coordinated and more effective policies for fostering sustainable economic growth.

- Annual growth survey 2015

The survey highlights risks of persistent low growth, close-to-zero inflation and high unemployment, which have become a primary concern. The impact of the crisis has been cyclical, as demonstrated by the weakness in total demand. But there is also a significant structural component that has lowered the potential growth of EU economies.

The survey recommends for the EU's economic and social policy in 2015:

- a coordinated boost to investment, with the Commission's €315 billion action plan for the 2015-17 period (see separate item above);
- a renewed commitment to structural reforms, to enable countries to grow out of debt and stimulate the creation of more and better jobs;
- pursuing fiscal responsibility, securing control over deficit and debt levels in the long term.

The Council is expected to broadly share the Commission's analysis, and its assessment of the areas in which national and EU efforts should concentrate in 2015. The draft conclusions advocate structural, fiscal and monetary policies designed to address the problems identified, acting on both the demand and supply sides of the EU economy.

The European Semester involves simultaneous monitoring of the member states' economic, employment and fiscal policies during a roughly six-month period every year. It concludes with the adoption of country-specific recommendations.

In March 2015, the European Council will assess implementation of the 2014 country-specific recommendations and will provide guidance for 2015.

Alert mechanism report

The "alert mechanism report" marks the starting point of the EU's annual macroeconomic imbalances procedure.

- Alert mechanism report 2015

Macroeconomic imbalances risk hindering the smooth functioning of the European economy and the EU's monetary union. They were among the factors that contributed to the sovereign debt crisis in the euro area.

The macroeconomic imbalances procedure, set out in regulations 1174/11 and 1176/11, sets out to prevent and correct such imbalances. Euro area countries can be fined under the procedure if they repeatedly fail to follow the Council's recommendations.

The Commission's report identifies the member states that may have an imbalance. For these, in-depth reviews will be undertaken.

To identify the imbalances, the Commission applied a "scoreboard" of economic indicators:

- current account balance;
- net international investment position;
- export market shares;
- nominal unit labour costs;
- real effective exchange rates;
- evolution of unemployment;
- private sector debt;
- private sector credit flow;
- house prices;
- general government sector debt;
- growth rate of financial sector liabilities.

The report calls for in-depth reviews of the situation in 16 member states: Belgium, Bulgaria, Croatia, Finland, France, Germany, Hungary, Ireland, Italy, the Netherlands, Portugal, Romania, Slovenia, Spain, Sweden and the United Kingdom.

The in-depth reviews will assess:

- for Croatia, Italy and Slovenia, whether previously identified excessive imbalances are unwinding;
- for Ireland, Spain, France and Hungary, the risks related to their persistent imbalances. These countries are classified as having imbalances in need of decisive policy action;
- for Belgium, Bulgaria, Germany, the Netherlands, Finland, Sweden and the UK, whether their imbalances have been overcome. These countries were all previously identified as experiencing imbalances;
- imbalances in Portugal and Romania. In-depth reviews will be prepared for the first time for these countries, which were both previously subject to enhanced surveillance under macroeconomic adjustment programmes.

The Commission is due to publish its in-depth reviews at the end of February 2015. In-depth reviews are not proposed for:

- Cyprus or Greece, as they are subject to macroeconomic adjustment programmes and are therefore already under enhanced surveillance;
- Denmark, Luxembourg and Malta, as (in contrast to 2014) they are no longer at risk of imbalances.

The Council is expected to welcome continued progress by member states in correcting imbalances, thus contributing to rebalancing both in the EU and within the euro area. The draft conclusions cite progress in relation to current account deficits, competitiveness and balance sheet repair in all sectors. They note however that slow growth and a low inflation environment weigh on imbalances and on macroeconomic risks.

Important challenges remain in addressing in particular high public and private indebtedness, as well as high external debt levels which give rise to sustainability concerns. The Council is due to highlight these, as well as the need to improve competitiveness. High current account surpluses persist in a few member states, and it is expected to call for continued examination of these.

The Council will invite member states to address these issues in an ambitious and concrete manner in their national reform programmes (for structural reforms) and stability or convergence programmes (for fiscal policies).

Follow-up to G20 ministerial meeting in Istanbul

The presidency and the Commission will report on the outcome of a meeting of G20 finance ministers and central bank governors held in Istanbul on 9 and 10 February 2015.

Discussions at the meeting covered six main topics: the global economy, the framework for growth, investment and infrastructure, international financial architecture, financial regulation and taxation issues.

Turkey chairs the G20 from December 2014 to November 2015. The 2015 G20 summit will take place in Antalya on 15 and 16 November.

EU budget - Discharge for 2013

The Council is expected to adopt a recommendation to the European Parliament on the discharge to be given to the Commission for implementation of the EU’s general budget for 2013. The recommendation has been prepared on the basis of the annual report by the Court of Auditors.

- Draft Council recommendation on the discharge of the 2013 budget
- Court of Auditors 2014 annual report

The Council is also due to adopt recommendations on the discharge to be given to the directors of 32 EU agencies, six EU executive agencies and seven joint undertakings for implementation of their 2013 budgets.

- Draft Council 2013 discharge recommendation to the agencies
- Draft Council 2013 discharge recommendation to the executive agencies
- Draft Council 2013 discharge recommendation to the joint undertakings

In line with the EU's budgetary discharge procedure, the recommendations will be submitted to the Parliament. The recommendations also refer to Council comments on a series of Court of Auditors special reports.

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).

EU budget - Guidelines for 2016

The Council is due to adopt conclusions on the budget guidelines for 2016.

The conclusions are meant to be considered by all the actors involved in the annual EU budgetary procedure, especially by the Commission, during the preparation of the draft budget for 2016. The conclusions will be used by the presidency as a reference for negotiations with the European Parliament. They will be forwarded to the European Parliament and the Commission, as well as to the other institutions.

- Draft Council conclusions on priorities for the 2016 budget

The 2016 budget will be the third in the EU's 2014-20 financial programming period. The draft conclusions emphasise the need to maintain budgetary discipline at all levels, given that budgetary constraints remain in many member states. They call for the right balance to be struck between fiscal consolidation and investments to boost growth. Such a balance could be achieved through the prioritisation of objectives and the allocation of resources to measures that contribute the most to those aims.

According to the draft conclusions, commitments and payments should be kept under strict control, taking into account real needs. At the same time, the payments level in the 2016 budget should reflect the commitments made during the previous programming period 2007-2013, taking into account the still high level of unpaid claims at the end of 2014, and the expected needs for programmes relating to the period 2014-2020.

The Council will stress the need for high-quality forecasts concerning both revenues and expenditure, as well as the need to ensure timely, precise and transparent information on the underlying assumptions and budgetary figures during the whole budgetary process.

It is expected to take note of the decreasing amount of outstanding commitments, commonly known under their French acronym "RAL" (reste à liquider), and to ask the Commission to carefully monitor these amounts. According to the Commission the level of "RAL" amounted to €189 billion at the end of 2014, compared to around €222 billion at the end of 2013.

EU budget - Own resources

A first assessment report of a high-level group established to undertake a general review of the system of own resources for the EU budget will be presented by the group's chairman, Mario Monti.

- First assessment report of the high-level group on own resources (http://ec.europa.eu/budget/library/biblio/documents/multiannual_framework/HLGOR_1stassessment2014final_en.pdf)

The group was set up as part of a political agreement on the multiannual financial framework 2014-2020. It is tasked with a general review of the EU's current own resources system, guided by the overall objectives of simplicity, transparency, equity and democratic accountability. The group meets at least once every 6 months.

National parliaments will be invited to an interinstitutional conference in 2016 to assess the outcome of the group's work. On the basis of the results of this work, the Commission will assess whether new own resources initiatives are appropriate for the period after 2020.

Other issues

Under "other business", the Council will take stock of ongoing work on financial services dossiers.