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Austrian
Presidency
of the
Council of the
European Union

 Federal Ministry
Republic of Austria
Finance

Background Information for the Media
Informal ECOFIN (Economic and Financial Affairs Council)
September 07th and 08th, 2018

General timetable

The informal ECOFIN begins on Friday with a working lunch to discuss the achievements of the European Investment Bank as well as future challenges.

In the first working session (jointly with the central banks), the discussion will then focus on the effects of rising interest rates on financial stability and the potential and risks of crypto assets.

The topics of the second working session on Saturday concern the proposals of the European Commission (EC) regarding the InvestEU and the establishment of a European Investment Stabilisation Function (EISF) and a Reform Support Programme (RSP).

In the third working session, the ministers will finally address taxation of the digital economy.

Agenda for Friday, September 07th, 2018

ECOFIN working lunch

Subject: European Investment Bank (EIB) – Achievements and future challenges

The European Investment Bank celebrates its 60th anniversary. A working lunch will recapitulate the EIB's achievements to date, and address future challenges.

ECOFIN Working Session I

Topic I: Effects of rising interest rates on financial stability

Against the background of the imminent “normalisation” of monetary policy, possible consequences for the financial sector in view of the expected rise in interest rates are to be discussed.

Topic II: Economic potential and risks of crypto assets

Crypto assets are increasingly gaining in importance. Among the best-known crypto assets there are: Bitcoin, Ethereum, Bitcoin Cash and Ripple. Most crypto assets are based on the blockchain technology. This consists of a network of mutually connected users (peer-to-peer network) who in some way conduct and handle business or other transactions based on trust. The advantage of the blockchain technology is that there is no need for intermediaries (such as banks or credit card providers) any more, since the transactions are validated as “blocks” by solving algorithms by other users (“mining”).

On the one hand, this undoubtedly provides possibilities for optimisation of the financial markets; on the other, there are reservations with regard to the issues of money-laundering, consumer protection, transparency, and financial stability. The handling of crypto assets varies not only within the EU but also internationally.

Agenda for Saturday, September 08th, 2018

ECOFIN Working Session II

Topic I: EMU deepening in the context of the Multiannual Financial Framework 2021 – 2027

In the context of the future Multiannual Financial Framework, the European Commission has also presented proposals for the further deepening of the Economic and Monetary Union in order to address structural weaknesses in the Member States more effectively through new or improved budgetary instruments.

a) EU funds to finance investments – InvestEU

The proposal builds on the experience with the European Fund for Strategic Investment (EFSI), known as the “Juncker Plan”. This proposal aims to mobilise some € 650 billion of additional public and private investment into infrastructure, research, innovation, digitisation and SMEs and strengthening of social cohesion in the EU (and to a limited extent also outside of it).

Under the new title “InvestEU”, 14 existing financial instruments of the EU are to be consolidated. In addition to the EIB Group, national development banks and international financial institutions are also to be approved as implementation partners and benefit from EU guarantees. To this end, in the EU budget, a guarantee fund is to be set up and endowed with about 40 percent of the guarantee volume. The use of the EU guarantees will be decided on by an investment committee; for technical assistance, the InvestEU Advisory Hub will replace the current Advisory Hub under the EFSI.

The EC has already presented this proposal to the ECOFIN Council in July. In Vienna, the ministers are going to address specific issues.

b) Promotion of structural reforms and macroeconomic stabilisation

In the context of the next financial framework, the EC has presented two proposals:

- European Investment Stabilisation Function (EISF)
- Reform Support Programme (RSP)

In case of “large” asymmetric shocks, the EISF shall support the Member States of the eurozone and those participating in the ERM II through loans linked to interest rate subsidies. The criterion for the existence of asymmetric shocks is to be the unemployment rate. The outstanding loan volume is to be limited to a maximum of € 30 billion and guaranteed by the EU budget. To qualify for usage of the EISF, certain conditions must be met. For example, potential beneficiary countries may not receive support from the ESM or the Balance of Payments Assistance Facility.

In the context of the RSP, the EC proposes a total budget of € 25 billion from the EU budget for structural reforms in the Member States for the period from 2021 to 2027. According to the EC proposal, the programme is intended to comprise three components:

- *Reform Delivery Tool (“Reform Partnerships”)*: This instrument would assist Member States in implementing the structural reforms agreed within the framework of the EU term. The specific reform obligations and the funding modalities would be determined by the EC by means of a “delegated act” on the basis of an implementation plan of the Member State.
- *Technical Support Instrument*: This instrument already exists under the name of “Structural Reform Support Programme (SRSP)”. This supports the design and implementation of structural reforms and measures to strengthen the institutions.
- *Convergence Facility for Member States outside the eurozone*: Finally, this (new) instrument is intended to provide financial and technical support to Member States in their preparations for the introduction of the euro.

Topic II: Fair taxation of the digital economy

The digital economy is one of the major challenges for fiscal policy, as traditional concepts are no longer sufficient to ensure effective taxation of companies. Against this background and in the context of the discussions at the G20/OECD, the European Commission presented two specific legislative proposals on March 21st: On the one hand, a temporary tax on digital revenues was proposed, and on the other, introduction of a “digital presence” as a longer-term solution.

The short-term tax provides for introduction of a digital tax of 3 percent on revenues from the provision of certain digital services (online advertising revenues, activities linking users as intermediaries, revenues from data sales) for large companies. A short-term tax would lead to direct revenues from the taxation of digital activities for the Member States. The EC proposal provides for the tax to be collected by the Member States, and to apply to sales generated by activities where users contribute a significant part of the value added. This includes, for example, online advertising revenues, activities in which users are connected as intermediaries, as well as sales through the value creation of data sales. According to the EC proposal, only companies that generate at least € 750 million in global sales and at least € 50 million in EU sales are affected.

As a longer-term and preferred option, the EC proposes new corporate tax rules. Here Member States are to be allowed to tax companies, even if these have no physical presence in their territory.

Annex

Eurofi Meeting (September 05th – 07th, 2018)

- Europe's largest think tank for financial services
- brings entrepreneurs, EU and non-EU decision-makers, banks and financial experts together
- over 1,000 registrations for Vienna
- Extract from the list of participants (banking sector): American Express, BNP Paribas, Bank of America, Credit Agricole, Credit Suisse, Deka, Deutsche Bank, Erste Group, J.P. Morgan, KPMG, Goldman Sachs, HSBC, Moody's, Morgan Stanley, pwc, Raiffeisen, UniCredit, Standard Chartered
- Extract from the list of participants (politics): Hartwig Löger (FM AT, Chairman), Nadia Calvino (FM ES), Mario Centeno (FM Portugal, PEG), Peter Kazimir (FM SK), Valdis Dombrovskis (VP EK)
- Numerous participants from various institutions: EIOPA, EBA, EIB, BIS, IMF, EBRD, the various national banks
- Further information on the programme can be found at http://www.eurofi.net/wp-content/uploads/2018/06/Eurofi_Vienna_Programs_12062018.pdf

Euro Group (September 07th, 2018)

Christopher Pissarides, Nobel laureate in Economics (2010), speaks at the Euro Group about labour market challenges in Europe: New Technology, Automation and Allocative Efficiency

ECOFIN (September 07th – 08th, 2018)

External speakers on crypto currencies and financial stability implications of interest rates:

- Bernhard Haslhofer (Crypto)
- Paul Klanschek (Crypto) <https://www.forbes.at/artikel/paul-klanschek.html>
- Daniel Gros (Ceps Thinktank, Interest Rates) https://en.wikipedia.org/wiki/Daniel_Gros
- Hyun Song Shin (BIS, Interest Rates) https://de.wikipedia.org/wiki/Hyun_Song_Shin

Bernhard Haslhofer and Paul Klanschek are Austrian experts on crypto currencies and are also members of the Fintech Advisory Board of the Austrian Federal Ministry of Finance.

Thus, we have not only political decision-makers at ECOFIN, but also external experts in the field who pass on their assessments to the ministers

A total of 350 political decision-makers (all the EU-28 finance ministers, numerous central bank governors and deputies, all major EU institutions) and delegates to ECOFIN – basically everybody of importance in the European financial sector will be present here in Vienna.

Important issues for the future such as crypto currencies and interest rate stability are discussed here for the first time on a larger scale

Together with Eurofi, it is certainly the largest “financial event” in Europe, making Vienna the financial capital of Europe for this weekend.