

## **Results of the ECOFIN-Council of 14 February**

### **Formal Adoption of the compromise on the Application of Reduced VAT Rates**

The Ecofin Council adopted an amendment to the 6 th VAT Directive, which translates the political compromise from 24 January on the application of reduced VAT rates into a legal text. With this amendment of the 6 th VAT directive, the legal vacuum on the taxation of labour intensive services, which has existed since 1 January, will be eliminated.

### **Appointment of a Member of the Executive Board of the European Central Bank**

The Ecofin Council adopted a recommendation concerning the appointment of Mr Jürgen Stark as a member of the Executive Board of the European Central Bank. On the basis of this recommendation, and after consulting the Governing Council of the European Central Bank and the European Parliament, the European Council (at the level of Heads of State or Government) will take a formal decision, preferably already at the occasion of the Spring Council meeting. Mr. Jürgen Stark possesses outstanding experience in monetary and banking matters, and is therefore an excellent candidate for succeeding Mr. Otmar Issing.

### **Implementation of the Stability and Growth Pact**

The Ecofin Council adopted opinions on the updated Stability Programmes of Belgium, Luxembourg and Austria and on the Convergence Programmes of Estonia, Latvia and Slovenia; with the main conclusion that all these Member States meet the objectives of the revised Stability and Growth Pact.

The programmes of Belgium, Luxembourg and Austria are in line with the requirements (for Euro Area and ERM II Members) of an annual adjustment of 0,5%points in cyclically adjusted terms and net of one-off measures. With regard to long term sustainability, the Ecofin Council concludes that there are certain risks in Belgium and Luxembourg, whereas Austria - due to the recent pension reforms - is at a low risk.

In a comfortable budgetary situation are also Estonia, Latvia and Slovenia; with Estonia as the best performing Member State: balanced public finances over the entire programme period, lowest public debt among all Member States, low age-related expenditure risks.

## **Preparation of the European Council on 23-24 March**

### ***Lisbon Strategy***

The Ecofin Council had a first exchange of views on the Commission's Progress Report and the Presidency's Key Issues Paper. The debate will be continued at the March Meeting, with the adoption of the Ecofin Council's report for the Spring Council.

This year's preparations for the Spring Council are taking place for the first time on the basis of the renewed Lisbon Strategy, which aims at refocusing policy action on growth and jobs, speeding up delivery at both EU and Member States level, and strengthening national ownership. With the Key Issues Paper, the Ecofin Council will contribute to a policy-oriented and focussed discussion at the level of Heads of State or Government.

The first debate among Ministers of Finance confirmed that there is broad agreement on the main policy priorities and measures outlined in the Key Issues paper; in particular on ensuring sound and stability-oriented macroeconomic policies; increasing the flexibility and adaptability of labour markets; improving the entrepreneurial environment and promoting entrepreneurial initiatives; reducing energy consumption and increasing energy diversification.

### ***EIB Contribution to promoting growth and Employment***

The Ecofin Council also had a first discussion on the EIB/ EIF proposals for contributing to economic growth and employment. Ministers of Finance also listened to a presentation by Jean Lemierre, the President of the EBRD, on how the EBRD could support the growth and employment initiative. The Ecofin Council will continue the debate at the next meeting, also with the aim to then adopt a report for the Spring Council.

There is broad agreement among Finance Ministers that the EIB/ EIF and the EBRD play an important role in developing and financing concrete projects as well as in leveraging additional private funds both in EU-Member countries (with specific emphasis on new Members) and EU neighbouring countries. The Ministers of Finance also share the view that the main focus should be laid on high quality investment; in particular on the support to R&D and innovation, SMEs, large-scale infrastructure projects; and on energy efficiency, security and diversification of supply.

Last but not least, there is also broad agreement that close co-operation between the two banks (and the Commission) is needed in order to fully exploit their catalyst function with regard to economic growth and employment. In this context, concrete arrangements are already under consideration.

### ***Ageing Report***

The Ecofin Council adopted conclusions on the basis of a report provided by the EC, EPC and EFC on updated expenditure projections covering pensions, health care, education and unemployment transfers. According to this report, the economic and fiscal impacts of ageing will be substantial in almost all Member States, if there is "no policy change".

Public expenditures will increase by between 3 and 7 percentage points of GDP by 2050; for the EU15 public spending is projected to rise by about 4 percentage points between 2004 and 2050; for the EU 10, the increase in overall age-related spending is projected at around 1,5 percentage points. As far as pension spending (the main social transfers category) is concerned, the average increase is projected in the EU 15 at around 2,2%; and in the EU 10 at around 0,3%. The only EU 15 Member State with lower spending on pensions in 2050 (minus 1,2 pp compared to 2004) is Austria, resulting from the comprehensive pension reform package in 2003/04.

The average potential growth rate for the EU 25 will decrease from 2,2% p.a. in the period 2004-10 to 1,4% p.a. in the period 2030-50, due to the smaller working-age population. An even steeper decline is projected in the EU 10 (from 4,3% to 0,9%), due to the unfavourable demographic developments and the lower scope for productivity growth rates.

To improve the sustainability of public finances remains therefore a top priority for many Member States; and against this background, the Ecofin-Council reaffirmed its commitment to the so-called "Three-Pronged-Strategy": Reducing public debt, raising employment and reforming pension and health care systems.