



Brussels, 24 January 2014

BACKGROUND¹
ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Tuesday 28 January in Brussels

*The **Eurogroup** will meet on Monday 27 January, starting at 15.00. It will be followed by a press conference.*

*On Tuesday, ministers will discuss the economic situation at a breakfast meeting, starting at 9.00. They will also be briefed about the state of negotiations for an intergovernmental agreement on the functioning of the **single resolution fund**.*

*The Council, starting at 10.00, will be updated on implementation of the **single supervisory mechanism**.*

*The Hellenic presidency will present its **work programme** and priorities to the Council.*

*The Council will discuss the follow-up to the European Council's meeting in December as regards implementation of the **Compact for Jobs and Growth**.*

*It is also expected to adopt a decision establishing the existence of an **excessive deficit in Croatia**. It will recommend bringing an end to the situation by 2016.*

*A **press conference** will be held at the end of the Council.*

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¹ This note has been drawn up under the responsibility of the press office.

P R E S S

Single supervisory mechanism

The European Central Bank will update the Council on implementation of the single supervisory mechanism (SSM).

The ECB will take up its supervisory tasks on 3 November 2014, subject to operational arrangements. The regulations establishing the SSM were adopted on 15 October 2013².

In December, the Council adopted a decision appointing Danièle Nouy as the first-ever chairperson of the supervisory board of the ECB³. The supervisory board is expected to hold its first meeting at the end of January.

The SSM will cover the euro area as well as non-eurozone member states that choose to participate. The ECB will have direct oversight of banks in these countries, although in a differentiated manner and in close cooperation with national supervisory authorities.

The supervisory board will undertake the planning and execution of the supervisory tasks conferred on the ECB. It will be composed of the chairperson, a vice-chairperson, four representatives of the ECB and one representative of the national supervisory authority of each participating member state. The board's draft decisions will be deemed adopted unless rejected by the ECB governing council.

Presidency work programme

The Greek presidency will present a work programme on economic and financial affairs for the duration of its term, which runs from January to June 2014 (*doc.* [5370/14](#)). The Council will hold an exchange of views.

Supporting economic growth and employment and restoring confidence in the financial sector are the main objectives of the Greece presidency. The programme sets out the following priorities:

- further developing the framework of Europe's banking union and effectively strengthening the regulatory framework for financial markets;
- ensuring the smooth operation of economic and fiscal policy coordination under the EU's European Semester and the effective implementation of economic governance mechanisms;
- facilitating discussions on the further development of the EU's economic and monetary union;
- promoting dialogue on the financing of the economy;
- active work on important taxation dossiers;
- ensuring that the EU's position is well coordinated and represented in the G20.

Follow-up to the December European Council

The Council will take stock of the follow-up to be given to the European Council's meeting on 19-20 December as regards the implementation of the Compact for Growth and Jobs.

Agreed in June 2012, the compact is aimed at re-launching economic growth, investment and employment and at making Europe more competitive. While substantial progress has been achieved in a number of areas of the compact, efforts are continuing to ensure that its potential is exploited to the fullest extent.

² See press release: [14044/13](#).

³ Press release [17857/13](#).

The December European Council (*doc. 217/13*) reviewed progress in the following areas:

- combating youth unemployment;
- restoring normal lending to the economy, in particular SMEs;
- the adoption of remaining legislation under the Single Market Acts I and II;
- reducing the burden of regulation;
- combating tax fraud and tax evasion.

Excessive deficit procedure - Croatia

The Council is expected to open an excessive deficit procedure for Croatia, adopting:

- a decision⁴ on the existence of an excessive government deficit in Croatia; and
- a recommendation⁵ setting out measures to be taken to correct the deficit by 2016.

According to a report prepared by the Commission⁶, Croatia does not meet the EU's deficit and debt criteria. This will therefore be the first time that an excessive deficit procedure is launched on account of a breach of both deficit and debt criteria.

The Commission services' 2013 autumn forecast projects Croatia's government deficit for 2013 to be significantly above the 3 % of GDP reference value, rising to above 6 % of GDP in the 2013-2015 period in the absence of corrective measures. This is partly due to a severe economic downturn, with economic activity estimated to have contracted by almost 12 % since the peak it reached in 2008. The Commission considers that although the projected excess over the reference value is exceptional, it cannot be considered temporary.

The autumn forecast projects Croatia's government-debt-to-GDP ratio to be 59,7 % for 2013. On the basis of an unchanged policy scenario, it is expected to rise above 60 % in 2014, thus exceeding the EU's 60 % of GDP reference value for government debt. Forecasts of both the Croatian authorities and of the Commission services show the government debt ratio to be on an upward trend, on account of continuing high deficits and weak economic activity, and it is expected to remain so over the forecast horizon. Hence the EU debt criterion is not fulfilled.

The Council is expected to call on Croatia to correct the deficit by 2016. In its recommendation, it will set deficit targets of 4,6 % of GDP for 2014, 3,5 % of GDP for 2015 and 2,7 % of GDP for 2016, consistent with an annual improvement in the structural balance of 0,5 % of GDP in 2014, 0,9 % of GDP in 2015 and 0,7 % of GDP in 2016.

The Council will set a deadline of 30 April 2014 for Croatia to take effective action and to report in detail on the consolidation strategy it envisages in order to achieve the targets.

Furthermore, it is expected to invite the Croatian authorities to carry out a thorough expenditure review, to improve tax compliance and increase the efficiency of its tax administration, and to improve the institutional framework of its public finances. In addition, it will call on the Croatian authorities to implement structural reforms, in particular to address labour market rigidities and an unfavourable business environment and to improve the quality of public administration, with a view to promoting potential GDP growth.

Adoption of the decision and recommendation requires a qualified majority amongst 27 of the 28 delegations (the member state concerned does not vote).

⁴ Under article 126(6) of the Treaty on the Functioning of the European Union (TFEU).

⁵ Under TFEU article 126(7).

⁶ Under TFEU article 126(3).

Other issues

Without discussion, the Council is expected to adopt a directive aimed at creating a single market for **mortgage credits**, following an agreement with the European Parliament at first reading.

Under “other business”, it will take stock of on-going work on current legislative proposals.
