

PRESS RELEASE

6542/92 (Presse 88)

1577th Council meeting

- ECONOMIC AND FINANCIAL QUESTIONS -

Brussels, 19 May 1992

President: Mr Jorge BRAGA DE MACEDO

Minister for Finance
of the Portuguese Republic

Ireland:

Mr Noel TREACY

Minister of State at the Department of
FinanceItaly:

Mr Guido CARLI

Minister for the Treasury

Mr Emilio RUBBI

State Secretary for the Treasury

Luxembourg:

Mr Jean-Claude JUNCKER

Minister for Finance

Netherlands:

Mr Wim KOKK

Minister for Finance

Mr Marius van AMELSVOORT

State Secretary for Finance

Portugal:

Mr Jorge BRAGA DE MACEDO

Minister for Finance

Mr José BRAZ

State Secretary, Treasury

United Kingdom:

Mr Norman LAMONT

Chancellor of the Exchequer

Sir John COPE

Paymaster General

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Commission:

Mr Jacques DELORS

President

Mr Henning CHRISTOPHERSEN

Vice-President

Mrs Christiane SCRIVENER

Member

EXTENSION OF EIB ACTIVITIES OUTSIDE THE COMMUNITY

- Council conclusions

"Following earlier discussions on the extension of EIB activities outside the Community, the Council agrees to give practical substance to the agreement reached in principle on this issue last year and adopts the following guidelines, proposed by the Commission, for the implementation of a limited extension of EIB activity:

- EIB loans can be granted, in countries with which the Community has concluded co-operation agreements and for projects of mutual interest;
- loans may be granted, for projects that meet the Bank's usual criteria, on a case-by-case basis by the Board of Directors;
- an overall limit of ECU 250 million per year shall be set for a 3-year period; this arrangement shall be reviewed at the end of the period.

In addition, the Council agrees that these loans should benefit from Community budget guarantees. Furthermore, these guarantees should be treated in accordance with what will be agreed on the future general treatment of Community guarantees."

Convergence Programme of the
Federal Republic of Germany

Council conclusions

The Council welcomed the decision by Germany to submit a Convergence Programme for examination by the Council. Given the anchor role of the DM in the ERM, this examination is of particular importance.

German unification has resulted in an enormous shock to public finances, yielding a forecast general Government deficit of 4,1% of GDP for 1992. However, given the efforts to consolidate public finances based on expenditure restraint undertaken during the 1980s, Germany was in a strong position to deal with a shock of this magnitude. Indeed, a temporary deterioration in public finances and the current account balance can be viewed as appropriate under the circumstances. As unequivocally stated in the Convergence Programme itself, it is essential that imbalances be redressed over the medium-term.

In its overall assessment, the Council acknowledged the ambitious nature of the targets, and fully endorsed the basic strategy of the Programme, i.e. maintaining a tight monetary policy while undertaking fiscal consolidation principally through restraints on expenditure rather than increasing the tax burden. It noted that, on the basis of targets provided, Germany expects to fulfil all the Maastricht criteria well before the move to Stage Three. It also noted that Germany would take additional measures if necessary to meet these criteria.

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The Federal Government has given an undertaking to restrict nominal increases in expenditure to no more than 2,5% annually until 1996. General Government expenditure is projected to rise by a maximum of 3% in nominal terms over the same period; this in effect amounts to a freezing of public expenditure in real terms. The General Government deficit is forecast to decline from 4,1% of GDP in 1992 to 2,5% in 1994 and 1,9% in 1995. The Council stressed the important responsibilities of the Länder and municipalities in achieving fiscal consolidation by restraining expenditure, including subsidies.

The Convergence Programme states that economic reconstruction will continue in eastern Germany. This would be fostered by increasing the weight of investment expenditure compared with consumption-related expenditure in the transfers to eastern Germany. The Council underlined the paramount importance of wage moderation throughout unified Germany, so that it does not fuel inflation thus leading to an overburdening of monetary policy, or undermine competitiveness in the eastern Länder. Therefore the Council called upon Germany to take account of the discussions in Oporto on 9 May, and redouble efforts to remove structural rigidities in markets for labour, capital and non-traded goods.

Multilateral surveillance - Italy
Council conclusions

The Council conducted a review of the progress made in implementing the Italian Programme of Economic Convergence (1992-1994) that had first been examined by the Council on 11 November 1991.

On that occasion the Council had endorsed the objectives of the programme and particularly welcomed the explicit commitment of the Italian authorities to respect the annual budget deficit targets in nominal terms whatever the underlying economic developments by taking the necessary corrective measures.

Six months after the presentation of the programme, the evolution of the key variables for nominal convergence is falling short of the stated targets. The budgetary situation and outlook, in particular, give cause for serious concern.

The disappointing outcome for the State Sector Borrowing Requirement in 1991 and other developments since the presentation of the programme imply that meeting the deficit target for 1992 now calls for a substantial additional adjustment package. Such a package must amount to well above LIT 30 000 billions in the second half of the year. The size of the adjustment required calls for exceptional measures going beyond the normal framework of fiscal policy as conducted so far.

In its first examination the Council noted the need for decisive action in several structural and institutional areas, particularly as far as the national health system, the pension expenditure mechanism, state aids and reforms of the budgetary procedures are concerned. Urgent initiatives are needed in these areas, for example applying the ceiling for pay increases in the public sector not to per-capita wages but to the total wage bill.

Strong measures cannot be further postponed as the size of the emerging slippage is such as to undermine the credibility of Italian economic policy. Sustained fiscal adjustment must continue in order to put the Italian budget back on the track spelled out in the Convergence Programme.

In the light of the gravity of the situation, the Council emphasized that unless immediate and effective corrective measures are undertaken to meet the nominal targets to which the Government committed itself in the Convergence Programme, Italy would in all likelihood fail to meet the Maastricht criteria. Given the size of the Italian economy, such an outcome would have significant adverse repercussions throughout the Community.

DELORS II PACKAGE

The Council held a general exchange of views on the Delors II Package, concentrating on the broad lines of the Commission proposals.

The Council decided to resume examination of this dossier in early June with a view to discussing it in depth before the European Council meeting on 26 and 27 June 1992.

ABOLITION OF FISCAL FRONTIERS

The Council examined the problems outstanding concerning structures and excise duty rates, VAT rates and the special VAT arrangements for second-hand goods (7th VAT Directive).

This examination enabled a number of problems to be solved and progress to be achieved, subject to an overall agreement, notably on structures of excise duties on manufactured tobacco and on mineral oils.

Regarding the other problems outstanding, the Council agreed to continue its discussions at its next meeting with a view to reaching agreement on all the directives in question before the end of June.

With the Presidency having stated its intention to refer an overall compromise to delegations in due course, the Council instructed the Permanent Representatives Committee to expedite a detailed examination of the difficulties involved so that the above objective could be attained.

AMENDED PROPOSAL FOR A DIRECTIVE ON CAPITAL ADEQUACY OF INVESTMENT FIRMS AND CREDIT INSTITUTIONS

Further to the policy debate held at the March meeting on certain key points of this proposal for a Directive (see Press Release 5027/92 Presse 34), the Council examined the dossier in depth on the basis of the work carried out in accordance with the guidelines agreed on at that meeting and of an overall compromise put forward by the Presidency covering the following eight points it had identified as particularly important in speeding up finalization of the Directive:

- definition of the trading book,
- definition of qualifying items,
- supervision on a consolidated basis,
- duration method,
- exchange risk: the treatment of currencies in close correlation,
- definition of own funds,
- treatment of large exposures,
- review clause.

At the close of this examination, the Council accepted the structure of the overall compromise put forward by the Presidency as a basis for future discussions and acknowledged the desirability of maintaining its comprehensive and well-balanced nature. The Council instructed the Permanent Representatives Committee to continue examination of the dossier, studying certain features of the Presidency's compromise in greater detail, with a view to reaching political agreement in June when the Council would also be discussing a related matter, namely the proposal for a Directive on investment services.

COMMUNITY STRATEGY TO LIMIT CO2 EMISSIONS AND TO IMPROVE ENERGY EFFICIENCY
CUSTOMS AGENTS

The Council was briefed by Mrs SCRIVENER on recent initiatives taken by the Commission regarding:

- a comprehensive programme aimed at the stabilization of CO2 emissions at their 1990 level, by the year 2000, drawing the Ministers' particular attention to the fiscal aspect of the programme, which includes a proposal for the creation, under certain conditions, of a tax on energy and CO2;
 - the programme of measures to back up the adaptation of the profession of customs agents to the single market and to the consequences of the abolition of fiscal frontiers on 1 January 1993.
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Bruxelles, le 18 mai 1992

NOTE BIO (92) 127 AUX BUREAUX NATIONAUX
CC. AUX MEMBRES DU SERVICE DU PORTE-PAROLE

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PREPARATION DU CONSEIL ECOFIN DU 19 MAI 1992 A BRUXELLES

(I. Le Moal-Ollive)

FISCALITE

Le Conseil ECOFIN traitera des dossiers "Fiscalité" à partir de 16h00 jusqu'à une heure tardive probablement.

Il s'agit d'un Conseil important qui va engager une discussion de fond sur les textes juridiques formalisant les différents points de l'accord politique du 24 Juin 1991 sur les taux d'accise et de la TVA.

TAUX DE TVA

Le texte de la directive sera pour la première fois sur la table du Conseil. Il comprend le taux minimum de TVA de 15% et la liste optionnelle des produits pouvant être soumis aux taux réduits supérieurs à 5%. Ce texte inclus en plus quelques dérogations transitoires.

En ce qui concerne la liste optionnelle des produits soumis à taux réduits, Madame Scrivener proposera au Conseil d'y inclure les oeuvres d'art, les antiquités et les biens de collection. Cette modification, demandée par le Parlement, est justifiée par la spécificité du commerce de ces "marchandises".

ACCISES

Les textes en discussion concernent le taux des tabacs et cigarettes, les structures (définition des produits, liste des exemptions) et les taux des carburants et des alcools.

Un accord sur les structures des carburants et des alcools est possible dès demain, de façon à compléter l'accord sur le tabac intervenu le 16 mars 1992.

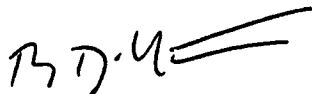
La discussion sur les taux sera plus difficile.

7ème DIRECTIVE TVA

La Commission a décidé de relancer la discussion au niveau ministériel sur la 7ème directive qui vise à supprimer le risque de doubles impositions en ce qui concerne les biens d'occasion et les oeuvres d'art, les antiquités et les biens de collection et à instaurer un système commun simple de taxation.

Le premier texte date de 1977 mais aujourd'hui à la lumière du régime de la TVA sans frontières adopté le 16 décembre 1991, des progrès devraient être enregistrés assez rapidement. Il s'agira d'une première discussion d'orientation.

Amitiés,



B. DETHOMAS

Bruxelles, le 19 mai 1992

NOTE BIO(92) 127 (suite 1) AUX BUREAUX NATIONAUX
CC. AUX MEMBRES DU SERVICE DU PORTE-PAROLE

CONSEIL ECO/FIN DU 19 MAI 1992 (T. KRØYER)

Le Conseil a confirmé l'accord politique sur l'extension des activités de la BEI hors de la Communauté.

Le Vice-Président Henning Christophersen s'est félicité de cet accord basé sur une note de compromis présentée par la Commission à Porto il y a une semaine. Les éléments sont les suivants :

la BEI peut accorder des prêts aux pays avec lesquels la Communauté a conclu des accords de coopération.

Il s'agit de prêts aux projets qui remplissent les critères normaux évalués sur base de cas par cas.

Il y a une limite de 250 mio d'écus par an pendant 3 ans et les prêts bénéficient d'une garantie budgétaire de la Communauté.

Multilateral surveillance

Germany

The Council carried out an examination of the German convergence programme. Vice-President Henning Christophersen told journalists afterwards that there had been a very good discussion in which there was agreement on the analysis as well as the conclusions. He underlined that the Council acknowledged the ambitious nature of the programme based on a strategy of tight monetary policy while undertaking fiscal consolidation principally through restraints on expenditure rather than increasing the tax burden. The Vice-President said that implementation of the programme will imply that Germany will meet the EMU convergence criteria already in 1996.

The Federal Government has undertaken the commitment to restrict nominal increases in expenditure to no more than 2.5% annually until 1996. General Government expenditure are projected to rise by a maximum of 3% in nominal terms over the same period; this in effect amounts to a freezing of public expenditure in real terms. The General Government deficit is forecast a decline from 4.1% of GDP in 1992 to 2.5% in 1994 and 1.9% in 1995. The Council stressed the important responsibilities of the Länder and municipalities in achieving fiscal consolidation by restraining expenditure, including subsidies.

The Council underlined the importance of wage moderation throughout the unified Germany and called upon Germany to take account of the discussions in Oporto the 9th of May and redouble efforts to remove structural rigidities in markets for labour, capital and non-traded goods.

Italy

The Vice-President also told journalists that the Council had conducted a review of the Italian convergence programme that had first been examined by the Council on 11th November 1991.

The Vice-President said that it is quite clear that the fiscal policy targets in the programme are not being met.

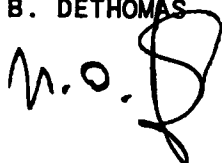
The disappointing outcome for the State Sector Borrowing Requirement in 1991 and other developments since the presentation of the programme imply that meeting the deficit target for 1992 now calls for a substantial additional adjustment package. Such a package must amount to well above LIT 30,000 billions in the second half of the year. The size of the adjustment required calls for exceptional measures going beyond the normal framework of fiscal policy as conducted so far.

The Council also recalled the need for initiatives in several structural and institutional areas such as the national health system, the pension expenditure mechanism, state aid and reforms of the budgetary procedures.

According to the conclusions sustained fiscal adjustments must continue in order to put the Italian budget back on the track. In the light of the gravity of the situation, the Council emphasized that unless immediate and effective corrective measures are undertaken to meet the nominal targets to which the Government committed itself in the Convergence Programme, Italy would in all likelihood fail to meet the Maastricht criteria. Given the size of the Italian economy, such an outcome would have significant adverse repercussions throughout the Community.

Amitiés,

B. DETHOMAS

A handwritten signature in black ink, appearing to be 'B. Dethomas', written over the printed name.

Bruxelles, le 20 mai 1992

NOTE BIO (92) 127 (suite 2) AUX BUREAUX NATIONAUX
CC. AUX MEMBRES DU SERVICE DU PORTE-PAROLE

CONSEIL ECOFIN DU 20 MAI 1992 A BRUXELLES

(I. Le Moal-Ollive)

FISCALITE

Le Conseil ECOFIN a enregistré une série de progrès de fond sur les textes en discussion, en particulier sur les accises et la 7ème directive TVA. Cependant aucun accord ne pourra être formalisé juridiquement de façon séparée, l'ensemble des points en discussion devant être adopté globalement, au mois de juin.

ACCISES

En ce qui concerne les directives relatives aux structures (définition des produits, liste des exemptions), le Conseil a confirmé son accord sur le texte concernant les tabacs et cigarettes et enregistré l'accord des délégations sur le texte huiles minérales (carburants).

En ce qui concerne la définition des alcools, des progrès ont pu être réalisés sur un sujet difficile, celui des produits intermédiaires (alcools mélangés) pour lesquels, après des mois de discussion, un certain nombre de délégations a reconnu le mérite de la proposition initiale de la Commission (catégorie de produits titrant de 13 à 22% d'alcool) en termes économiques et politiques.

En ce qui concerne les trois directives relatives aux taux des accises, les points restant en discussion (cigarettes, fioul domestique, spiritueux), sont des points politiques qui devront être résolus d'ici la fin juin.

Ce sont des éléments positifs dans une négociation très difficile, le dossier accises, est celui que tous considèrent comme le plus sensible pour les Etats membres.

TAUX DE TVA

Madame SCRIVENER a demandé au nom de la Commission, l'introduction des oeuvres d'art, objets de collection et antiquités, dans la liste facultative des produits pouvant être soumis à taux réduit.

La discussion sur les points restant à trancher en matière de taux de TVA sera reprise dans une discussion politique d'ensemble en juin, tous les progrès possibles sur le fond ayant déjà été enregistrés.

7ème DIRECTIVE

Après 14 ans de travaux et une première et unique discussion au niveau ministériel sur le texte de la 7ème directive qui vise à supprimer les doubles impositions lors de ventes de biens d'occasion et d'oeuvres d'art ou d'antiquités, le Conseil a constaté l'accord de 11 délégations sur le compromis présenté pour les biens d'occasion.

La discussion sera reprise en juin, avec les autres points accises/TVA restant en suspens.

Amitiés,



B. DETHOMAS