COMMISSION PASSES THE BALL ON SOVEREIGN DEBT RULES

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European Commission Vice-President Valdis Dombrovskis said on Wednesday (7 March) that he does not intend to amend the regulatory treatment of sovereign debt held by banks following inconclusive discussions at international level.

Dombrovskis told a group of reporters that he would not put forward proposals to amend the risk-free weight of public bonds in European banks, as some officials in the ECB have demanded.

Those in favour of the revision argued that the euro crisis proved that debt issued by some countries weighs on banks stability. Capital buffers should therefore be higher in order to absorb potential shocks, they say.

But changing the requirements would be very costly for lenders and could trigger fresh turbulence in the markets and European economies.

Eight northern EU states urge caution in eurozone reforms

Eight northern European countries said today (6 March) that euro zone reforms should focus on completing the banking union, improving compliance with budget rules and setting up a European Monetary Fund, with more ambitious plans left for later.

The Commission was waiting for the results of the ongoing discussion that started in 2015 in the Basel Committee on Banking Supervision.

A task force set up by the committee analyzed the regulatory treatment of sovereign debt in the Basel framework.

But following on the high-level groups conclusions, the committee did not reach a consensus on whether to make any changes to the zero risk weighting applied to debt issued by countries.

Now the ball is back to Europes court, said Dombrovskis. Do we accept the recommendations of Basel?

The Latvian commissioner, who is in charge of financial services, added that this issue should be treated with caution, given that it could alter financial stability in member states.

Debt coming down

Dombrovskis was speaking following the presentation of the executives assessment of the EUs national economies, part of the so-called winter package of the European Semester, which seeks to coordinate the member states economic and fiscal policies.

In its assessment, the Commission noted the progressive reduction of public and private debts, although at uneven pace.

Reductions in debt-to-GDP ratios, including government debt ratios, are increasingly benefiting from higher nominal growth, while borrowing by households and non-financial corporations is edging up, the Commissions analysis said.

But a change of the treatment of the public debt could shake a banking sector that continues to face challenges, the executive warned.

The main issues continued to be high levels of non-performing loans and low profitability that the banking system suffers due to the low-interest-rate regime and the digital disruption posed by fintech companies.

However, the executive welcomed that most member states have lately witnessed notable improvements in capital ratios and stocks of non-performing loans have also been falling significantly.

Italys excessive imbalances

The Commission also took stock of the imbalances detected last November in a dozen countries.

The institution concluded that Croatia, Cyprus and Italy are experiencing excessive economic imbalances, while Bulgaria, France, Germany, Ireland, the Netherlands, Portugal, Spain and Sweden show economic imbalances. Slovenia, meanwhile, is no longer experiencing economic imbalances.

The Bulgarian, French and Portuguese governments all registered a small improvement in their economies over the past twelve months. However, the Commission will still send a letter to Lisbon in the coming days requesting further measures to correct its economic imbalances.

The situation of the Italian economy, still under the spotlight, has become a cause for concern as the two winners of the elections held last weekend would like to unravel economic reforms.

Commissioner Pierre Moscovici refused to speculate on what the negotiations to form a government after the inconclusive poll could deliver.

But he said that we shouldnt be fearful of elections. The strength of Europe is the strength of its democracies, he claimed.

Controlling fair taxation

Moscovici, who is in charge of tax issues, also announced that, for the first time, the Commission will monitor the member states compliance with fair taxation.

He accused Belgium, Cyprus, Hungary, Ireland, Luxemburg, Malta and The Netherlands of aggressive tax planning.

More needs to be done because we must ensure that fair taxation becomes the rule, a rule without exceptions, said Moscovici.

Moscovici: 'The credibility of the EU tax haven black list is at stake'

The EU Commissioner for Economic Affairs Pierre Moscovici is determined to table a digital tax proposal at EU level, despite warnings from the OECD. In an exclusive interview with EURACTIV, he also warns EU countries for failing to publish the commitments made by tax havens to exit the EUs black list.

Kaynak/Source: