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# EU stalemate over savings tax ends in compromise

## Luxembourg, Austria and Belgium can keep banking secrecy under new rules

**By Francesco Guerrera in Brussels**

European governments yesterday ended 13 years of stalemate and agreed new rules on the taxation of savings invested abroad, in an attempt to eliminate banking secrecy and crack down on tax evasion and fraud.

However, the compromise between European Union finance ministers falls short of a single EU regime because it enables three countries – Luxembourg, Austria and Belgium – to retain the secrecy of their banking systems for at least another six years.

The rules are aimed at making it impossible for savers to evade taxes by taking advantage of different tax regimes across the EU and banking secrecy in countries such as Luxembourg and Switzerland.

The amount of savings held in tax havens is estimated at more than €300bn for German citizens alone.

The deal agreed yesterday – at the end of seven hours of intense negotiations among finance ministers – will also apply to Switzerland and offshore territories such as the Channel Islands and the UK's Caribbean dependencies, which are the recipients of a large amount of EU citizens' savings.

Frits Bolkestein, the EU commissioner for taxation, said the agreement would ensure that every EU citizen paid an equitable tax on income invested abroad – a goal Europe has been chasing since the first proposal was tabled in 1989.

"The Doubting Thomases of this world who said we would never come to this have not been proven right," Mr Bolkestein said. The Commissioner said the deal would have to be approved by Switzerland, but added that Berne's agreement was linked to the solution of some technical problems.

Under the deal, 12 EU members and their overseas territories have agreed to exchange information on non-residents' savings – a measure that effectively ends any banking secrecy – from next year.

However, Luxembourg, Austria and Belgium, the countries that had repeatedly blocked previous attempts to reach agreement on the rules, won the right to keep their secrecy and levy a withholding tax starting at 15 per cent and rising to 20 per cent in 2007 and 35 per cent in 2010. Switzerland, which had opposed any move to force it to give up its prized banking secrecy, would also levy a tax at the same rates and agreed in principle to the proposals.

The three EU countries would only begin to exchange information with other governments if Brussels decided unanimously that Switzerland, which is not a member of the union, had complied with international standards of banking disclosure.

People close to the talks said that final resistance from Luxembourg and Austria was defeated by concerted efforts from Germany and the UK – two countries that were eager to get a deal for domestic reasons.

The UK blocked a previous agreement in 1997, claiming it would have damaged the City of London's eurobond market. As a result, Gordon Brown, Britain's finance minister, has backed the latest proposal even though it falls short of his initial demands for exchange of information for all 15 EU members and Switzerland.

Germany has recently introduced proposals to levy a withholding tax of 25 per cent on the savings of residents, in a bid to win back some of the €300bn of savings its citizens have invested abroad. An EU deal was therefore needed to strengthen Germany's domestic proposals.

Stand-off: finance minister Francis Mer, left, explains France's line to Greece's Nikos Christodoulakis Reuters

# France threatens to shun Brussels deficit demand

**By Francesco Guerrera in Brussels**

France yesterday defied the European Union's economic rules by threatening not to abide by an official order to reduce sharply its deficit in the next four years.

The stand-off between Paris and the other 14 EU nations, backed by the European Commission, is the most important test yet of the credibility of the stability and growth pact – the stringent economic rules underpinning the euro.

Other EU governments voted unanimously at the meeting in Brussels to demand a reduction in the French budget deficit, which is close to the ceiling set by the pact, by 0.5 percentage points a year and to bring it close to balance by 2006.

The pact has been criticised by independent economists and some EU governments for forcing member states to impose austerity measures at a time of slow economic growth.

Francis Mer, France's finance minister, said his country's economic problems would not enable it to meet the targets set out by yesterday's official warning.

"What matters is the direction [of the deficit reduction]. We will climb the mountain at our own rhythm. If we get to the summit a bit later than the others, the objective is still to get to the summit," he said after abstaining on the warning.

Mr Mer attacked the pact's rigidity, saying that EU demands for a reduction in public expenditure at a time of slow growth would be counterproductive.

"This is not the time to create conditions where growth will be reduced by a too sharp reduction in public expenditure," he said, adding that many countries outside the EU had used public expenditure to stimulate growth.

Pedro Solbes, EU commissioner for monetary affairs, dismissed Mr Mer's remarks, saying that France had to abide by yesterday's decision, which was the first time finance ministers took a vote on the pact since the introduction of the euro in 1999.

"France, being a member of the union cannot ignore the obligations of the [EU's founding] treaty – otherwise we will have a credibility problem. France's budgetary problems will not go away by simply ignoring them," he said.

Under the pact, the EU can open formal proceedings – and eventually fine – any country whose deficit is above 3 per cent of GDP. The Commission is forecasting a French deficit of 2.9 per cent of GDP for this year.

Mr Solbes' tough line was backed by smaller states such as Austria, the Netherlands and Finland.

Karl-Heinz Grasser, Austria's finance minister, said France's threat not to comply with the warning could undermine the strength of the pact.

*Additional reporting by Florian Güssgen in Brussels*

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# Fallout from boom years hits three of world's biggest banks

**By Gary Silverman in New York, William Hall in Zurich and David Ibison in Tokyo**

ised, have better reserves and stronger earnings power, which gives them the wherewithal to

Switzerland's former banking flagship reported a worse-than-expected SFr1bn (€684m) fourth

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