Preparation of Eurogroup and Economic and Finance Ministers Council, 11 and 12 July 2011

Reference: MEMO/11/493 Date: 08/07/2011

HTML: EN
PDF: EN
DOC: EN

MEMO/11/493

Brussels, 8 July 2011

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EUROGROUP, 11 July

The Eurogroup meeting will start on Monday 11 July at 15h00. The European Commission will be represented by Economic and Monetary Affairs Commissioner Olli Rehn. A press conference is expected to take place after the meeting.

1. ESM – signing ceremony (AAT)

The meeting will start with the ceremonial signing of the Treaty establishing the European Stability Mechanism (as of 1 July, 2013). Last autumn, the euro area Member States decided to set up a permanent mechanism as a structural response to any future request for financial assistance.

The ESM will provide a permanent crisis resolution framework and will assume the role of both the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM) in providing external financial assistance to euro area Member States from 1 July 2013. The terms of the ESM, including its governance, capital structure and repartition, location, instruments and IMF involvement, were agreed by the euro area summit on 11 March and confirmed by the European Council on 24-25 March. The ESM will have an effective lending capacity of €500bn (a total subscribed capital of €700bn, from which €80bn will be in the form of paid-in capital and €620bn in a combination of committed callable capital and of guarantees from euro area Member States).

Setting up the ESM requires an amendment to The Treaty on the Functioning of the EU (Article 136).

2. Greece – multi-year adjustment programme (AAT)

On 2 July Eurogroup Ministers welcomed the progress made by the Greek authorities in implementing the policy understandings reached with the European Commission, in liaison with the ECB, and the IMF. In particular, Ministers noted with satisfaction the adoption of key laws on the fiscal strategy and privatisation by the Greek Parliament. Ministers therefore endorsed the Commission's Compliance Report and the signing of the updated Memorandum of Understanding.

In line with the 24 June European Council conclusions, consultations with Greece's creditors are underway in order to define the modalities for voluntary private sector involvement. The precise modalities and scale of private sector involvement and additional funding from official sources will be determined in the coming weeks.

On 2 July, the Eurogroup also agreed that the main parameters of a multi-year adjustment programme for Greece will revolve around a continued strong commitment to implementing fiscal consolidation measures as well as ambitious and concrete structural reform and privatisation plans. It will be supplemented by large-scale technical assistance, provided by the Commission and Member States. Against that background and on the basis of the debt sustainability analysis by the Commission and the IMF, Ministers approved the disbursement of the fifth tranche of the current Greek Loan Facility by 15 July, following approval by the IMF Board, as originally envisaged.

3. Implementation of the Stability and Growth Pact – abrogation Finland (AT)

The excessive deficit procedure (EDP) on Finland was launched in the first half of 2010, when the impact of the economic crisis was still dominant. At that time, the budgetary forecasts made by the national authorities and the Commission services projected the general government deficit to weaken to about 4% of GDP in 2010, breaching the deficit limit of 3% of GDP. However, the rebound in economic activity was stronger-than expected in 2010, which also boosted tax revenues. As confirmed by Eurostat in April 2011, the actual general government deficit amounted to 2.5% of GDP in 2010. In retrospect, Finland has therefore never exceeded the deficit limit and is not forecast to do so this year. The Commission recommends abrogating the Council decisions linked to the existence of an excessive deficit in Finland.

Council of Economic and Finance Ministers (Ecofin), 12 July

The EU's Council of Economic and Finance Ministers will start on Tuesday12 July at 10.00. The European Commission will be represented by Commissioner for Economic and Monetary Affairs Olli Rehn, Commissioner for Internal Market and Services Michel Barnier and Commissioner for Taxation and Customs Union Algirdas Semeta. A press conference is expected to take place after the meeting.

1. Bank stress tests and backstop mechanisms (restricted session) (AAT / CH)

The 2011 stress test exercise coordinated by the European Banking Authority (EBA) is in an advanced stage. The exercise should ensure that the final results are consistent and rigorous.

In parallel with the efforts of banks and supervisors, the Heads of State and Government have committed on 11 March 2011 to ensure that 'concrete plans, compliant with EU State aid rules, are in place to deal with any bank that demonstrates vulnerabilities in the stress tests'. Notwithstanding wide agreement on the primacy of private sector solutions, Member States have equally agreed that a public framework is needed as a net of last resort for vulnerable institutions

2. Stability and Growth Pact

a) Decision abrogating the decision on the existence of an excessive deficit in Finland (AT)

See Eurogroup item 3 above.

b) Implications of the economic situation for fiscal surveillance and Excessive Deficit Procedures (AT)

On 27 June the European Commission adopted 27 sets of country-specific recommendations – plus one for the euro area as a whole – to help Member States gear up their economic and social policies to deliver on growth, jobs and public finances. (IP/11/685) These sets of recommendations are part of the European Semester, whereby – for the first time this year – Member States and the Commission have been coordinating their economic and budgetary policies.

After priorities were agreed at EU level in March on the basis of the Commission's Annual Growth Survey, Member States presented their national reform programmes and their Stability or Convergence Programmes, which the Commission assessed through these tailored and targeted recommendations. The recommendations were endorsed by the European Council on 23-24 June. They are designed to be implemented by Member States within a 12-18 months timeframe. They call for the front-loading of measures that will drive forward progress towards the goals contained in the EU's long-term economic strategy, Europe 2020, with its ambitious EU-wide and national targets EU-wide to be achieved by the end of this decade in the areas of jobs, innovation, education, energy and social inclusion.

The Commission will continue regular assessment of budgetary developments and hopes to see the country specific recommendations already reflected in the autumn fiscal data.

3. Follow-up to the G20 Deputies meeting in Paris on 8-9 July 2011 (AT)

The ministers will be briefed on the results of and discuss the follow-up to the G20 Finance Deputies meeting in Paris.

4. Follow-up to the European Council on 23-24 June 2011 (AT)

The Polish Presidency of the EU will inform the Council on the ECOFIN-related items of the European Council conclusions, including the economic governance legislative package, for which a final agreement between Council and Parliament is still missing, and the Euro Plus Pact.

5. Savings taxation Directive: (DB)

The Commission will present EU Ministers of Economy and Finance its recommendation for a mandate to start negotiations, with Switzerland, Liechtenstein, Monaco, Andorra and San Marino on the revision of agreements signed with these countries on taxation of savings. The aim of such agreements is to ensure that these 5 countries apply measures equivalent to those foreseen in the revised Savings Directive. The Commission proposed to revise the Savings Directive and to close the loopholes of the current legislation by covering a wider range of savings products such as innovative financial products, pensions and life insurance products (IP/08/1697, MEMO/08/704). Since 2005, the Savings Directive has ensured that interest on savings income in other EU Member States is either reported to the relevant tax administration or subject to a transitional withholding tax. The mandate to start negotiations would therefore be an important step in promoting good governance in taxation and combat tax evasion which detrimentally affects national budgets.