



Brussels, 9 February 2006

DRAFT

BACKGROUND¹

ECONOMIC and FINANCIAL AFFAIRS COUNCIL

Tuesday 14 February in Brussels

*The Council will be preceded as usual by a meeting of the **eurogroup**, on Monday 23 January starting at 19.00 hrs, which will examine the economic situation in the euro area and budgetary developments in the member states.*

*Meeting on Tuesday 24 January at 10.00, the Council will approve updated **stability and convergence programmes** presented by several member states. It will prepare a number of dossiers to be referred to the **spring European Council**, regarding the Lisbon economic reform strategy, the European Investment Bank's contribution to growth and employment measures and age-related public expenditure in areas such as pensions and healthcare.*

At lunch, ministers will discuss the possibility of increased involvement by the European Bank for Reconstruction and Development in growth and employment measures in third countries.

The presidency will hold a press conference at the end of the meeting.

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

Stability and convergence programmes

- Belgium, Luxembourg, Austria, Estonia, Latvia and Slovenia

The Council will adopt opinions on a second series of updates of the member states' stability and convergence programmes, namely:

- updated stability programmes presented by Belgium, Luxembourg and Austria;
- updated convergence programmes presented by Estonia, Latvia and Slovenia.

Under the EU's stability and growth pact, member states having the euro as their currency are required to present stability programmes and those not participating in the single currency to present convergence programmes.

The aim is to ensure sound government finances as a means for strengthening the conditions for price stability and for sustainable growth conducive to employment creation.

The programmes set out the medium-term objective of the member state's budgetary position, the main assumptions about expected economic developments and important economic variables, a description of budgetary and other economic policy measures, and an analysis of how changes in assumptions will affect their budgetary and debt position.

The Council's draft opinions are based on regulation 1477/97, requiring a qualified majority for a decision.

An initial series of programmes, presented by Finland, the Czech Republic, Denmark, Hungary, Slovakia and Sweden, were approved by the Council at its meeting on 24 January.

Preparation of the spring European Council

- Lisbon economic reform strategy**
- Key issues paper**

The Council will hold a policy debate, in the run-up to the European Council meeting on 23 and 24 March, on the annual progress report by the Commission regarding the economic reform strategy laid down by the European Council at Lisbon in 2000, and on a key issues paper prepared by the presidency.

In a mid-term review of the Lisbon strategy last March, the European Council agreed changes to governance provisions with the aim of strengthening the contribution to growth and employment in the EU. On the basis of this agreement, member states have drawn up national reform programmes (NRPs) geared to their own needs and specific situations, in response to economic policy and employment guidelines laid down by the Council, while the Commission has presented a "Community Lisbon programme" covering all action to be undertaken at EU level.

The NRPs are assessed by the Commission in its annual progress report. In conclusions adopted at its meeting on 6 December, the Council asked the Commission to consider specific issues regarding the sustainability of public finances, tax and benefit systems for labour, competition policy, research and development and regulatory reform. It requested the Commission to present a full assessment of the NRPs, including country assessments.

- **EIB contribution to promoting growth and employment**

The Council will hold a policy debate, on the basis of a document presented by the European Investment Bank, on the possibilities for further involvement of the EIB in measures to promote growth and employment in the EU.

- **Age-related public expenditure**

The Council will hold an exchange of views, on the basis of a document prepared by the economic policy committee, on projections for public expenditure on age-related measures in the member states. It will also endorse a report on the subject by the EPC and is due to adopt conclusions.

The report, requested by the Council in 2003, contains public expenditure projections covering pensions, health care, long-term care, education and unemployment transfers.

Other business

The presidency will report on the results of a conference on taxation and VAT fraud, held in Vienna on 6 and 7 February.

At the request of the French delegation, the Council will also take stock of initiatives underway on innovative sources of financing for aid to developing countries, with a view to a conference to be held in Paris on 28 February.

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Items to be approved without discussion:

The Council is due to approve a number of items, including:

- **Reduced rates of VAT:** The Council will adopt a directive introducing modifications to EU rules on reduced rates of value-added tax applied by the member states and enacting a compromise agreed on at its meeting on 24 January.

The main features of the directive, which is based on directive 77/388/EEC, are as follows:

- In order to prolong the experiment of reduced rates for certain labour-intensive services, introduced in 1999, the validity of annex K to directive 77/388/EEC is extended as from 1 January 2006 until 31 December 2010. All member states may opt for the application of annex K, on condition that they apply for authorisation to do so by 31 March 2006;
- District heating is included in the option provided for by article 12(3)(b) of the sixth VAT directive;

- The Council invites the Commission to present, by the end of June 2007, a report providing an assessment of the impact of reduced rates applied to locally supplied services, including restaurant services, in terms notably of job creation, economic growth and the internal market, on the basis of a study carried out by an independent economic think-tank.

On 24 January, the president of the Council concluded that, pending confirmation by the Czech Republic, Cyprus and Poland, agreement had been reached on this basis. Since then, the three member states have confirmed to the presidency and the Council secretariat that they agreed to the compromise.

Current rules allow for permanent reduced VAT rates for a number of goods and services under annex H of 77/388/EEC. The new directive thus renews the validity of annex K - which allowed for temporary reduced rates for certain locally-provided labour-intensive services and had expired on 31 December - until 2010.

Annex K services include small repair services, the renovation of private dwellings, window cleaning and private household cleaning, domestic care services and hairdressing.

- ***European Central Bank: Appointment of a member of the executive board.*** The Council will adopt a recommendation on the appointment of Mr Jürgen Stark as member of the executive board of the European Central Bank, for a term of office of eight years from 1 June 2006.

The recommendation on the appointment, to replace Otmar Issing, whose mandate expires on 31 May, will be submitted for a decision by the heads of state/government of the member states of the euro zone, after consulting the European Parliament and the ECB's governing council.
