



Bruxelles, le 9 juillet 2010

BACKGROUND NOTE ¹
ECONOMIC AND FINANCIAL AFFAIRS COUNCIL
Tuesday 13 July in Brussels

*Proceedings will begin on Monday 12 July with a meeting of the **Task force on economic governance**, chaired by Mr Herman Van Rompuy, starting at 12.30.*

*A meeting of the **Euro Group** will follow, starting at 17.00.*

On Tuesday, during a working breakfast starting at 9.00, ministers will examine the economic situation and review the stress tests carried out by the European supervisory authorities in the banking sector, which will be made public in the second half of July. They will also discuss the action to be taken in response to a recent report by Mario Monti, President of Bocconi University and former European Commissioner responsible for the single market, on the development of the EU's single market.

*Meeting from 10.30, the Council will take stock of negotiations with the European Parliament on the reform of **financial supervision** in Europe.*

*The Council is due to open **excessive-deficit procedures** for **Bulgaria, Cyprus, Denmark and Finland**, and evaluate the measures taken by 13 other Member States to correct their excessive deficits.*

*It is due to authorise **Estonia to adopt the euro as its currency** as from 1 January 2011, and for that purpose set a permanent conversion rate for the Estonian crown against the euro.*

*The Belgian Presidency will present its **work programme** on economic and financial matters, and the Council will review the follow-up to the June European Council, particularly with regard to strengthening **economic-policy coordination**.*

*In addition, it is due to adopt a recommendation setting out the **broad economic-policy guidelines** under the new "Europe 2020" strategy.*

During lunch, ministers will discuss the outcome of the G-20 summit, held in Toronto on 26 and 27 June, in relation to issues relevant to the Council.

Press conferences: after the Euro Group meeting (*Monday evening*) and at the end of the Council (*on Tuesday, before lunch*).

Press conferences and public events by video streaming: <http://video.consilium.europa.eu/>

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

Work programme of the Presidency

– Public debate

The Belgian Presidency will present a work programme on economic and financial matters for the duration of its term of office, which runs from July to December 2010 ([11767/1/10 REV 1](#)).

This item will be the subject of a public debate which may be followed on the Internet:

<http://video.consilium.europa.eu/>.

Important steps have been taken over the past few months in order to attenuate the impact of the economic and financial crisis, to restore the confidence of investors and consumers, and to enable a return to economic growth. Under the Belgian Presidency, the Council will follow implementation of flagship initiatives launched under the EU's new 2020 strategy for jobs and growth, and examine further measures to revitalise the EU's internal market.

The current context is however characterised by difficulties in the financial sector, by low economic growth in Europe and by a deterioration of public finances in many Member States. Additional measures are therefore needed to ensure financial stability and to consolidate public finances, and the Belgian Presidency will oversee these.

Regarding financial-sector reforms, the Council under the Belgian Presidency will strive to ensure the establishment of new arrangements for the supervision of financial services by the end of the year. It will further pursue legislative initiatives, such as those relating to the regulation of hedge funds and private equity firms, as well as derivative financial products, the short-selling of credit default swaps and guarantee systems for bank deposits.

As concerns the consolidation of public finances, the Council will ensure that, where necessary, plans for budgetary consolidation and structural reforms are speeded up. And it will make sure that the appropriate follow-up is given to the final report, expected in October, of the Task force on economic governance chaired by the President of the European Council, Herman Van Rompuy.

In order to fulfil its programme, the Belgian Presidency will build on the work undertaken in the first half of the year by the Spanish Presidency, in line with the joint programme of the trio of presidencies (Spain, Belgium, Hungary).

Reform of financial supervision

The Council will be briefed on the state of negotiations with the European Parliament with regard to a set of proposals to reform the European supervisory framework for the financial system in the wake of the global financial crisis.

Negotiations with the Parliament aim to allow the texts to be adopted at first reading, so that they can be implemented on 1 January 2011.

The proposals, presented by the Commission in the autumn of 2009, are:

- draft Regulations on Community macro prudential oversight of the financial system and establishing a European Systemic Risk Board, and entrusting the European Central Bank with specific tasks concerning the functioning of that Board;
- draft Regulations establishing a European Banking Authority, a European Insurance and Occupational Pensions Authority and a European Securities and Markets Authority;
- a draft Directive amending existing legislation ² in respect of the powers of these three new authorities.

Most of these texts are subject to the procedure involving codecision between the Parliament and the Council ³.

At its meeting of 17 June, the European Council invited the Council and Parliament to adopt the texts rapidly, so that the European Systemic Risk Board and the three new supervisory authorities could be operational as from the beginning of 2011.

The Council has established its position by means of general approaches, which were defined:

- last October with regard to the macro-financial part of the package;
- in December as regards the micro-financial part, i.e. the setting up of the three supervisory authorities;
- in April as regards the amendments to existing legislation.

The Presidency is negotiating with the Parliament on the basis of these general approaches.

The Parliament, for its part, defined its position in an opinion from its Committee on Economic and Monetary Affairs, approved on 10 May.

Initially the two positions diverged, particularly on the texts relating to the establishment of the three new supervisory authorities. But, following the negotiations which have already taken place with the Parliament, there is now a large degree of convergence. However, it has not proven possible to find an overall agreement in time to allow the Parliament to hold its first reading on 8 July, as originally intended. The Parliament has therefore decided to postpone the vote to a subsequent plenary session ⁴.

To facilitate the continuing negotiations, the Council will be called on to consider compromise proposals drawn up by the Presidency. Preliminary agreement on these proposals would make it possible to strengthen the negotiating mandate given to the Presidency, while allowing it a degree of flexibility about the exact wording of the texts.

The texts under codecision are based on Article 53(1) and Article 114 of the Treaty on the Functioning of the European Union, which require a qualified majority within the Council.

² Directives 1998/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC, and 2009/65/EC.

³ All of them except the draft Regulation entrusting the European Central Bank with specific tasks.

⁴ The next plenary sessions are due to take place from 6 to 9 September and from 20 to 23 September.

Follow-up to the June European Council

The Council will review the action to be taken following the European Council on 17 June in the economic field:

- the Commission will submit a communication on measures to be taken to enhance economic policy coordination in the EU (11807/10). This document is intended inter alia to contribute to the proceedings of a working party set up at the request of the European Council in March to consider means of strengthening budgetary governance;
- the Council will have an exchange of views on the advisability of introducing as from next year a "European semester", during which the budgetary and structural policies of the Member States would be monitored. This initiative is one of the issues being considered by the Task force on economic governance;
- the Council will take stock of the deliberations of the European Council in other areas, including with regard to the implementation of the new "Europe 2020" strategy for growth and employment.

Broad economic-policy guidelines

The Council is due to adopt a recommendation establishing new broad economic-policy guidelines for the Member States and the EU (11646/10).

The draft recommendation, together with a draft Decision on guidelines for employment policies⁵, forms "*Integrated Guidelines*" for structural reforms which will have to be carried out over the next few years under the new "Europe 2020" strategy for jobs and growth.

On the basis of these integrated guidelines, Member States will draw up national reform programmes which will set out in detail the actions to be undertaken. Particular emphasis will be placed on the efforts needed to meet the national targets as well as on measures to remove the bottlenecks that constrain sustainable growth at the national level.

The European Council will assess annually the progress made at both EU and Member State level under the 2012 strategy. Macro-economic, structural and competitiveness developments, as well as overall financial stability, will be examined simultaneously.

The integrated guidelines are planned as follows:

- guideline 1: ensuring the quality and the sustainability of public finances;
- guideline 2: addressing macroeconomic imbalances;
- guideline 3: reducing imbalances in the euro area;
- guideline 4: optimising support for research, development and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy;
- guideline 5: improving resource efficiency and reducing greenhouse gases;

⁵ The adoption of the Decision on employment policies is planned for October, following consultation of the European Parliament.

- guideline 6: improving the business and consumer environment and modernising the industrial base in order to ensure the full functioning of the internal market;
- guideline 7: increasing labour market participation and reducing structural unemployment;
- guideline 8: developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning;
- guideline 9: improving the performance of education and training systems at all levels and increasing participation in tertiary education;
- guideline 10: promoting social inclusion and combating poverty.

Article 121 of the Treaty on the Functioning of the European Union requires a qualified majority for the adoption of the recommendation by the Council. (The draft Decision on employment policies is based on Article 148 of the Treaty.)

The Council recorded its agreement on the text of the recommendation at its meeting on 8 June, and the European Council gave its political endorsement on 17 June.

Adoption of the euro by Estonia

The Council is due to adopt a Decision authorising Estonia to adopt the euro as its currency as from 1 January 2011, thus abrogating the derogation concerning Estonia's participation in economic and monetary union.

It is also due to adopt Regulations setting a permanent conversion rate for the Estonian crown against the euro, and adapting certain technical provisions on the introduction of the euro.

Sixteen of the 27 Member States of the EU currently have the euro as their currency. Banknotes and coins were introduced:

- on 1 January 2002 in Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Austria and Finland;
- on 1 January 2007 in Slovenia;
- on 1 January 2008 in Cyprus and Malta; and
- on 1 January 2009 in Slovakia.

The decision will therefore enlarge the euro zone from 16 to 17 Member States as from 1 January 2011, allowing Estonia almost six months to prepare itself for the change.

The European Council discussed the proposal for a Decision at its meeting on 17 June, on the basis of reports from the Commission and the European Central Bank, a recommendation from the representatives of the Member States having the euro as their currency and a letter from the President of the Council. The European Parliament gave a favourable opinion on 16 June.

Congratulating Estonia on the results achieved through its sound economic and financial policy, the European Council noted with satisfaction that it respected all the convergence criteria set out in the EU Treaty and welcomed the Commission's proposal.

The reports from the Commission and the ECB examine whether the legislation of the country concerned is compatible with the provisions of the Treaty and with the Statute of the European System of Central Banks. They also examine progress achieved in compliance with the convergence criteria – i.e. price stability, situation of public finance, exchange rate stability and long-term interest rates – and several other factors.

The adoption of the draft Decision, which is based on Article 140(2) of the Treaty on the Functioning of the European Union, requires a qualified majority within the Council; the draft Regulations are based on Article 140(3) requiring the unanimity of the euro area Member States and Estonia.

Excessive-deficit procedure

- **launching of the procedure for Bulgaria, Denmark, Cyprus and Finland**
- **monitoring of the procedure for thirteen other Member States**

The Council is due to:

- adopt decisions on the existence of excessive public deficits in Bulgaria, Denmark, Cyprus and Finland, and recommendations concerning the measures to be taken to remedy them;
- evaluate, on the basis of communications from the Commission, the measures taken by Belgium, the Czech Republic, Germany, Ireland, Spain, France, Italy, the Netherlands, Austria, Portugal, Slovenia, Slovakia and the United Kingdom to correct their excessive deficits.

The Treaty on the Functioning of the European Union sets a 3 % reference value for the ratio of planned or actual government deficit to gross domestic product (GDP). However,

- in the first four Member States, this threshold is exceeded and excessive-deficit procedures are to be opened;
- as for the thirteen other Member States, the Council will review the procedures already under way.

In its recommendations to Bulgaria, Denmark, Cyprus and Finland, the Council is due to set a deadline of 13 January 2011 for corrective measures to be taken.

It is expected that, on the basis of the economic assessment presented by the Commission, it will call on Bulgaria and Finland to reduce their deficits below the threshold of 3 % of GDP by 2011, and that it will call on Cyprus to do so by 2012 and Denmark by 2013.

The Council is due to conclude that special circumstances in Cyprus and Denmark justify the correction of the deficit in the medium term rather than the short term. As regards Bulgaria and Finland, the Council is on the other hand due to find that there are no grounds for any exception to the normal deadline for correction of the deficit.

On the basis of Article 126(6) and (7) of the Treaty on the Functioning of the European Union, the draft decisions and recommendations will require, for their adoption by the Council:

- as regards Cyprus and Finland (Member States where the currency is the euro), a qualified majority of delegations from 15 of the 16 countries of the euro area, since the delegation concerned is excluded;
- for Bulgaria and Denmark (Member States where the currency is not the euro), a qualified majority of delegations from 26 of the 27 EU Member States, since the delegation concerned is excluded.

As regards Belgium, the Czech Republic, Germany, Ireland, Spain, France, Italy, the Netherlands, Austria, Portugal, Slovenia, Slovakia and the United Kingdom, the Council is expected to find that, on the basis of current information, they have acted in accordance with its recommendations and that, therefore, no further steps are needed at present.

Belgium

Belgium has been the subject of an excessive deficit procedure since December 2009, after a deficit of 5,9 % of GDP was forecast for 2009 (Commission forecasts).

The Council then made a recommendation inviting Belgium to reduce its deficit to below 3 % of GDP in 2012, and to make an average annual budgetary effort of at least $\frac{3}{4}$ % of GDP over the period 2010-2011.

In its communication the Commission considers that, on the basis of current information, Belgium has to date acted in accordance with that recommendation, and that no further steps in connection with the excessive deficit procedure are needed at present.

The Council is expected to agree with this assessment.

Bulgaria

In the case of Bulgaria, the general government deficit reached 3,9 % of GDP in 2009, according to data notified by the Bulgarian authorities in April 2010, thus exceeding the 3 % reference value.

In its recommendation for a Council recommendation, the Commission proposes that Bulgaria should be called on to take the necessary measures to avoid its 2010 deficit exceeding 3,8 % of its GDP, and to make a budgetary effort of at least $\frac{3}{4}$ % of GDP in 2011 so as to bring the deficit below 3 % of GDP in 2011 at the latest.

Czech Republic

The Czech Republic has been the subject of an excessive deficit procedure since December 2009, after deficits of 6,6 % and 5,5 % of GDP were forecast for 2009 and 2010 respectively (Commission forecasts).

The Council then made a recommendation calling on the Czech Republic to bring its deficit to below 3 % of GDP by 2013 and to make an average annual budgetary effort of at least 1 % of GDP over the period 2010-2013.

In its communication the Commission considers that, on the basis of current information, the Czech Government has to date acted in accordance with that recommendation, and that no further steps in the excessive deficit procedure are needed at present.

The Council is expected to agree to this assessment.

Denmark

In the case of Denmark, the Council is expected to consider that there are special circumstances given the recession in 2009 which was due to an abrupt decline in private consumption, investment and exports, and in particular the slump in demand from its main trading partners.

These special circumstances justify the correction of the deficit in the medium term rather than the short term.

According to data notified by the Danish authorities in April 2010, the general government deficit is expected to reach 5,4 % of GDP in 2010, which is higher than the reference value of 3 %.

In its recommendation, the Council is expected to invite Denmark to already begin consolidation of its public finances in 2011 and to make an average annual budgetary effort of at least ½ % of its GDP over the period 2011-2013, in order to bring the deficit below 3 % of GDP in 2013 at the latest.

Germany

Germany has been the subject of an excessive deficit procedure since December 2009, after a deficit of 3,4 % of GDP was forecast for 2009 (Commission forecasts).

The Council then made a recommendation calling on Germany to reduce its deficit to below 3 % of GDP by 2013, to begin consolidation of its public finances in 2011 and to make an average annual budgetary effort of at least 0,5 % of its GDP over the period 2011-2013.

In its communication the Commission considers that, on the basis of current information, the German Government has to date acted in accordance with this recommendation and that no further steps in the excessive deficit procedure are needed at present.

The Council is expected to agree to this assessment.

Ireland

Ireland has been the subject of an excessive deficit procedure since April 2009, when the Council also made a recommendation defining the measures to take to reduce the deficit to below 3 % of GDP in 2013.

However, in December 2009, a deficit of 12,5 % of GDP was forecast for 2009 according to Commission estimates, which exceeded the target set by the Irish authorities.

The Council then adopted a further recommendation which postponed the deadline for the correction of the deficit to 2014, while calling for an average annual budgetary effort of 2 % of GDP over the period 2010-2014. This postponement was justified by a more serious economic recession than had been forecast, which had led to a reduction in revenue, despite the fact that Ireland had taken appropriate action to comply with the recommendation made in April.

In its communication the Commission considers that, on the basis of current information, the Irish Government has to date acted in accordance with the Council's recommendation, and that no further steps in the excessive deficit procedure are needed at present.

The Council is expected to agree to this assessment.

Spain

Spain has been the subject of an excessive deficit procedure since April 2009, when the Council also made a recommendation setting out measures which should enable the deficit to be corrected in 2012.

However, in December 2009, the Commission forecast a 2009 deficit of 11,2 % of GDP, or five percentage points more than the estimate made at the beginning of the year.

The Council then adopted a further recommendation which postponed the deadline for correcting the deficit until 2013, while calling for an average annual budgetary effort of more than 1½ % of GDP over the period 2010-2013. This postponement was justified by a decline in economic activity which had been steeper than forecast, with a consequently stronger effect on budgetary revenue, despite the fact that Spain had undertaken appropriate action to comply with the recommendation made in April.

Furthermore, at the meeting of the Council on 18 May 2010, the Spanish delegation announced budgetary consolidation measures for 2010 and 2011 in addition to those already planned under the excessive deficit procedure.

In its communication the Commission considers that, on the basis of current information, the Spanish Government has to date acted in accordance with the Council's recommendation and that no further steps in the excessive deficit procedure are needed at present.

The Council is expected to agree to this assessment.

France

France has been the subject of an excessive deficit procedure since April 2009, when the Council issued a recommendation to it, too, setting out the measures which should enable the deficit to be corrected by 2012.

However, in December 2009 the Commission forecast that the deficit would be 8,3 % of GDP for 2009 i.e. three percentage points higher than the estimate made at the beginning of the year.

The Council then adopted a further recommendation which extended the deadline for correcting the deficit to 2013, but urged France to redouble its efforts to consolidate its public finances as from 2011 and to make an average annual budgetary effort of more than 1 % of its GDP over the period 2010-2013. The extension was justified by the economic slowdown which had a greater impact than expected on fiscal revenue, despite the fact that France had taken appropriate action to comply with the recommendation made in April.

In its communication the Commission considers that, on the basis of current information, the French Government has to date acted in accordance with the Council recommendation and that no further steps in the excessive deficit procedure are needed at present.

The Council is expected to agree to this assessment.

Italy

Italy has been the subject of an excessive deficit procedure since December 2009, after a 5,3 % deficit was forecast for 2009 (Commission forecasts).

The Council then made a recommendation urging Italy to bring its deficit below the reference value of 3 % of GDP in 2012 and to make an average annual budgetary effort of at least ½ % of its GDP over the period 2011-2012.

In its communication the Commission considers that, on the basis of current information, the Italian Government has to date acted in accordance with that recommendation and that no further steps in the excessive deficit procedure are needed at present.

The Council is expected to agree to this assessment.

Cyprus

In the case of Cyprus, the Council is expected to consider that there are special circumstances, given a significant fall in domestic demand and an adverse international environment, which led in 2009 to a contraction of economic activity for the first time in 35 years.

These special circumstances justify the correction of the deficit in the medium term rather than the short term.

According to data notified by the Cypriot authorities in April 2010, the general government deficit reached 6,1 % of GDP in 2009, thus exceeding the 3 % reference value.

In its recommendation, the Council is expected to invite Cyprus to take the necessary measures to reduce its 2010 deficit to below 6 % of its GDP, define an expenditure-driven consolidation strategy and make an average annual budgetary effort of at least 1½ % of its GDP over the period 2010-2012. The aim would be to reduce the deficit to below 3 % of GDP in 2012 at the latest.

The Netherlands

The Netherlands has been the subject of an excessive deficit procedure since December 2009, after deficits of 4,7 % and 6,1 % were forecast for 2009 and 2010 respectively (Commission forecasts).

The Council then made a recommendation calling on the Netherlands to bring its deficit below the reference value of 3 % of GDP in 2013 and to make an average annual budgetary effort of ¾ % of its GDP over the period 2011-2013.

In its communication the Commission considers that, on the basis of current information, the Netherlands Government has to date acted in accordance with that recommendation and that further steps in the excessive deficit procedure are needed at present.

The Council is expected to agree to this assessment.

Austria

Austria has been the subject of an excessive deficit procedure since December 2009, after a deficit of 4,3 % of GDP was forecast for 2009 (Commission forecasts).

The Council then made a recommendation calling on Austria, too, to bring its deficit below the reference value of 3 % of GDP in 2013, to start consolidating its public finances in 2011 and to make an average annual budgetary effort of at least $\frac{3}{4}$ % of its GDP over the period 2009-2011.

In its communication the Commission considers that, on the basis of current information, the Austrian Government has to date acted in accordance with that recommendation and that no further steps in the excessive deficit procedure are needed at present.

The Council is expected to agree to this assessment.

Portugal

Portugal has been the subject of an excessive deficit procedure since December 2009, after a deficit of 8 % of GDP was forecast for 2009 and 2010 (Commission forecasts).

The Council then made a recommendation urging Portugal to bring its deficit below the reference value of 3 % of GDP in 2013 and to make an average annual budgetary effort of $1\frac{1}{4}$ % of its GDP over the period 2010-2013.

Moreover, at the Council meeting on 18 May 2010, the Portuguese delegation announced budgetary consolidation measures for 2010 and 2011 in addition to those planned under the excessive deficit procedure.

In its communication the Commission considers that, on the basis of current information, the Portuguese Government has to date acted in accordance with the Council recommendation and that no further steps in the excessive deficit procedure are needed at present.

The Council is expected to agree to this assessment.

Slovenia

Slovenia has been the subject of an excessive deficit procedure since December 2009, after a public deficit of 6 % of GDP was forecast for 2009 (Commission forecasts).

The Council made a recommendation asking Slovenia, too, to bring its deficit below the reference value of 3 % of GDP in 2013 and to make an average annual budgetary effort of at least $\frac{3}{4}$ % of its GDP over the period 2010-2013.

In its communication the Commission considers that, on the basis of current information, the Slovenian Government has to date acted in accordance with that recommendation and that no further steps in the excessive deficit procedure are needed at present.

The Council is expected to agree to this assessment.

Slovakia

Slovakia has been the subject of an excessive deficit procedure since December 2009, after a deficit of 6,3 % of GDP was forecast for 2009 (Commission forecasts).

The Council then made a recommendation urging Slovakia to bring its deficit below the reference value of 3 % of GDP in 2013 and to make an average annual budgetary effort of 1 % of its GDP over the period 2010-2013.

In its communication the Commission considers that, on the basis of current information, the Slovak Government has to date acted in accordance with that recommendation and that no further steps in the excessive deficit procedure are needed at present.

The Council is expected to agree to this assessment.

Finland

In the case of Finland, the general government deficit is expected to reach 4,1 % of GDP in 2010, according to data notified by the Finnish authorities in April 2010, thus exceeding the 3 % reference value.

In its recommendation, the Council is expected to invite Finland to ensure that the excess over the reference value is limited and temporary and to make a budgetary effort representing at least $\frac{1}{2}$ % of its GDP in 2011 so as to bring its deficit below the threshold of 3 % of GDP in 2011 at the latest.

United Kingdom

The United Kingdom has been the subject of an excessive deficit procedure since July 2008, when the Council issued a recommendation concerning corrective action to be taken.

In April 2009, the Council adopted a decision deeming insufficient the action taken by the United Kingdom pursuant to its recommendation and made a new recommendation urging that the deficit be corrected by the financial year 2013-14.

However, in December 2009, a deficit of 13 % of GDP was forecast for the year 2009-10 according to Commission estimates, i.e. approximately 3,5 percentage points more than the estimate made in the beginning of the year.

The Council then adopted a revised recommendation which extended the deadline for correcting the deficit to 2014-15, but urged the United Kingdom to start consolidating its public finances in 2010-11 and to increase its average annual budgetary effort to 1¾ % of GDP between 2010-11 and 2014-15. The extension was justified by a contraction of economic activity which was more severe than expected, despite the fact that the United Kingdom had taken appropriate action to comply with the recommendation made in April.

In its communication the Commission considers that, on the basis of current information, the United Kingdom Government has to date acted in accordance with the Council recommendation and that no further steps in the excessive deficit procedure are needed at present.

The Council is expected to agree to this assessment.

Public finances

Under "other business", the Council will be informed by the President of the Economic and Social Committee of the outcome of the Economic and Financial Committee's discussions on an annual report from the Commission on public finances in the Economic and Monetary Union.
