



Malta-EU Steering & Action Committee

# ECONOMIC AND FINANCIAL AFFAIRS



**16.03.09**

## Economic recovery

### COM (2009) 114 – Communication for the Spring European Council: Driving European recovery

As part of its preparation for the Spring European Council meeting (19-20 March), the European Commission has presented this Communication.

In conclusion, it invites the European Council to:

- Agree on the need for a new package of financial sector reform measures including a new supervisory framework for the EU's financial sector, based on the work of the de Larosière group (mandated to advise on the future of European financial regulation and supervision), and to decide on the main elements of this new framework at the June European Council, on the basis of further proposals from the Commission; and to invite the Council and European Parliament to give priority to the adoption of the proposals on financial services regulation to be proposed by the Commission in the coming months;
- Invite Member States to take the necessary action to ensure long-term financial stability as soon as economic conditions allow, in line with the revised Stability and Growth Pact;
- Invite Member States to expedite the implementation of their national recovery plans and structural reforms;
- Invite Member States to apply a number of common principles (included in the Communication) when designing and implementing measures to strengthen the real economy;
- Invite Member States to effectively support people through the crisis, drawing on the elements for action outlined in the Communication;
- Endorse the process for the preparation of the European Employment Summit in May;



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- Approve the joint European position for the G-20 Summit in London.

### **ECOFIN Council Meeting – 10 March 2009** **Council Conclusions (provisional)**

The ECOFIN Council meeting reached political agreement on the use of reduced rates of VAT in certain sectors; endorsed terms of reference for the EU' s participation for the G-20 finance ministers and central bank governors of 14 March in preparation for the G-20 summit of 2 April; adopted a key issues paper outlining main policy objectives for 2009 and a 2009 update on [country-specific recommendations on Member States' economic and employment policies](#); adopted conclusions on the international financing of climate change measures, as well as; assessed a number of updated stability and convergence programmes presented by MS as well as established priorities for the EU' s budget for 2010.

In the case of the discussion on the reduced VAT rates the political agreement was reached on the following: that all Member States should have the option to apply reduced VAT rates on a permanent basis to these services – minor repairing of bicycles, shoes and leather goods, clothing and household linen; window-cleaning and cleaning in private households; domestic care services; hairdressing; renovation and repairing of private dwellings, excluding materials which account for a significant part of the value of the service supplied; restaurant services, and; books on all physical means of support. Country specific allowances to Portugal and Cyprus were also agreed to.

The Council also took note of the Commission' s intention to propose a prolongation for two years derogation for the UK concerning the reverse charge mechanism (in place to combat VAT fraud). It also invited the Commission to submit, prior to the expiry of Malta' s transition period for the maintenance of its VAT 0% rate instead of the reduced rate of 5% on the supplies of foodstuffs and pharmaceuticals on 31 December 2010, an appropriate proposal for the extension of that provision until the adoption of the definitive arrangements referred to in Article 402 of Directive [2006/112/EC](#) and declared its support for the prolongation.



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### G-20 meeting

The EU' s message is expected to centre on the following issues:

- Closer international coordination of macroeconomic policies
- Global financial market regulation based on increased transparency and accountability
- Strengthened cooperation between financial authorities at international level
- Strengthening the IMF
- The role of multilateral development banks in countering the effects of the financial and economic crisis, in particular for the poorest and most vulnerable populations.

### EU Budget

#### **COM (2009) 110 - Preliminary Draft Amending Budget No 3 to the General Budget 2009 General Statement of Revenue**

This PDAB takes into account the latest Own Resources Decision ([2007/436/EC](#)), which entered into force on 1 March 2009. The Commission is proposing to readjust the financing of the Community budget for years 2007-2009.

One of the changes brought about by this new ORD affects the VAT-based resources as follows:

According to ORD 2007, the uniform rate of call of the VAT-based resource is fixed at 0.30 % from 1 January 2007. However, for the period 2007-2013, the rate of call of the VAT-based own resource for Austria has been fixed at 0.225 %, for Germany at 0.15 % and for the Netherlands and Sweden at 0.10 %<sup>1</sup>. In Malta's case contribution from VAT should be reduced by €896,184 (2007), €335,097 (2008) and €802,590 (2009).

Another change is the reduction of GNI-based contributions of the Netherlands and Sweden which must be financed by all the Member States. Malta will thus be asked to increase its GNI-based contribution by €333,782 (2007), €359,491 (2008), and €370,071 (2009).

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<sup>1</sup> One has to keep in mind the delicate discussion on the financing of the current Financial Framework (2007-13), and that these countries are substantial net contributors.



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It also affects the UK correction. In Malta's case, it will be paying €5.04 million (for 2007 correction) and €4.67 million (for 2008). The total new impact on Malta for these 2 years, related to the correction, is €336,019.

To respect the principle of equilibrium applicable to the budget of the European Union, the uniform rate to be applied to the sum of all Member States' GNI has also been recalculated, taking into account the total of all other revenue, including VAT-based own resource contributions.

In summary, the financial impact of ORD 2007 on this year's EU budget means that total own resources contributions are €114.7 billion (of which Malta's share is €62.5 million – 0.05%).

### **Economy – automotive crisis**

#### **COM (2009) 104 - Communication from the Commission "Responding to the crisis in the European automotive industry"**

The Commission believes that the EU needs a dynamic and competitive automotive sector. The economic crisis has put the automotive sector under particular pressure. It believes that properly targeted support is needed to help the industry and its workforce through the downturn and to address structural problems by making the sector more competitive and more in tune with the needs of the future.

This Communication sets out how the EU can bring policy levers into play to support the automotive industry. It represents a European framework for action: a framework which sets out how both the EU level and Member States can take the decisive measures needed. Different Member States will use different mixes of action to address the needs of manufacturers, suppliers, retailers and workers, whilst working within a common EU framework.



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## **Reply to Court of Auditors**

### **COM (2009) 96 – Report from the Commission: Member States' replies to the Court of Auditors' 2007 Annual Report**

In its annual report for 2007 the European Court of Auditors has, for the first time, given an unqualified (clean) opinion on the reliability of the accounts. The Court has also given unqualified opinions on the legality and regularity of transactions in Revenue, commitments and payments for Economic and Financial affairs, and Administrative expenditure. The Court had noted that the supervisory and control systems in those areas taken as a whole function effectively.

By contrast, shared management is dominated by the Court's adverse opinions on the legality and regularity of transactions. In addition, the supervisory and control systems in these areas have been reportedly partially effective. For Agriculture and Natural Resources the Court has concluded that the transactions underlying the expenditure for the policy area as a whole were affected by a material level of error, but for EAGF- which represents 85% of agricultural expenditure- the error rate is slightly below the materiality threshold. The Cohesion policy area was identified by the Court as the area most affected by error with an estimated 11% of the total amount that should not have been reimbursed. The main weaknesses were identified in day to day checks by managing and paying authorities as well as in the work of audit bodies. It is worth noting that the vast majority of transactions audited by the ECA relate to the 2000-2006 programming period.

The Court classifies errors as either "quantifiable" or "non quantifiable". The European Commission emphasises that Member States are responsible for more than 90% of the total number of quantifiable errors in shared management. In the replies provided by Member States to the actions taken in the light of the quantifiable error findings, 15 out of the 17 Member States concerned provided some information on the actions taken and the likely outcome. The Commission is indicating that it will monitor these actions in its follow-up of the Court's error findings.

Member States were also requested to respond to six specific questions on Agriculture and Cohesion. For Agriculture, the Court expressed concerns about the reliability of payments made under the Single Payments Scheme – SPS. Almost all Member States replied to this question and indicated that some



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improvements had been made. The questions on Cohesion were based on the levels of staffing and training for staff in managing and paying authorities. Several Member States indicated in their replies that new staff members had joined the managing and paying authorities in the last 12 months. Over 70% of Member States replied that staff in both managing and paying authorities was trained in financial management and control in the last 12 months.

Member States were also requested to reply to two general questions. The first question related to the tripartite discussions which were held between the Commission, certain Member States and the ECA on the individual error findings in May-June 2008. Six Member States stated that they had taken part in these tripartite discussions. The replies showed satisfaction with this initiative. The second question asked how the Commission could improve its supervisory role in shared management. The main improvements suggested were: simplification of rules and regulations, improvements in monitoring and guidance in public procurement matters.

### Accounting

#### **COM (2009) 83 - Proposal for a Directive of the European Parliament and of the Council amending Council Directive 78/660/EEC on the annual accounts of certain types of companies as regards micro-entities (Text with EEA relevance)**

The Commission is proposing an option for Member States to remove micro-entities from the scope of the 4<sup>th</sup> Company Law and Directive and, by doing so, relieving them from the requirement to draw up annual accounts.

Micro-entities are defined as companies which on their balance sheet dates do not exceed the limits of two of the three following criteria:

- (a) balance sheet total: EUR 500 000;
- (b) net turnover: EUR 1 000 000;
- (c) average number of employees during the financial year: 10.

Companies, including micro entities, keep records of sales and transactions for their own management purposes and for tax reporting. The Directive will enable Member States to align the financial reporting to such other reporting needs to avoid unnecessary administrative burden. Micro-entities can on a voluntary basis still draw up annual accounts, have them audited and send them to the national register.



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### **Economy - enlargement**

**COM (2009) 79 – Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Central Bank: Five years of an enlarged EU – Economic achievements and challenges –**

This Communication focuses on the economic aspects of the largest EU enlargement (2004) exercise carried out. It indicates that despite fears of possible disruptions the situation has been smoother. It lists achievements reached – significant improvements in the living standards of new Member States, rapid trade integration, rapid modernisation of new MS economies, a key driver of new MS growth has been investments from older MS, restructuring through cohesion policy funds, new product market regulations (including competition and state aid), workers' opportunities have improved (although new MS may have been faced with various problems due to this) among others. Concerns of massive labour migration in older Member States have also not materialised to the degree feared.

The global crisis presents the EU with a number of challenges. To address the Communication lists the need for sound fiscal policy, structural reforms in line with the Lisbon Strategy, enhanced country surveillance both by the Commission and the Council to foster the right policies, the implementation of the cohesion and rural development policies, and the use of EU policy and financial institutions for support.

Looking ahead the Commission states that full integration of national economies and income convergence is still to be achieved. Thus Cohesion Policy shall continue to play a key role. The EU's agenda shall see that the benefits offered will extend well beyond the economics.

### **Policy Strategy for 2010**

**COM (2009) 73 – Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Annual Policy Strategy for 2010**



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The European Commission has presented its policy strategy for the coming year, underlining the importance being highlighted both in the process of economic recovery as well as for the continuation of the Lisbon 2010 Strategy. Measures to expect include the implementation of reform in the financial services sector, implementation of the Small Business Act, the implementation and operation of the Services Directive, step up the fight against cartels and manage the impact through state aid and merger control activity, work towards increased energy efficiency particularly through the use of ICT, combat counterfeiting and piracy, work towards the free circulation of knowledge and also start working on a revised Trans-European Network Transport policy.

Other areas of action are listed, in general covering climate change and sustainability, citizen issues, international relations, and better regulation.

New budgetary allocations are also being envisaged to address the expected priorities. The 7<sup>th</sup> Framework Programme for research is expected to get an increase of €803 million, while Trans-European Networks €128 million; €3.5 billion have been earmarked for the energy programme for recovery (these funds will come from the budget heading covering agriculture etc); €1 billion to have better broadband infrastructure in rural communities, and; €600 million for the Eastern partnership (for period 2010-3) among a number of indicated changes.

### Informal European Council meeting – 1 March 2009

Heads of State or Government have agreed that Europe can only face this challenge and overcome the current crisis by continuing to act together in a coordinated manner, within the framework of the Single Market and EMU and expressed confidence in the medium and long term outlook of all EU economies. They agreed to take action along the following lines:

#### **Building confidence and promoting financial stability**

- Pursue work on the basis of the principles agreed in October 2008 in order to restore appropriate and efficient financing conditions in the economy.
- Recognise that unblocking the credit channel is crucial for the effectiveness of fiscal impulses undertaken by Member States.
- Underline the importance of dealing with impaired banking assets. In doing so, act in line with the guidelines provided by the Commission on 25 February and in full respect of competition rules.



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- Improve the regulation and supervision of financial institutions. Welcome the contribution of the High Level Group on financial supervision and the Commission's intention to issue its orientations on the report on 4 March. First decisions must be taken by June after a thorough discussion in the ECOFIN Council.
- Ensure long-term sustainability of public finances in line with the Stability and Growth Pact.
- Underline the importance of macro-financial stability throughout the EU. Recognising clear differences between the Member States in central and eastern Europe, review the assistance already made available. Stress the benefits which flow from EU integration and the sound medium term prospects it brings. With regard to the banking sector, confirm that support for parent banks should not imply any restrictions on the activities of subsidiaries in EU host countries. Instruct the ECOFIN Council to keep the situation under active review, working closely with the Commission, and to draw up elements to help countries facing temporary imbalances, if required, and on the basis of all available instruments. Acknowledge the importance of the EIB in providing finance to the region and welcome, in this context, the recent announcement by the EIB, World Bank and EBRD of a joint initiative to support the banking sectors in the region and to fund lending to businesses hit by the global economic crisis.

#### **Getting the real economy back on track**

- Assess the implementation of the European Recovery Programme both at European and national levels at the Spring European Council and draw the necessary conclusions.
- Make the maximum possible use of the Single Market as the engine for recovery to support growth and jobs. Stress that protectionism is no answer to the current crisis and express confidence in the Commission's role as guardian of the Treaty.
- Welcome the communication on the automotive sector by the Commission of 25 February, including in particular enhanced European coordination of schemes for the renewal of car fleets. Invite the Commission to ensure rapid and effective mutual information on envisaged national measures and to closely monitor actions taken in third countries, as part of the European framework it has outlined for this sector.
- Recognise the importance of measures to counter the negative impact on employment. At the EU level, use existing tools such as the European



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Social Fund and the revised Globalisation Adjustment Fund to their full potential to limit job losses. Use the special summit on employment to be held in late spring to agree on concrete orientations and measures to mitigate the social and employment impact of the crisis.

### **Working together at the global level**

- Ensure that the EU's internal efforts and actions to restore financial stability and to promote open markets are adequately reflected at the international level, while taking into account the particular situation of developing countries.
- Recognise the importance of the G-20 London summit for rebuilding the businesses', citizens' and financial sector confidence. Underline the EU's leading role in the G-20 process and use the Spring European Council to prepare the EU's position in that respect, taking into account the outcome of the meeting held in Berlin on 22 February.
- Invest every effort to build consensus on modalities leading to a rapid conclusion of the Doha Development Agenda.

*The Prime Minister, Dr. Lawrence Gonzi, had issued a [Ministerial Statement](#) on this meeting to the House of Representatives.*