EU Financial Regulation Newsletter, June 2018

23 May 2018- *European Semester 2018 Spring Package*: Commission issues recommendations for Member States to achieve sustainable, inclusive and long-term growth. The recommendations focus on strengthening the foundations for sustainable and inclusive growth in the long term. They build on the comprehensive analysis carried out by the Commission in the latest Country Reports, which highlighted legacy issues in certain Member States arising from the financial crisis and challenges for the future. The Commission calls on Member States to pursue structural reforms that improve the business environment and conditions for investment, especially through product and service market reforms, supporting innovation, improving small- and medium-sized enterprises' access to finance and fighting corruption. Countries are also recommended to carry out reforms that prepare their workforces for the future, including future forms of work and increasing digitalisation; reduce income inequalities; and create employment opportunities, for young people in particular.

24 May 2018- *the European Commission releases 2018 Convergence Report: Review of Member States' progress towards euro adoption*. The Report assesses Member States' progress towards joining the euro area and covers the seven non-euro area Member States that are legally committed to adopting the euro: Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania and Sweden. It finds that these Member States generally display considerable nominal convergence, but none of them currently meet all the formal conditions for joining the euro area. Two of these Member States, Bulgaria and Croatia, fulfil all of the convergence criteria, except for the exchange rate criterion. None of the Member States fulfils the exchange rate criterion, as none of them are members of the Exchange Rate Mechanism (ERM II). The report finds that legislation is not fully compatible with the rules of the Economic and Monetary Union in any of the Member States, except Croatia. The Commission also looked at other factors referred to in the Treaty that should be taken into account in the assessment of the sustainability of convergence, and found that the non-euro area Member States are generally well integrated economically and financially in the EU. However, some of them still experience macroeconomic vulnerabilities and/or face challenges related to their business environment and institutional framework which may pose risks as to the sustainability of the convergence process (see http://europa.eu/rapid/press-release_IP-18-3826_en.htm).

24 May 2018- *the European Commission launches risk reduction proposal to enable sovereign bond-backed securities*. The Commission is proposing new rules that will allow market-led solutions to support further integration and diversification within Europe's financial sector, leading to a stronger and more resilient Economic and Monetary Union. The proposal would eliminate existing regulatory obstacles by granting the sovereign bond-backed securities (SBBS) same regulatory treatment as national euro-area sovereign bonds denominated in euro (in terms, for example, of capital requirements). Banks and other financial operators that invest in securities of SBBS would achieve greater diversification and less risk for their sovereign bond portfolios, with a positive impact on the stability of the financial system as a whole (see http://europa.eu/rapid/press-release_IP-18-3725_en.htm).

31 May 2018- for the next long-term EU budget 2021-2027, *the Commission proposes to create a Reform Support Programme and a European Investment Stabilisation Function*. The Reform Support Programme will support priority reforms in all EU Member States, and comprises three elements: a Reform Delivery Tool, to provide financial support for reforms; a Technical Support Instrument, to offer and share technical expertise; and a Convergence Facility, to help Member States on their way to joining the euro. The European Investment Stabilisation Function will help stabilise public investment levels and facilitate rapid economic recovery in cases of significant economic shocks in Member States of the euro area and those participating in the European Exchange Rate Mechanism (ERM II). This Function will complement the role of existing national automatic stabilisers (see http://europa.eu/rapid/press-release_IP-18-3972_en.htm).

6 June 2018- *the European Commission proposes to create the InvestEU Programme*, bringing EU budget financing in the form of loans and guarantees under one roof. The new programme will consist of the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal. The InvestEU Fund supports four policy areas: sustainable infrastructure; research, innovation and digitisation; small and medium-sized businesses; and social investment and skills. The InvestEU Advisory Hub will integrate the 13 different advisory services currently available into a one-stop-shop for project development assistance. It will provide technical support and assistance to help with the preparation, development, structuring and implementation of projects, including capacity building. The Investment Plan's European Investment Project Portal gives visibility to investment projects across the EU and will be continued under the InvestEU Programme (see http://europa.eu/rapid/press-release_IP-18-4008_en.htm).

8 June 2018- the Commission is proposing measures to make tax and customs cooperation between Member States better and more efficient (see http://europa.eu/rapid/press-release_IP-18-4009_en.htm).

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15 June 2018- *Statement by European Commission and European Central Bank staff following the Eight Post-Programme Surveillance mission to Portugal*. Staff from the European Commission, in liaison with staff from the European Central Bank, visited Lisbon from 5 to 12 June to conduct the eighth post-programme surveillance (PPS) review for Portugal. Staff from the European Stability Mechanism participated in the meetings on aspects related to its Early Warning System. The main objective of PPS is to assess the country's capacity to repay loans granted under the former EU-IMF financial assistance programme and, if necessary, to recommend corrective actions (see https://ec.europa.eu/info/news/economy-finance/statement-european-commission-and-ecb-staff-following-eight-post-programme-surveillance-mission-portugal_en).

18 June 2018- *European Fiscal Board publishes assessment of the prospective fiscal stance appropriate for the euro area*. The report concludes that the favourable economic outlook offers a prime opportunity to rebuild fiscal buffers. Especially euro area Member States with a high government debt-to-GDP ratio need to do more than simply accrue the budgetary benefits of the economic expansion (see https://ec.europa.eu/info/sites/info/files/20180603-june-report_-final_en.pdf).

21 June 2018- At their meeting on 21 June, euro area finance ministers discussed the fourth (and final) review of Greece's ESM programme. The ministers agreed on the elements to support Greece's successful exit from the programme in August 2018. Greece committed to maintaining a primary surplus of 3.5% of GDP until 2022 and, thereafter to continuing to ensure that its fiscal commitments are in line with the EU fiscal framework (see https://www.consilium.europa.eu/en/meetings/eurogroup/2018/06/21/).

22 June 2018- Economic and Financial Affairs Council closed the excessive deficit procedure for France, confirming that its deficit has dropped below the EU's 3% of GDP reference value. The Council issued recommendations to Hungary and Romania, calling on them to correct significant deviations from their medium-term budgetary objectives. It found that Romania has so far failed to take effective action (see https://www.consilium.europa.eu/en/meetings/ecofin/2018/06/22/). The Council also adopted a directive making the 15% minimum standard VAT rate a permanent feature of the VAT system. The minimum standard rate prevents excessive divergence in VAT rates in the member states. This eliminates the risk of distortions of competition through lower VAT rates that would have an impact on cross-border shopping and trade (see https://www.consilium.europa.eu/en/press/press-releases/2018/06/22/vat-minimum-standard-rate-set-permanently-at-15/).

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29 June 2018- Meeting on 29 June in the EU27 format for the Euro Summit, EU leaders agreed on the need to continue moving forward with the completion of the Banking Union, and that work should start on a roadmap for beginning political negotiations on the European Deposit Insurance Scheme. In particular, they agreed to reform the European Stability Mechanism (ESM) to provide a backstop for the Single Resolution Fund (SRF) that would protect EU citizens in the case of failing banks. EU leaders will revisit these topics in December 2018 (see https://www.consilium.europa.eu/en/press/press-releases/2018/06/29/20180629-euro-summit-statement/).

29 June 2018- The European Council (Art. 50), in an EU 27 format, reviewed the state of play of Brexit negotiations and adopted conclusions on progress made. The 27 leaders expressed their concern that no substantial progress had yet been achieved on agreeing a backstop solution for Ireland/Northern Ireland (see https://www.consilium.europa.eu/en/meetings/european-council/2018/06/29/).