Brussels, 8 July 2005

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BACKGROUND[1]

ECONOMIC and FINANCIAL AFFAIRS COUNCIL

Brussels, 12 July 2005

The Council will be preceded as usual by a meeting of the ***Eurogroup****, on Monday 11 July at 19.00 hrs, focusing on the economic situation and budgetary developments, including as regards Italy and Portugal, as well as on growth rate differences within the euro area.*

The president of the Eurogroup will hold a press conference after the meeting, as from 21.00.

Starting on Tuesday 12 July at 10.00, the Council is due to decide on the existence of an excessive government deficit in ***Italy*** *and to adopt an opinion on an updated stability programme submitted by* ***Portugal****.*

It will take stock of progress on the EU's strategy on the ***financing of development aid*** *- following the G8 summit in Gleneagles and with a view to a review of the Millennium Development Goals to be made at a United Nations summit in New York in September - and will discuss possible EU support for economic regeneration in the* ***West Bank*** *and the* ***Gaza Strip****.*

The Presidency will hold a press conference at the end of the Council.

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The Council meeting will be followed at 15.00 hrs by a ministerial dialogue with the accession and candidate countries.

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

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Presidency work programme

The United Kingdom will present a work programme for economic and financial affairs for the duration of its presidency in the second half of 2005.

The UK presidency will focus in this area on two key priorities:

- Building prosperous, dynamic European economies through: implementation of the revised economic reform agenda to deliver sustainable growth and high employment; further action on regulatory reform to boost European competitiveness; work in key sectors including a strategic approach to financial services;

- Addressing international challenges through: European action to lead the way on international poverty reduction and financing for development ahead of the UN summit in September; effective relationships with key international partners, including a strengthened transatlantic economic dialogue.

Furthermore, the presidency plans to continue discussions on the EU's 2007-13 budgetary framework, drawing on progress made to date and with a view to defining all the elements necessary for an overall agreement as soon as possible. It will first consult the member states on the way forward.

The work programme also mentions implementation of the stability and growth pact, the new EU sustainable development strategy as well as modernisation of the VAT system and work on VAT rates.

Financing of development aid - Millennium Development Goals

The Council will take stock of progress, following the G8 summit in Gleneagles (Scotland) on 6-8 July, on the financing of development cooperation and the millennium development goals set by the United Nations in 2000. It will discuss the main issues involved with a view to presenting a coordinated European position to the United Nations General Assembly in New York on 14-16 September.

Discussions over recent months have focused on a range of issues, including:

- new official development aid targets;
- innovative sources of funding;
- the idea of a levy on the purchase of airline tickets;
- proposals concerning an international financing facility;
- multilateral debt reduction;
- how to ensure that aid is effective;
- the role of trade.

The Council will hear a progress report on these issues from the chairman of the economic and financial affairs committee and will hold a policy discussion on debt.

At its "external relations" meeting on 23 and 24 May, the Council approved intermediate collective aid targets following the commitments already given at international level for reaching a level of 0,7% of gross national income (GNI) in aid to developing countries in the medium term (and 0,39% of GNI in 2006).

The new goals involve the member states raising the percentage to 0,56% by 2010, which means an additional amount of EUR 20 billion. Those that have not yet reached 0,51% have undertaken to do so by 2010, within their respective budget allocation processes, and those of the ten new member states which have not yet achieved 0,17% will endeavour, within their respective budget allocation processes, to reach that level by 2010.

The member states have undertaken to reach the 0,7% level by 2015, with the new member states endeavouring to reach a level of 0,33% by that date.

Middle East peace process - Economic regeneration in the West Bank and the Gaza Strip

The Council will discuss possible support from the EU to economic regeneration in the West Bank and the Gaza Strip following Israel's withdrawal from the occupied territories.

The president of the European Investment Bank is expected to present options regarding possible involvement by the EIB.

The Council is likely to invite the Commission and the EIB to continue work with a view to further discussion and so as to enable decisions to be taken.

EU budget control framework

The Commission will present a communication on means for establishing an improved control framework for the EU budget.

The communication suggests measures aimed at improving the chances of obtaining a positive "statement of assurance" on the annual budget, as requested by the European Parliament, the Council and the Court of Auditors.

The presidency's intention is for the Council to adopt conclusions at its meeting on 8 November on the basis of work carried out by a group of experts to be convened by the Commission and co-chaired by the presidency.

Since introduction of the statement of assurance by the Maastricht treaty, the Court of Auditors has not once given the Commission a positive statement on EU expenditure under shared management (which includes agriculture and structural funds). The Commission sees the funds handled by the member states as a major cause for the recurrent negative statements.

The Commission considers that positive statements could be achieved by creating an integrated control framework to cover controls already in place, complemented by measures to ensure correct management in the member states.

In its recommendation on the discharge of the 2003 budget, adopted at its meeting on 8 March, the Council highlighted the need to apply and develop common standards for financial control and internal audit.

Stability and Growth Pact

- Portugal: updated stability programme

The Council is due to adopt an opinion on an updated stability programme presented by Portugal for the 2005-09 period.

The update stems from the need to correct a government deficit which, at 6.2% of Portuguese Gross Domestic Product, is expected this year to be well in excess of the 3% maximum reference value provided for by the EU treaty. This figure follows a deficit of 2.9% of GDP in 2002, 2003 and 2004, and is evidently worse than the target of 2.2% of GDP set for this year under the previous programme submitted by Portugal.

To reduce the deficit, the updated programme outlines a strategy involving structural measures rather than reliance on one-off and temporary measures. The deficit is thus expected to improve, but will continue to exceed the 3% reference value until at least 2007.

The Commission initiated an excessive deficit procedure for Portugal on 22 June and is expected to present recommendations to the Council at its meeting on 11 October. Moreover, Eurostat and the Portuguese authorities have yet to clarify certain issues and resolve differences regarding budgetary statistics.

The draft opinion, based on article 5(3) of regulation 1466/97, requires a simple majority for adoption by the Council.

- Italy: excessive deficit procedure

The Council is due to reach political agreement on a draft decision, under article 104,6 of the EU treaty, on the existence of an excessive government deficit in Italy and on a draft recommendation, under article 104,7, on action to be taken for its correction.

According to the Commission's opinion, published on 29 June, the deficit in 2003 and 2004 was above but close to 3% of Gross Domestic Product, the maximum reference value provided for by the EU treaty. The excess took place in a period of slow growth, which however cannot be qualified as exceptional in the terms of the EU's stability and growth pact. Nor can it be considered temporary, because the Commission services forecast a deficit of 3.6% of GDP in 2005 and 4.6% of GDP in 2006, and deficit projections are likely to be revised further upwards.

In accordance with the new rules of the stability and growth pact, and in the light the current weakness of the Italian economy, the draft recommendation provides Italy with six months (instead of four) to present corrective action, and two years (instead of one) for bringing its excessive deficit to an end. It nevertheless calls for fiscal measures amounting to 1.6% of GDP over the two years.

Given that the reform of the pact, implemented under Council regulation 9818/05, has not yet entered into force, the Council will adopt its recommendation at a later meeting (or by written procedure) once the new regulation has come into force. It will limit itself to a political agreement at this stage.

Based on article 104, paragraph 6 of the treaty and on article 3, paragraph 3 of regulation 1467/97, the draft decision requires a qualified majority for adoption by the Council. The recommendation, based on Article 104,7 of the treaty and on article 3(4) of regulation 1467/97, requires two-thirds of weighted votes within the Council, excluding the delegation concerned (ie. 24 out of 25 delegations). The member state concerned decides whether or not the recommendation is to be published.

Ministerial meeting with the accession and candidate countries

A ministerial dialogue with the accession and candidate countries will follow the Council meeting, in order to examine progress in economic, budgetary and structural policies in these countries.

Joint opinions on Bulgaria's and Romania's 2004 pre-accession economic programmes are due to be endorsed at the meeting, and joint conclusions adopted regarding all four countries. The meeting will also take note of fiscal notifications by the four countries for 2005 as well as of assessments of these notifications by the Commission services.