



Council of the
European Union

Brussels, 22 May 2024
(OR. en)

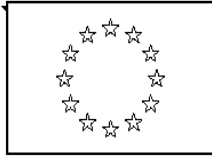
10019/24

ECOFIN 582
MDC 5
EF 180

COVER NOTE

From:	Mr Tuomas SAARENHEIMO, President of the EFC
date of receipt:	15 May 2024
To:	Mr Vincent VAN PETEGHEM, President of the ECOFIN Council
Subject:	Annual EFC Report for 2023 to the Commission and the Council on "The Movement of Capital and the Freedom of Payment"

Delegations will find attached the annual 2023 EFC Report to the Commission and the Council on "The Movement of Capital and the Freedom of Payments".



Economic and Financial Committee

THE PRESIDENT

Brussels, 7 May 2024
ecfin.cef.cpe(2024)3849346

Mr Vincent Van Peteghem
Minister for Finance of Belgium
ECOFIN President

Concerns: Annual EFC Report for 2023 to the Commission and the Council on “The Movement of Capital and the Freedom of Payments”

Dear Mr President,

Under Article 134 (2) of the Treaty, the Economic and Financial Committee (EFC) is mandated *“to examine, at least once a year, the situation regarding the movement of capital and the freedom of payments, as they result from the application of the Treaties and of measures adopted by the Council;”* and to *“report to the Commission and to the Council on the outcome of this examination.”*

Accordingly, I hereby provide you with the annual EFC Report on the Movement of Capital and the Freedom of Payments for 2023. Based on insights from the Commission’s examination, the report highlights the progress made in improving access to capital markets and facilitating cross-border investment in a context of uncertainties surrounding economic recovery and geopolitical challenges.

In 2023, the economic landscape of the EU was marked by moderated capital flows and evolving geopolitical challenges. While Foreign Direct Investment (FDI) within and outside the EU showed signs of disinvestment, portfolio investments had rebounded and were even

outperforming pre-pandemic levels. This shift in investment dynamics occurred against a backdrop of continued geopolitical instability, particularly due to Russia's ongoing conflict with Ukraine and the crisis in the Middle East. Additionally, global economic factors such as the US Inflation Reduction Act and increased US-China tensions also played a role. It remains to be seen to what extent the ongoing developments are of a structural or transitory nature.

The EU's financial environment was further stressed by energy market fluctuations and a banking turmoil sparked by the collapse of several US banks. Despite signs of stabilization, EU energy markets remain vulnerable to shocks to supply and demand. Prices and volatility in energy markets continue to weigh negatively on the competitiveness of European industry. Moreover, the EU maintained its stance on restricting capital movement related to the sanctions imposed on Russia, Belarus, and Iran.

Free movement of capital underpins the objectives of the Capital Market Union initiative to build truly integrated, competitive, efficient, open and stable European financial markets – which are crucial to economic recovery and growth. To this end, the EFC looks forward to finalization of legislative work on the Capital Markets Union, but also on banking and insurance frameworks, sustainable finance, digital finance, payment services, euro cash, and on the possible introduction of a digital euro. These initiatives are aimed at enhancing the EU's market attractiveness for safe and sustainable investments.

As in previous years, the EFC is grateful for the high-quality report prepared by the Commission services, which greatly facilitated our annual examination.

I have written in similar terms to the President of the Commission.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'T. Saarenheimo', with a long horizontal flourish extending to the right.

Tuomas Saarenheimo



Brussels, 29 April 2024
ecfin.cef.cpe(2024)2364816

**ANNUAL EFC REPORT TO THE COMMISSION AND THE COUNCIL ON
THE MOVEMENT OF CAPITAL AND THE FREEDOM OF PAYMENTS**

INTRODUCTION

The free movement of capital is fundamental to the single market. It underpins the objective to build truly integrated, competitive, efficient, open, and stable European financial markets. Therefore, the Treaty on the Functioning of the European Union (TFEU) allows for restrictions on capital movements only under specific conditions, namely: national measures to prevent infringements of national laws, regulations on taxation and prudential supervision of financial institutions, and measures justified on grounds of public policy or public security (Article 65 1(b)).

In this 27th Report, the Economic and Financial Committee (EFC)¹ assesses key developments in global and EU capital markets in 2023. The EFC regularly met in 2023 to discuss risks to financial stability and capital movements based on input from the European Central Bank (ECB), the European Systemic Risk Board (ESRB), and the European Supervisory Authorities (ESAs)². This report is based on an assessment provided by the Commission, and on the outcome of discussions held in the EFC.

GENERAL CONTEXT

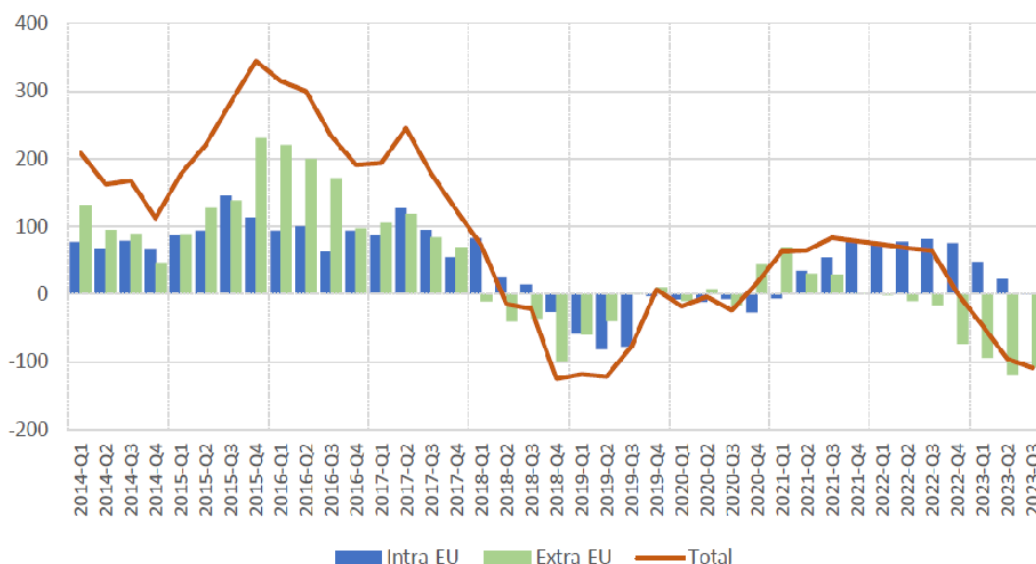
In 2023, the overall magnitude of EU gross capital flows seems to have moderated compared to 2022. FDI is recovering more slowly particularly with respect to its extra-EU component, whereas portfolio investment grew significantly and surpassed its levels before the pandemic. The heightened geopolitical instability following Russia's war of aggression against Ukraine and the situation in the Middle East, the impact of the US Inflation Reduction Act, and the increased tensions between the US and China are likely to have played a role. It remains to be seen to what extent the ongoing developments are of a structural or transitory nature. These extra-EU trends could be suggestive of first signs of reallocation driven by geopolitics, evidence which however requires more data and analytical investigation to be more accurately underpinned.

1. RECENT TRENDS IN EU CAPITAL FLOWS: KEY FIGURES

In 2023, **extra-EU assets and liabilities flows evidenced a significant disinvestment**, with extra-EU-assets flows at a very low level (EUR 6 bn four-quarter average as of Q3 2023, compared to an average of 106 bn one year before in Q3 2022). Extra-EU gross FDI flows are negative since 2022, after a temporary recovery in 2021, and reached a low point in 2023 (EUR -109 bn in Q3 2023).

Intra-EU assets and liabilities flows are continuing to decline since 2022, at a moderate pace compared to the extra-EU trend. **Intra-EU gross FDI flows reached a low and negative level** (four-quarter average of EUR -0.12 bn as of Q3 2023), significantly down compared to the peak observed one year before (EUR 81 bn in Q3 2022).

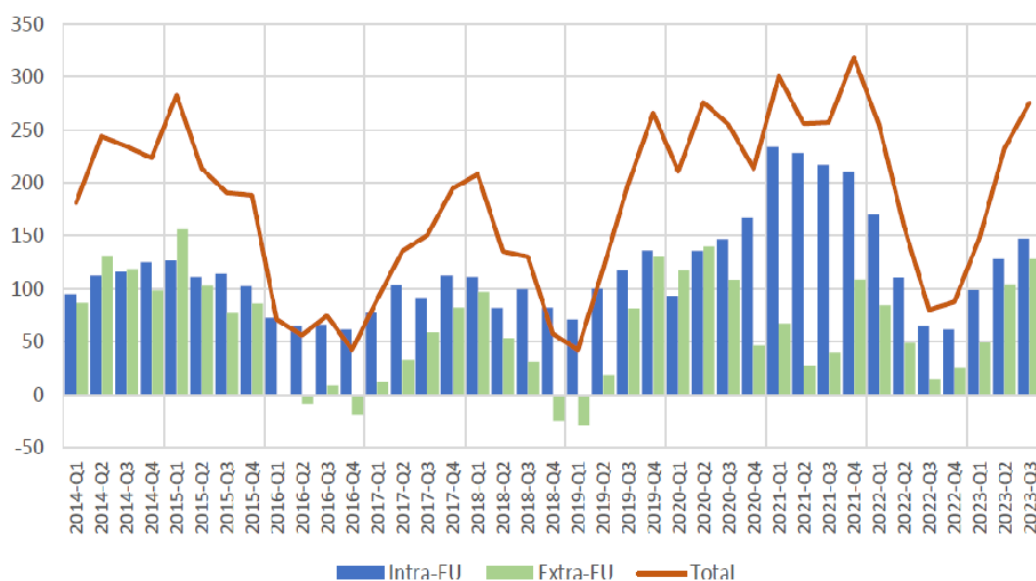
Figure 1: EU-27 gross foreign direct investment (FDI) flows, intra- versus extra-EU-27, EUR billion (Q1 2014 – Q3 2023)



Source: DG FISMA and CEPS, calculations based on Eurostat balance of payments (BoP) data. Note: Moving averages over four quarters.

In contrast with FDI, **intra- and extra-EU-27 portfolio investments (PI) liabilities started to rapidly recover in 2023**: total portfolio investment in the EU, including both intra and extra-EU investment, surpassed pre-COVID levels. Extra-EU PI increased significantly in 2023. Intra and extra EU PI tend to be equal, as the intra-EU PI four-quarter average amounted to EUR 147 bn in Q3, while the extra EU PI four-quarter average inflows amounted to EUR 128 bn as of Q3 2023. Total EU portfolio investment inflows, including both intra- and extra-EU investment, had reached EUR 276 bn and surpassed its 2019 pre-pandemic level.

Figure 2: EU-27 gross portfolio investment inflows, intra- versus extra-EU-27, EUR billion



(Q1-2014 – Q3-2023)

Source: DG FISMA and CEPS calculations based on Eurostat balance of payments data. Note: Moving averages over four quarters.

International role of the Euro

In June 2023, the ECB published its Annual Report on the international role of the euroⁱⁱⁱ, which was discussed at the July Eurogroup. The report emphasized the resilience of the euro as a global currency despite the challenging geopolitical context, whilst cautioning against taking this resilience for granted.

In 2023, the role of the euro as an international currency remained resilient. As a reserve asset, the euro remained stable in absolute levels, but its share of global official foreign exchange reserves declined to 19.98% at the end of Q4 2023 (from 20.40% a year before^{iv}). The euro has been losing ground lately, in so far as its share of all foreign exchange turnover reached 32% in Q4 2023, which is two percentage points lower than the previous year. As a vehicle currency for global access to funding, the euro has been gaining momentum over the last years. Its share of the global debt securities reached 38.8% at the end of Q3 2023, which is 2.5 percentage points higher than the previous year.

2. TRENDS IN EU CAPITAL FLOWS IN THE GLOBAL CONTEXT: QUALITATIVE ASSESSMENT

Impact of the energy crisis on capital flows

Following the stress in energy markets in 2022, EU wholesale energy markets showed signs of recovery in 2023. This was demonstrated by high trading activity, overall lower price levels than in 2022, and moderated volatility. However, even though there was a reduction in the overall wholesale energy prices, prices generally remained higher than pre-pandemic levels and showed brief episodes of market volatility following liquefied natural gas (LNG)-related labour events in

Australia and after the outbreak of the Hamas-Israel conflict affecting the wider Red Sea. This suggests that, despite the market stabilization achieved compared to 2022, EU energy markets remain vulnerable to shocks to supply and demand. Prices and volatility in energy markets continue to weigh negatively on the competitiveness of European industry, especially of energy-intensive sectors, mainly through higher production costs. Considering the improved, yet fragile, situation, the EU extended in December 2023 several emergency measures to limit excessive price spirals in gas markets by one year.

Impact of the 2023 banking turmoil and increasing borrowing rates on capital flows

The banking turmoil of the past spring triggered a broader crisis of confidence in certain parts of the banking sector, like regional banks in the US. The crisis started with the failure of several banks in the US, namely Silicon Valley Bank (SVB), Signature Bank of New York and First Republic Bank. In Switzerland, Credit Suisse (CS) was rescued through a government sponsored acquisition by UBS. Following the crisis, in March the yields of AT1 instruments rose by slightly more than 10% for EU banks, and the share prices fell by 20% on 20th March, compared to pre-crisis period. Full recovery was observed in the following months.

In April 2023, soon after the start of the banking turmoil, the EFC in its Financial Stability Table format examined the ECB and ESAs' assessment of the risks for the European financial sector. The EFC shared the institutions' conclusion that the contagion of risks to EU banks had been prevented by the robust EU regulatory and supervisory framework.

Sanctions against Russia, Belarus, and Iran

Free movement of capital is restricted in relation with the economic sanctions imposed against Russia, Belarus, and Iran following the Russian war of aggression in Ukraine. Articles 75 and 215 of the TFEU provide for the possibility of financial sanctions or restrictive measures either to prevent and combat terrorism or based on decisions adopted within the framework of the Common Foreign and Security Policy.

As of March 2024, the EU adopted **thirteen packages of sanctions against Russia^v**, targeting the Russian economic, financial, energy, transport, and luxury sectors as well as dual-use goods and technology, which may contribute to Russia's war effort. The sanction packages aimed at reinforcing the measures in force, closing loopholes, and fighting sanctions circumvention through third countries, as well as ensuring their enforcement. In parallel, **the EU sanctions regime concerning Belarus has been expanded** in response to the country's involvement in Russia's war of aggression against Ukraine. This is in addition to the sanctions aimed at Belarus that were already in place, which include a range of financial, economic and trade measures^{vi}. **The EU has also adopted sanctions against Iran^{vii}**, in relation to the manufacture and supply of dual-use technology with battlefield relevance (drone components). As of March 2024, individual sanctions target 1,706 individuals and over 419 entities (over 2,000 listings) responsible for undermining Ukraine's territorial integrity, sovereignty, and independence.

These packages and measures were presented by the Commission to the EFC soon after their publication. The EFC assessed their economic and financial impact in Russia, based on updates by the Commission.

3. MAIN PROGRESS IN THE FREE MOVEMENT OF CAPITAL AND FREEDOM OF PAYMENTS BY POLICY AREA

Banking, insurance, and macro prudential policies

On 27 June 2023, co-legislators reached a provisional political agreement on the Commission proposals amending the Capital Requirements Regulation (CRR III) and the Capital Requirements Directive (CRD VI), known as the “**Banking Package**”^{wiii}. The Banking Package implements the final elements of the Basel III standards. The new rules will start phasing in from 1 January 2025. Given the need to maintain high standards of financial regulation, the EFC stresses the importance of a swift implementation of the Basel reform in all jurisdictions, mindful at the same time of the need to continuing monitoring their implementation in other jurisdictions in view of preserving the level-playing field and the EU competitiveness.

On 13 December 2023, co-legislators reached a provisional political agreement on the Commission proposal amending the **Solvency II Directive**^{ix}. The new Solvency rules are expected to foster insurers’ investments in the real economy by relaxing the eligibility criteria for long-term investments in equities, and by reducing capital requirements, therefore releasing capital that is currently locked in by insurers. On December 2023, co-legislators also reached a provisional political agreement on the new Insurance Recovery and Resolution Directive (IRR-D), defining a crisis management framework in the insurance sector.

In April 2023, the Commission published its legislative proposals for a reformed **common framework for bank crisis management and national deposit guarantee schemes** (CMDI)^x, in response to the Eurogroup statement in inclusive format of June 2022. The aim of this package is to improve further the crisis management framework already in force, drawing on the experience of the last decade, and to ensure that the EU remains resilient to potential shocks. Negotiations are ongoing in the Council under the Belgian Presidency, which aims to reach a general approach by the end of its mandate.

In January 2024, a provisional agreement was reached on the last elements (namely first AML Regulation and sixth AML Directive) of the **anti-money laundering and countering the financing of terrorism (AML/CFT)** package^{xi} comprising a reform of material rules into a single rule book, as well as a new institutional framework at Union level with the establishment of an AML Authority (AMLA), which will be located in Frankfurt. The package notably sets an EU-wide maximum limit of €10 000 for cash payments in exchange for goods or services and implements Financial Action Taskforce (FATF)’s recommendations on virtual assets, extending to crypto-asset service providers the obligation to accompany transfers of crypto-assets with information on their originators and beneficiaries. The direct supervision of certain selected high-risk obliged entities will commence in 2028, when the single rulebook comprised of the AML Directive, AML Regulation, and several Level 2 measures to be developed by AMLA, will become applicable as well.

Further progress was made on **payments services in the single market**. The regulation on instant credit transfers (**instant payments**) in euro was signed on 13 March 2024^{xii}. It includes a mandatory offering by EU payment service providers of euro instant payments and allows non-bank payment service providers the possibility to access to all EU payment systems, with

appropriate safeguards. On 28 June 2023, the Commission proposed to amend and modernise the second Payment Services Directive (PSD2), which will become PSD3^{xiii}, and to establish a Payment Services Regulation (PSR)^{xiv}. The proposed measures would strengthen user protection and confidence in payments, improve the competitiveness of open banking services, improve enforcement and implementation in Member States, and improve access to payment systems and bank accounts for non-bank payment service providers, further help combatting and mitigating payment fraud, reinforce open banking efficiency, strengthen harmonisation and enforcement by enacting most payment rules in a directly applicable regulation, and improve the availability of cash in shops and via ATMs. The Commission also proposed a Regulation on a framework for financial data access^{xv}, to facilitate customer data sharing in the financial sector beyond payment accounts (so-called ‘**open finance**’).

Regarding digital finance, the Commission put forward on 28 June 2023 a ‘**single currency package**’, consisting of the proposals for a Regulation on the establishment of the **digital euro**^{xvi}, a Regulation on the provision of digital euro services by payment services providers incorporated in Member States whose currency is not the euro^{xvii}, and a Regulation on the legal tender of euro coins and banknotes^{xviii}. The proposals on the digital euro set out a legal framework for a possible new digital form of the euro that the ECB may issue in the future, as a complement to euro cash. The proposal on euro cash aims to clarify what legal tender means and sets out the rules for the mandatory acceptance of euro cash and possible exceptions to it. Legislative deliberations are ongoing in the Council and European Parliament. In parallel, the ECB continues its technical work on the digital euro project and launched a two-year preparation phase on 1 November 2023, following from its investigation phase. During this phase, the Eurosystem will further explore and test design aspects and functionalities of a digital euro. We note that further preparatory work does not pre-judge a decision on the issuance of the digital euro, which will be taken only after and in accordance with the outcome of the legislative process.

The Commission continued to advance its **sustainable finance framework** in 2023, with the publication of comprehensive recommendations on directing finance for sustainability transition^{xix}, and the publication of the first set of European sustainability reporting standards (ESRS) for companies under the Corporate Sustainability Reporting Directive (CSRD)^{xx} and the voluntary European Green Bond Standard. On 14 September 2023, the Commission launched a targeted consultation and a public consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR). The EFC prepared Council conclusions on climate finance^{xxi}, in view of the 2023 UN Climate Change Conference, COP28 that took place from 30 November to 12 December 2023. Additionally, the EU Platform on Sustainable Finance was mandated to monitor capital flows into sustainable investments. The Platform’s Compendium on market practices^{xxii}, published in January 2024, stated that the EU Taxonomy is evolving into an accepted market practice and a benchmark for corporate sustainability, aligning with its intended design. The EFC Subcommittee on Sovereign Debt Markets (ESDM) actively contributed during 2023 to the development of this Compendium.

In May 2023, the ECOFIN adopted the Regulation on Markets in Crypto-Assets (MiCA), introducing rules on the supervision, consumer protection, market integrity, financial/monetary stability and environmental safeguards of crypto assets, whose entry into application will begin in June 2024. In February 2024, four delegated acts were further adopted, covering significance

criteria for “stablecoins”, intervention powers, penalties, and fees. As of March 2024, the total crypto market capitalisation reached USD 2.5tn, close to the historical peak of November 2021.

Throughout 2023, the EFC, the Commission, ESRB, and the European Banking Authority closely monitored the use of **macro-prudential measures** and their compatibility with the free movement of capital. All Member States have macro-prudential measures in place. At the end of 2023, 15 Member States (Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Germany, Ireland, Lithuania, Luxembourg, Netherlands, Romania, Slovakia, Slovenia, and Sweden) and two members (Iceland and Norway) of the European Free Trade Association (EFTA) applied a non-zero countercyclical capital buffer rate to address aggregate credit risk. Systemic risk buffers were used in 11 Member States (Austria, Belgium, Bulgaria, Croatia, Denmark, France, Germany, Lithuania, Romania, Slovenia, and Sweden) and three EFTA members (Iceland, Liechtenstein, and Norway) for a wide range of purposes. In March 2024 another Member State (Italy) published a consultation with the aim of introducing a systemic risk buffer. 22 Member States and three EFTA members deploy borrower-based measures based on national law to address vulnerabilities stemming from the real estate sector.

At the Council’s request^{xxiii}, the EFC examined in 2023 three ESRB recommendations on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures. The ESRB recommended the reciprocation of all these measures to avoid that their effectiveness is undermined by redirecting capital flows through financial institutions in other Member States. No objection was raised by the EFC Members.

Capital Markets Union

By 2023, the Commission has broadly delivered on all the 16 actions set out in its 2020 Capital Markets Union Action Plan^{xxiv}. An agreement in Council negotiations was achieved concerning the Proposal to make public capital markets in the Union more attractive for companies and to facilitate access to capital for small and medium-sized enterprises (Listing Act). In May 2023, the Commission adopted its **Retail Investment Strategy**^{xxv}, to empower retail investors on EU capital markets, while ensuring that they are duly protected. In June 2023, the Commission adopted a proposal for a Directive on Faster and Safer Relief of Excess **Withholding Taxes**^{xxvi}, to make it easier and faster for investors to claim back excess withholding tax to which they have been subject. In September 2023, the Commission published a **financial competence framework** for young people^{xxvii} developed jointly with the OECD/INFE and Member States. It follows the publication of a similar framework for adults in 2022. In February 2024, the regulation for enhancing data transparency, removing obstacles to the emergence of consolidated tapes, optimising the trading obligations and prohibiting receiving payment for order flow (also known as MiFIR – Markets in Financial Instruments Regulation^{xxviii}) was published.

In March 2023, the Euro Summit called for stepping up collective efforts, involving policymakers and market participants across the Union, to take forward the Capital Markets Union^{xxix}. Preparing for the next European legislative term of 2024-2029, and under the mandate of the EU Leaders, the Eurogroup in inclusive format agreed on a statement on the future of the Capital Markets Union that identified thirteen priority measures across three key areas - Architecture, Business and Citizens – where action is necessary to improve the functioning of European capital markets^{xxx}.

In March 2024, the Euro Summit, meeting in inclusive format, adopted a statement^{xxxix} underlining that “open, well-functioning and integrated European capital markets are crucial to promote the Single Market, improve funding sources for growing companies, including SMEs, and to offer attractive saving opportunities to EU citizens. This is key to boosting EU investment, competitiveness and innovation, thereby ensuring sustainable growth and job creation”. Taking note of the letter sent by the President of the Eurogroup on 18 March 2024, the Leaders invited the European Parliament and the Council to ensure rapid completion of the outstanding work on the 2020 Capital Markets Union Action Plan. The Leaders called on all Member States and EU institutions to swiftly implement all the measures outlined in the Eurogroup in inclusive format’s statement on the future of the Capital Markets Union and requested that the Eurogroup in inclusive format regularly takes stock and reports on progress regarding the evolution of European capital markets^{xxxix}.

Infringement proceedings

In some cases, formal infringement proceedings are launched to safeguard the integrity of the single market. In 2023, the Commission launched 22 infringement procedures against Member States for failing to adopt the necessary measures to fully transpose the Directives on Disclosure of income tax^{xxxix}, Motor Vehicle Insurance^{xxxix}, and the Fifth Anti-Money Laundering Directive^{xxxix}. At the end of 2023, 16 cases related to restrictions to the free movement of capital were still open (vs. 18 open cases at the end of 2022).

4. SCREENING OF FOREIGN INVESTMENTS

The EU framework for the screening of foreign direct investments established by Regulation (EU) 2019/452 (FDI Regulation)^{xxxix} established a framework for the screening by Member States of foreign direct investment and a cooperation mechanism among EU Member States and the European Commission to identify, assess and mitigate potential risks for security or public order deriving from foreign direct investments. Of the 423 cases notified under this cooperation mechanism in 2022, the vast majority (81%³⁵) were closed in Phase 1, i.e., very quickly, with only 11% of the notified cases closed in Phase 2, and less than 3% of cases resulting in European Commission’s opinions.

As of end-2023, **21 Member States had screening mechanisms in place**, while all Member States without a screening mechanism had initiated a policy discussion and, in most cases, a legislative procedure to set up a mechanism.

On 19 October 2023, the Commission adopted its third annual report on the screening of FDI into the Union^{xxxix}. The report confirmed the added value of the FDI Regulation and of the EU cooperation mechanism and the Commission concluded that the EU mechanism does not restrict the EU’s openness to FDI investments.

On 6 December 2023, the European Court of Auditors issued the Special report 27/2023^{xxxix} on “Screening foreign direct investments in the EU”. The auditors found that the Commission has taken appropriate steps to set up the framework, and that more and more EU countries are now following up with their own screening mechanisms and are working together more closely. However, the European Court of Auditors observed that, between 2020 and 2022, 12 countries did

not carry out any FDI screening at all or reported any cases, even though they account for almost half of the EU's inward FDI. Six Member States do not have a screening mechanism and there are differences in terms of scope, coverage in terms of defining critical sectors, and understanding of key concepts. This creates multiple blind spots compromising the effective protection of the entire EU. At the same time, the mechanism is overburdened with a high volume of low-risk or ineligible cases.

On 24 January 2024, the Commission tabled a legislative proposal for amendment of the current FDI regulation to further strengthen the protection of EU security and public order by improving screening of foreign investment into the EU^{xxxxix}. The proposed changes include a requirement for all Member States to have a screening mechanism in place, a minimum sectoral scope for foreign investments screenings by Member States; and an extension of investment screening to investments by EU investors that are ultimately controlled by individuals or businesses from a non-EU country.

5. OTHER GLOBAL DEVELOPMENTS

Future EU enlargement

On 14 December 2023, the European Council endorsed the Council conclusions on enlargement of 12 December 2023^{xi}. EU leaders decided to open accession negotiations with **Ukraine and Moldova** and to grant candidate status to **Georgia**, following the 8 November 2023 Enlargement Package of the Commission, which provided a detailed assessment of the state of play and the progress made by the Western Balkans, Türkiye, Georgia, Moldova, and Ukraine.

In May 2023, the EFC examined the economic and financial situation, including on the capital markets, in the **Western Balkans** (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia) and Türkiye, based on the Commission's and ECB's assessments of the countries' Economic Reform Programmes. The EFC prepared and endorsed with the representatives of the Western Balkans and Türkiye Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye^{xli}, that were adopted on 16 May 2023. The EFC looks forward to the continuation of the annual Dialogue in 2024, extended to Georgia, and Moldova. Ukraine will attend the Dialogue as an observer.

Investment negotiations with non-EU countries

The Lisbon Treaty extended the EU exclusive competence to cover FDI, thereby enabling the EU to conclude comprehensive trade and investment agreements. On this basis, the Commission pursues with third countries negotiations on investment, including investment liberalisation, protection, and facilitation, which in most cases cover also disciplines on capital movements.

In 2023, the EFC was regularly updated about the progress made in the negotiations on **Association Agreements and Protocols on financial services with Andorra and San Marino**. An agreement^{xlii} had been reached at the level of negotiators on 12 December 2023. The Association Agreement would provide, once supervisory powers equivalent to European standards are in place, for the participation of Andorra and San Marino in the EU's internal market.

A trade agreement with **New Zealand**^{xliii} was signed in July 2023, and will enter into force in May 2024. An advanced framework agreement and interim trade agreement with **Chile** were signed on 13 December^{xliv}. The Council adopted its decision on the interim trade agreement in March 2024, which will enter into force after ratification by Chile. The advanced framework agreement must be ratified by national parliaments of Member States. On 17 November 2023, the EU and **Angola** signed an agreement, on the sustainable investment facilitation agreement (SIFA)^{xlv}, whose conclusion was adopted by the Council on 4 March 2024, to entry into force in Q2 2024. This is the first agreement on sustainable investment facilitation that the EU ever negotiated.

CONCLUSIONS

In 2023, global economic conditions, the consequences of banking instability, monetary tightening, and geopolitical risks related to Russia's war of aggression against Ukraine and the crisis in the Middle East, bore on gross capital flows. The scale of EU gross capital flows has moderately declined, and Foreign Direct Investment has shown some disinvestment from both intra-EU and extra-EU sources. Portfolio investment has not only recovered but has exceeded pre-pandemic levels. The robust EU regulatory and supervisory framework prevented the spillovers of the Spring 2023 banking turmoil on EU banks. Following the stress in energy markets in 2022, EU wholesale energy markets showed signs of recovery in 2023, while still remaining vulnerable to price resurgences owing to geopolitical tensions. Free movement of capital was further restricted in relation with the economic sanctions imposed against Russia, Belarus, and Iran following the Russian war of aggression in Ukraine, as provided by the TFEU. Progress was made on the policy side, with further regulations in relation with capital movements adopted or discussed by the co-legislators.

Looking ahead, enduring geopolitical risks, stemming from Russia's war of aggression against Ukraine and the crisis in the Middle East, the impact of the US Inflation Reduction Act, and the increased tensions between the US and China are the key challenges to the European economic prospects and financial stability in 2024. In the future, the deepening of the Capital Markets Union should play a crucial role, together with the Banking Union, for financing the EU economy, boosting the EU's global competitiveness, innovation and growth, better channelling funding toward our priorities, including the green and digital transitions, strengthening financial stability and the EU's long-run competitiveness.

⇒ *The EFC supports the ongoing work on the Capital Markets Union and calls for significant progress under the next Commission's mandate, in line with the statement of the Euro Summit of March 2024. The EFC also supports the ongoing work on banking and insurance frameworks, on sustainable finance, digital finance, payment services, euro cash, and on the possible introduction of a digital euro. The EFC looks forward to a swift agreement of co-legislators on ongoing legislative files. The EFC considers that these policies will contribute to the free movement of capital and payments, thus underpinning the EU single market as an attractive market for safe and sustainable investments, benefitting the competitiveness, innovation, and resilience of the EU. Given the need to maintain high*

standards of financial regulation and level-playing field, we underline the importance of a faithful and swift implementation of the Basel reform in all jurisdictions.

ANNEX: LEGISLATIVE PROPOSALS RELATED TO THE FREEDOM OF CAPITAL MOVEMENTS

<u>Legislation mentioned</u>	<u>Link</u>	<u>Dates</u>
Amendments to the Alternative Investment Fund Managers Directive (AIFMD) and to the Directive relating to undertakings for collective investment in transferable securities (UCITS)	Regulation (EU) 2024/927	<u>Proposal by the EC published on:</u> 25/11/2021 <u>Adopted on:</u> 13/03/2024 <u>Entry into force:</u> 15/04/2024
Amendment to Markets in Financial Instruments Regulation (MiFIR)	Regulation (EU) 2024/791	<u>Proposal by the EC published on:</u> 25/11/2021 <u>Adopted on:</u> 28/02/2024 <u>Entry into force:</u> 28/03/2024
Amendments to EMIR Regulation	provisional agreement	<u>Proposal by the EC published on:</u> 07/12/2022 <u>Agreement on the final compromise text reached on:</u> 14/02/2024
Amendments to Markets in Financial Instruments Directive (MiFID)	Directive (EU) 2024/790	<u>Proposal by the EC published on:</u> 25/11/2021 <u>Adopted on:</u> 28/02/2024 <u>Entry into force:</u> 28/03/2024
Amendments to the Central Securities Depositories Regulation (CSDR)	Regulation (EU) 2023/2845	<u>Proposal by the EC published on:</u> 16/03/2022 <u>Adopted on:</u> 13/12/2023 <u>Entry into force:</u> 16/01/2024 <u>Application from:</u> 17/01/2026
Amendments to the EMIR Directive	provisional agreement	<u>Proposal by the EC published on:</u> 07/12/2022 <u>Agreement on the final compromise text reached on:</u> 14/02/2024
Amendments to the European Long-Term Investment Fund (ELTIF) Regulation	Regulation (EU) 2015/760	<u>Proposal by the EC published on:</u> 25/11/2021 <u>Adopted on:</u> 15/03/2023 <u>Application from:</u> 10/01/2024
AML Directive, AMLA Regulation, and the AML Regulation	proposal	<u>Proposal by the EC published on:</u> 20/07/2021 <u>Agreement on the final compromise text reached on:</u> 14/02/2024
Capital Requirements Directive (CRD 6)	provisional agreement	<u>Proposal published on:</u> 27/10/2021 <u>Agreement on the final compromise text reached on:</u> 06/12/2023

Capital Requirements Regulation (CRR 3)	<u>provisional agreement</u>	<u>Proposal by the EC published on:</u> 21/10/2021 <u>Agreement on the final compromise text reached on:</u> 06/12/2023
Corporate Sustainability Reporting Directive (CSRD)	<u>Directive 2022/2464/EU</u>	<u>Proposal by the EC published on:</u> 21/02/2021 <u>Adopted on:</u> 14/12/2022 <u>Entry into force:</u> 05/01/2023
DIRECTIVE amending Directives as regards the Union retail investor protection rules	Proposal : <u>EUR-Lex - 52023PC0279 - EN - EUR-Lex (europa.eu)</u>	<u>Proposal by the EC published on:</u> 24/05/2023 <u>EP amendments to the draft report on</u> <u>10.10.2023</u> <u>Council: ongoing discussions</u> <u>Trilogues have not started</u>
Directive amending Solvency II	<u>provisional agreement</u>	<u>Proposal by the EC published on:</u> 22/09/2021 <u>Agreement on the final compromise text reached on:</u> 24/01/2024
Directive harmonising certain aspects of substantive law on insolvency proceedings	<u>proposal</u>	<u>Proposal by the EC published on:</u> 07/12/2022 <u>EP: Committee referral announced, 1st reading on</u> 26/01/2023 <u>Council: ongoing discussions</u>
Directive on faster and safer relief of excess withholding taxes	<u>proposal</u>	<u>Proposal by the EC published on:</u> 19/06/2023 <u>EP: text adopted 1st reading on</u> 28/02/2024 <u>Council: ongoing discussions</u>
Directive on the debt-equity bias reduction allowance (DEBRA)	<u>proposal</u>	<u>Proposal by the EC published on:</u> 11/05/2022 <u>EP: text adopted 1st reading on</u> 16/01/2024 <u>Council: ongoing discussions</u>
European Green Bond Standard	<u>Regulation (EU) 2023/2631</u>	<u>Proposal by the EC published on:</u> 06/07/2021 <u>Adopted on:</u> 22/11/2023 <u>Entry into force:</u> 20/12/2024 <u>Application from:</u> 21/12/2024
European Single Access Point (ESAP) Regulation	<u>Regulation (EU) 2023/2859</u>	<u>Proposal by the EC published on:</u> 25/11/2021 <u>Adopted on:</u> 13/12/2023 <u>Entry into force:</u> 09/01/2024
Listing Act - Directive on multiple vote share structures	<u>provisional agreement</u>	<u>Proposal published on:</u> 07/12/2022 <u>Agreement on the final compromise text reached on:</u> 14/02/2024

Listing Act - Amendments to Markets in Financial Instruments Directive (MiFID) and repealing Listing Directive	<u>provisional agreement</u>	<u>Proposal published on: 07/12/2022</u> <u>Agreement on the final compromise text reached on: 14/02/2024</u>
Listing Act - Amendments to Prospectus Regulation, Market Abuse Regulation, Markets in Financial Instruments Regulation (MiFIR)	<u>provisional agreement</u>	<u>Proposal published on: 07/12/2022</u> <u>Agreement on the final compromise text reached on: 14/02/2024</u>
Markets in Crypto-assets Regulation (MiCA)	<u>Regulation (EU) 2023/1114</u>	<u>Proposal by the EC published on: 24/09/2020</u> <u>Adopted on: 31/05/2023</u> <u>Entry into force: 29/06/2023</u>
Payment Services Regulation (PSR)	<u>proposal</u>	<u>Proposal by the EC published on: 28/06/2023</u> <u>EP: Committee report tabled for plenary, 1st reading on 22/02/2024</u> <u>Council: ongoing discussions</u> <u>Trilogues have not started</u>
Proposal for a Regulation on the screening of foreign investments in the Union and repealing Regulation (EU) 2019/452	<u>proposal</u>	<u>Proposal by the EC published on: 24/01/2024</u> <u>EP: preparatory phase</u> <u>Council: ongoing discussions</u> <u>Trilogues have not started</u>
REGULATION amending Regulation (EU) No 1286/2014 as regards the modernisation of the key information document	<u>proposal</u>	<u>Proposal by the EC published on: 24/05/2022</u> <u>EP amendments to the draft report on 10.10.2023</u> <u>Council: ongoing discussions</u> <u>Trilogues have not started</u>
Regulation establishing the Authority for Anti-Money Laundering and Countering the Financing of Terrorism	<u>provisional agreement</u>	<u>Proposal by the EC published on: 20/07/2021</u> <u>Agreement on the final compromise text reached on: 14/02/2024</u>
Regulation on a framework for financial data access	<u>proposal</u>	<u>Proposal by the EC published on: 28/06/2023</u> <u>EP: amendments to the draft report on 02/02/2024</u> <u>Council: ongoing discussions</u> <u>Trilogues have not started</u>
Regulation on instant credit transfers (instant payments) in euro	<u>Regulation (EU) 2024/886</u>	<u>Proposal by the EC published on: 26/10/2022</u> <u>Adopted on: 13/03/2024</u> <u>Entry into force: 08/04/2024</u>

Regulation on information accompanying transfers of funds and certain crypto-assets	<u>Regulation (EU) 2023/1113</u>	<u>Proposal by the EC published on:</u> 20/07/2021 <u>Adopted on:</u> 31/05/2023 <u>Entry into force:</u> 29/06/2023 <u>Application from:</u> 30/12/2024
Regulation on the establishment of the digital euro	<u>proposal</u>	<u>Proposal by the EC published on:</u> 28/06/2023 <u>EP:</u> awaiting committee decision <u>Council:</u> ongoing discussions
Regulation on the legal tender of euro coins and banknotes	<u>proposal</u>	<u>Proposal by the EC published on:</u> 28/06/2023 <u>EP:</u> awaiting committee decision <u>Council:</u> ongoing discussions
Regulation on the provision of digital euro services by payment services providers incorporated in Member States whose currency is not the euro	<u>proposal</u>	<u>Proposal by the EC published on:</u> 28/06/2023 <u>EP:</u> ongoing discussions <u>Council:</u> ongoing discussions
Regulation on the transparency and integrity of ESG rating activities	<u>provisional agreement</u>	<u>Proposal by the EC published on:</u> 13/06/2023 <u>Agreement on the final compromise text reached on:</u> 14/02/2024
Retail Investment Strategy - amendments to PRIIPs Regulation	<u>proposal</u>	<u>Proposal by the EC published on:</u> 24/05/2023 <u>EP:</u> Committee decision to enter into interinstitutional negotiations announced in plenary on 10/04/2024 <u>Council:</u> ongoing discussions
Retail Investment Strategy - Omnibus Directive	<u>proposal</u>	<u>Proposal by the EC published on:</u> 24/05/2023 <u>EP:</u> Committee decision to enter into interinstitutional negotiations announced in plenary on 10/04/2024 <u>Council:</u> ongoing discussions
Taxonomy Climate Delegated Act(s)	<u>delegated act</u>	<u>Adopted on:</u> 27/06/2023
Taxonomy Disclosures Delegated Act	<u>delegated act</u>	<u>Adopted on:</u> 27/06/2023
Taxonomy Environmental Delegated Act	<u>delegated act</u>	<u>Adopted on:</u> 27/06/2023

Taxonomy Regulation	<u>Regulation (EU) 2020/852</u>	<u>Proposal published by the EC on:</u> 24/05/2018 <u>Adopted on:</u> 18/06/2020 <u>Entry into force:</u> 12/07/2020 <u>Application from:</u> - 01/01/2022: in respect of the environmental objectives referred to in points (a) and (b) of Article 9 - 01/01/2023: in respect of the environmental objectives referred to in points (c) to (f) of Article 9
Third Payment Services Directive (PSD3)	<u>proposal</u>	<u>Proposal published by the EC on:</u> 28/06/2023 <u>EP:</u> Committee report tabled for plenary, 1st reading on 21/02/2024 <u>Council:</u> ongoing discussions <u>Trilogues have not started</u>

ⁱ Under Article 134(2) of the Treaty on the Functioning of the European Union (TFEU), the Economic and Financial Committee (EFC) is called upon "to examine, at least once a year, the situation regarding the movement of capital and the freedom of payments, as they result from the application of the Treaties and of measures adopted by the Council; the examination shall cover all measures relating to capital movements and payments; the Committee shall report to the Commission and to the Council on the outcome of this examination."

ⁱⁱ The ESAs are the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA).

ⁱⁱⁱ [The international role of the euro \(europa.eu\)](#)

^{iv} Source: [Currency Composition of Official Foreign Exchange Reserve - At a Glance - IMF Data](#)

^v [EU sanctions against Russia - Consilium \(europa.eu\)](#)

^{vi} [EU sanctions against Belarus - Consilium \(europa.eu\)](#)

^{vii} [EU sanctions against Iran - Consilium \(europa.eu\)](#)

^{viii} See Commission proposal at [Banking package - European Commission \(europa.eu\)](#)

^{ix} See Commission proposal: [EUR-Lex - 52021PC0581 - EN - EUR-Lex \(europa.eu\)](#)

^x [Reform of bank crisis management and deposit insurance framework - European Commission \(europa.eu\)](#)

^{xi} [Anti-money laundering and countering the financing of terrorism legislative package - European Commission \(europa.eu\)](#)

^{xii} [Regulation - EU - 2024/886 - EN - EUR-Lex \(europa.eu\)](#)

^{xiii} [EUR-Lex - 52023PC0366 - EN - EUR-Lex \(europa.eu\)](#)

^{xiv} [EUR-Lex - 52023PC0367 - EN - EUR-Lex \(europa.eu\)](#)

^{xv} [EUR-Lex - 52023PC0360 - EN - EUR-Lex \(europa.eu\)](#)

^{xvi} [EUR-Lex - 52023PC0369 - EN - EUR-Lex \(europa.eu\)](#)

^{xvii} [EUR-Lex - 52023PC0368 - EN - EUR-Lex \(europa.eu\)](#)

^{xviii} [EUR-Lex - 52023PC0364 - EN - EUR-Lex \(europa.eu\)](#)

^{xix} [Commission Recommendation \(EU\) 2023/... of 27 June 2023 on facilitating finance for the transition to a sustainable economy \(europa.eu\)](#)

^{xx} The first set of ESRs was published in the Official Journal on 22 December 2023 under the form of a delegated regulation: [Delegated regulation - EU - 2023/2772 - EN - EUR-Lex \(europa.eu\)](#).

^{xxi} [st14229-en23.pdf \(europa.eu\)](#)

^{xxii} [Platform on Sustainable Finance report on a compendium of market practices \(europa.eu\)](#)

^{xxiii} Article 18(1) of Regulation (EU) No 1092/2010, which empowers the Council to react to whether a warning or Recommendation should be made public.

-
- ^{xxiv} [EUR-Lex - 52020DC0590 - EN - EUR-Lex \(europa.eu\)](#)
- ^{xxv} [Retail investment strategy - European Commission \(europa.eu\)](#)
- ^{xxvi} [EUR-Lex - 52023PC0324 - EN - EUR-Lex \(europa.eu\)](#)
- ^{xxvii} [Financial competence framework for children and youth in the European Union - Publications Office of the EU \(europa.eu\)](#)
- ^{xxviii} [Regulation - EU - 2024/791 - EN - EUR-Lex \(europa.eu\)](#)
- ^{xxix} [pdf \(europa.eu\)](#)
- ^{xxx} [Statement of the Eurogroup in inclusive format on the future of Capital Markets Union - Consilium \(europa.eu\)](#)
- ^{xxxi} [20240322-euro-summit-statement-en.pdf \(europa.eu\)](#)
- ^{xxxii} [20240322-euro-summit-statement-en.pdf \(europa.eu\)](#)
- ^{xxxiii} [Directive - 2021/2101 - EN - EUR-Lex \(europa.eu\)](#)
- ^{xxxiv} [Directive - 2021/2118 - EN - EUR-Lex \(europa.eu\)](#)
- ^{xxxv} [Directive - 2018/843 - EN - aml5 - EUR-Lex \(europa.eu\)](#)
- ^{xxxvi} Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union, OJ L 79I, 21.3.2019, p. 1–14,
- ^{xxxvii} [pdf \(europa.eu\)](#)
- ^{xxxviii} Press release : [NEWS-SR-2023-27 | European Court of Auditors \(europa.eu\)](#) and Special Report: [Special report 27/2023: Screening foreign direct investments in the EU | European Court of Auditors \(europa.eu\)](#)
- ^{xxxix} [EUR-Lex - 52024PC0023 - EN - EUR-Lex \(europa.eu\)](#)
- ^{xl} [pdf \(europa.eu\)](#)
- ^{xli} [pdf \(europa.eu\)](#)
- ^{xlii} [The Association Agreement with Andorra and San Marino \(europa.eu\)](#) and [EUR-Lex - 52024PC0134 - EN - EUR-Lex \(europa.eu\)](#)
- ^{xliii} [Free Trade Agreement between the European Union and New Zealand \(europa.eu\)](#)
- ^{xliv} Press release: [EU signs trade and political agreements with Chile \(europa.eu\)](#)
- ^{xlv} Press release: [EU-Angola: Council gives final greenlight to the EU's first sustainable investment facilitation agreement - Consilium \(europa.eu\)](#)