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COVER NOTE

From:	Mr Tuomas SAARENHEIMO, President of EFC
date of receipt:	26 April 2021
To:	Mr Joao LEAO, President of the ECOFIN Council
Subject:	Annual EFC Report for 2020 on “The Movement of Capital and the Freedom of Payments”

Delegations will find attached the annual 2020 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, 26 April 2021

ecfin.cef.cpe(2021)2154310

Mr João Leão

Minister of State for Finance of Portugal

ECOFIN President

Concerns: Annual EFC Report for 2020 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 2020. Based on 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 the economic recovery. Capital flows have been significantly affected by the COVID-19 crisis, with global foreign direct investment (FDI) and euro area net financial outflows declining sharply. Overall, however, regulatory reforms introduced after the last financial crisis have prevented further financial fragmentation within the EU.

Against the backdrop of the unfolding COVID-19 crisis, it is essential to ensure that the free movement of capital is not unduly hampered, globally and within the EU in particular. The free movement of capital underpins the objectives of the Banking Union and of the capital markets union initiative to build truly integrated, competitive, efficient, open and stable European financial markets – which are crucial to the economic recovery.

The EFC encourages the deepening of the EU capital markets and the completion of the Banking Union, notably to reap the full benefits of the Recovery and Resilience Facility. The implementation of these policies will contribute to the EU single market as an attractive market for safe and sustainable long-term investments, and to fostering the use of the euro as an international currency.

This year's report also highlights the role of Brexit developments in shaping capital flows. The EFC will continue to monitor the possible market impact of Brexit and supports the recent agreement on financial regulatory cooperation between the EU and the UK.

As in previous years, the EFC could build on the high quality reports and assessments prepared by the Commission services.

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

Yours sincerely,

Tuomas Saarenheimo

ECONOMIC AND FINANCIAL COMMITTEE

Brussels, 29 March 2021
ecfin.cef.cpe(2021)2152899

Annual EFC Report to the Commission and the Council on the Movement of Capital and the Freedom of Payments

INTRODUCTION

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."*

Based on the Commission's examination[1], the EFC in its 24th Report assesses key developments in global and EU capital markets in 2020, policy initiatives undertaken to enhance capital movements and international cooperation.

This report will present 1) the general context and developments; 2) the recent trends in EU capital flows; 3) the legal framework for the free movement of capital and payments; 4) the main developments in the area of the free movement of capital and freedom of payments; and 5) the global developments.

1. GENERAL CONTEXT AND DEVELOPMENTS

The COVID-19 crisis has had a significant impact on economic prospects and capital flows. While decisive monetary and fiscal policy contained the effects of the outbreak of COVID-19, the Commission in its autumn forecast does not expect the EU to reach pre-crisis GDP levels before the end of 2022. Capital flows have also been significantly affected. Notably, global foreign direct investment (FDI) declined by more than 50 percent in the first half of 2020 compared to the second half of 2019. The COVID-19 crisis might also have an impact on financial accounts. In the first half of 2020, the euro area (EA) and Japan experienced significant reductions in their net financial outflows. China saw the return of a large net financial outflows, and the United States and the United Kingdom reported a growing net financial inflows.

Regulatory reforms introduced after the last financial crisis have in part prevented renewed financial fragmentation within the EU. It is worth noting that no country has had to resort to capital controls on outflows. In the EU, the progress achieved in establishing a capital markets

[1] Commission staff working document on the movement of capital and the freedom of payments, 2020 – *To be distributed later*.

union (CMU) and a Banking Union has made the EU more resilient. Furthermore, supervisory actions and targeted legislative amendments to the regulatory framework have ensured that banks could respond with greater flexibility to support EU citizens and businesses hit by the COVID-19 crisis.

⇨ *The EFC takes note of the impact of the COVID-19 crisis on the economic prospects and on capital flows. It reiterates the need to ensure that free movement of capital is not unduly hampered, globally and within the EU in particular. Free movement of capital underpins the objectives of the Banking Union and of the CMU initiative to build truly integrated, competitive, efficient, open and stable European financial markets – which are crucial to economic recovery. The EFC will continue to monitor progress in these areas on a regular basis.*

2. Recent trends in EU capital flows

Foreign Direct Investments (FDI) developments

Intra-EU inflows have been on a downward path and in negative territory since 2015, with a moderate rebound in 2019. The COVID-19 pandemic interrupted the increase in intra-EU inflows, which fell in the second quarter of 2020. Extra-EU inflows, on the other hand, increased and became positive in the first two quarters of 2020, after being negative from 2015 to 2019. In the current high uncertainty environment, this increase gives rise to concerns of additional acquisitions of EU firms in financial distress or in strategic sectors such as healthcare or information technology by non-EU stakeholders.

Mergers and acquisitions (M&As)

In 2020 the value and the number of cross-border inward M&A decreased by 34 percent and 18 percent year-on-year. The decrease in M&A from third countries into the EU was stronger than that in M&A within the EU. Compared to the rest of the world, M&A activity in the EU showed a similar slowdown at the start of the year 2020, but a more modest rebound afterwards. The M&A activity in the EU in terms of value and number of transactions was still at relatively low levels end 2020.

Portfolio investment

The effect of the COVID-19 crisis on portfolio investment was unprecedented but of short duration. Both EA and non-EA investors sold their foreign holdings of euro area securities in the beginning of 2020, with equities/investment fund shares and bonds affected to a similar extent. EA portfolio investment flows recovered from April 2020 onward, thanks to the pandemic purchase programme implemented by the ECB. Intra-EU portfolio investment flows were also affected by the pandemic, declining sharply in the first quarter of 2020 and rebounding in the second quarter.

Overall, disinvestment in the first quarter was less substantial than during the 2008/2009 financial crisis and the 2011-2014 sovereign debt crisis, whereas the rebound that followed in the second quarter of 2020 was larger.

Home bias

During the financial crisis that started in 2008, home bias[2] increased, reflecting a fragmentation of the EU financial market. However, the home bias seems to be on a downward path. While in 2009, 79.5 percent of equities and debt portfolio instruments were held by domestic investors in the EU, this number increased to 81 percent in 2013, before decreasing evenly to 76.5 percent in 2019[3]. This recent decline in home bias tends to be larger for the EA than for non-euro Member States (after 2015).

Despite its decline, the equity home bias in EA countries is still at very high levels. A slight downward trend can be observed in the debt market as well, with EA countries accounting for most of the reduction. There, home bias declined from 81.2 percent in 2013 to 78 percent in 2019.

- ⇨ *The EFC will continue to closely monitor the trends in EU capital flows in the coming year, in a context of uncertainties surrounding the economic recovery. The EFC will also pay particular attention to the further integration of its financial markets and the home bias in the context of its work on EMU deepening and CMU.*

3. LEGAL FRAMEWORK FOR THE FREE MOVEMENT OF CAPITAL AND PAYMENTS

Capital controls

Capital controls are an example of substantial exceptions to the principle of free movement of capital. However, they may be necessary to avoid an economic meltdown due to disorderly capital outflows. Such controls were imposed in Greece during the government-debt crisis of 2015-2018, and in Iceland following the 2008 financial crisis.

Greece fully lifted capital controls on 1 September 2019, ending 4 years of restrictions on transfers abroad by companies and individuals. Iceland has maintained minor restrictive provisions.

- ⇨ *The EFC recalls the temporary nature of capital controls and invites the Commission to continue monitoring the developments related to the few remaining capital controls in Iceland.*

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[2] The tendency in a Member State to invest domestically compared to investments within the rest of the EU

[3] Data for 2020 not yet available

Anti-money laundering

Directive 2018/843 (5th Anti-Money Laundering Directive) significantly improved the legislative framework to ensure that the EU financial system cannot be used for money laundering and for funding terrorist activities. Member States were required to transpose the new Directive by 10 January 2020. Currently, the Commission has pending infringement proceedings against 22 Member States who did not notify transposition measures, or did so with a delay or in an incomplete manner.

In addition, in May 2020, the Commission adopted an action plan for a comprehensive Union policy on preventing money laundering and combatting terrorism financing (CFT). The actions outlined in the action plan build on findings from the anti-money laundering (AML) package of 2019, which stressed the fragmentation of rules, uneven supervision and limitations in cooperation among Financial Intelligence Units (FIUs) across the EU. Member States welcomed the plan and invited the Commission to propose legislation in 2021 to create a single rulebook and to establish an EU-level AML/CFT supervisor, and an EU coordination and support mechanism for FIUs.

⇨ *The EFC welcomes the progress made with regard to the EU AML/CFT Framework. In November 2020, the Council adopted Council conclusions prepared by the EFC. The Council welcomes the Commission's intention to put forward a legislative proposal on an EU single rulebook for AML and acknowledges the added-value of an EU AML/CFT supervisor and of a coordination and support mechanism for FIUs.*

Other measures

The Commission monitors the application of the principle of free movement of capital in Member States. In some cases formal infringement proceedings are launched to safeguard the integrity of the single market. In 2020, the Commission:

- Initiated two infringement procedures for failure to remove from the legal order the legal effects of bilateral investment treaties (BITs) with other Member States.
- Launched eight infringement proceedings related to direct taxation under Article 63 TFEU and Article 40 of the European Economic Area (EEA).
- Closed 15 proceedings on tax restrictions to the free movement of capital, leaving 30 open cases at the end of 2020.

⇨ *The EFC underscores the importance of fully complying with the principle of free movement of capital to foster cross-border investments.*

4. Main developments in the area of the free movement of capital and freedom of payments

Response to the coronavirus outbreak

As a response to the COVID-19 crisis, the EU agreed on unprecedented support: the Recovery and Resilience Facility (RRF) will provide up to €312.5 billion in grants and up to €360 billion in loans. It will fund national recovery and resilience plans (RRPs).

For the banking sector, the policy response has been swift and coordinated. To facilitate lending and the further provision of financial services, supervisors have granted banks temporary relief, thereby inviting banks to use their capital and liquidity buffers, and their operational capacities. The Commission, EU supervisory authorities and international bodies (such as the Basel Committee on Banking Supervision) all activated the flexibility included in the prudential and accounting rules. In June 2020, the Parliament and the Council adopted targeted temporary amendments to Capital Requirements Regulation, following a Commission proposal. It's the time for banks to use existing flexibility to provide credit to the real economy while maintaining appropriate risk management practices and standards.

The post-COVID strategy also includes a capital markets recovery package (CMRP), on which the Council and the European Parliament reached a political agreement on 10 December 2020. It includes targeted amendments to:

- The 2nd Markets in Financial Instruments Directive (MiFID II).
- The Prospectus Regulation.
- The EU securitisation framework.

Capital markets union

In December 2020, Member States welcomed the Commission's action plan on CMU for the next four years. The action plan notably aims to support a green, inclusive and resilient economic recovery by making financing more accessible to European companies. Member States called for a clear prioritisation of the measures by the Commission:

- The highest priority actions in the context of SME funding and Covid-19 recovery, including, regulatory reforms to facilitate access, in particular for SMEs, to financing on capital markets and simplifying the rules for listing on regulated markets, should be delivered as soon as possible, but not later than by end-2021;
- Actions to mobilise private capital and stimulate investments within the EU, such as improving financial literacy and streamlining disclosure rules and assessing quality and fairness of investment advice to retail investors, should be delivered as soon as possible;
- Actions of major importance for progressing towards vibrant and globally competitive markets (for instance proposals to strengthen investment protection to support more cross-border investment in the EU) should be considered as short term actions for the Commission;
- Medium-term actions should include assessments to tackle further impediments to the deepening of the CMU (for instance, possible measures to increase the convergence of the outcome of insolvency proceedings).

The European Commission is designing a dashboard of key performance indicators (KPIs). Those future legislative proposals should take into account those KPIs to assess their impact.

⇨ *The EFC welcomes the continued efforts by the Commission to progress towards a genuine CMU and calls on the Commission to swiftly put forward proposals. In December 2020, the Council adopted Council conclusions on CMU, prepared by the EFC. The Council welcomes the Commission's new action plan, but calls for prioritising the actions that would improve the funding of the economy and particularly of SMEs and have the potential to support a swift recovery. The Council also stresses the importance of a deepened CMU for the forward-looking transition to a sustainable and digital economy in the Union.*

Tax barriers

Burdensome procedures for recovering withheld tax (WHT) on portfolio investments have long been identified by Member States as a barrier to a true EU capital market. The 2017 code of conduct on WHT sets out voluntary action that Member States can take to address the longstanding problem of long delays and costs in recovering taxes withheld in the country of investment. Several meetings were held in 2018 and 2019 on the implementation of the code and some progress has been made, but the issues persist.

In 2020, a High-Level Forum on capital markets recommended that the Commission put forward a legislative proposal to introduce a standardised system for WHT relief at source based on authorised information agents and withholding agents.

In the Council conclusions on the Commission's CMU Action plan, Member States encouraged the Commission to assess ways to simplify the withholding tax relief procedure for cross-border investments, while taking into account the existing work within the OECD. In this context, the Commission announced that it would propose a common system for WHT relief at source. The objective will be to lower tax compliance costs for cross-border investors significantly and to prevent tax evasion.

⇨ *The EFC welcomes the work on increasing tax transparency and highlights the need for a level playing field at the EU and the international level. The Council encourages the Commission to assess the withholding tax relief procedure for cross-border investments and to propose ways to simplify it.*

Framework for investment protection and facilitation in the EU

On 5 November 2020, Member States adopted Council Conclusions encouraging the Commission to explore options for optimising the investment climate within the single market and to propose a Union framework that clarifies, strengthens and supplements the rules on the protection of cross-border investment within the Union. The Commission is expected to put forward a legislative proposal in Q2 2021.

The initiative should ensure consistent and predictable protection of intra-EU investments, improve the enforcement of the rules and enhance investment facilitation. Member States will be attentive to the preservation of their right to regulate for the protection of legitimate public interests, such as consumer protection, public health and the environment.

International role of the euro

The EU’s large open economy and interconnected financial sector make it both a major economic power and a market exposed to developments abroad.

Relying heavily on the US dollar as a global reserve currency has proven to lead to vulnerabilities in the international financial system, including during the COVID-19 crisis. The euro is the second most widely used currency (38 percent of global payments in 2020). While the euro’s global appeal is primarily determined by market forces, the Commission 2018 Communication ‘*Towards a stronger international role of the euro’* presented steps to promote the role of the euro globally. More recently, the Communication on fostering the openness, strength and resilience of Europe’s economic and financial system, adopted on 19 January 2021, set out a number of policies to further strengthen the international role of the euro.

The Banking Union and CMU enhance the stability and efficiency of the Euro area, making the euro a more appealing and reliable means of conducting business. A wider use of the euro would benefit the European economy by providing lower cost and lower risk of trading internationally for European businesses and lower interest rates paid by European households, businesses and Member States. While there are both costs and benefits associated with international currency status, a stronger international role of the euro would also improve resilience of the European financial system and economy, including by making them less vulnerable to exchange rate shocks.

In this context, Member States stress the relevance of the following initiatives:

- Pursuing a strong economic recovery, notably through rolling out of the RRF and investments and reforms included in the RRPs;
- Continuing to build solid foundations for the euro, notably by completing the EMU, completing the Banking Union and deepening the CMU;
- Supporting the development of innovative and resilient financial market infrastructure and payment systems;
- Supporting the initiatives to make the euro fit for the digital age, such as the retail payments strategy for the EU or the ongoing work of the Eurosystem on a digital euro;
- Making the euro the currency of the green transition, notably by designing effective regulatory frameworks that can serve as global templates and increasing the issuances of green financial products, including green bonds;
- Extending the euro’s reach.

- ⇨ *The EFC welcomes the Commission initiatives to strengthen the international role of the euro. The EFC acknowledges the aim for the EU to reduce its dependence on other currencies, and to strengthen its autonomy. The EFC emphasised the potential of green finance to enhance the use of the euro by the markets while also contributing to achieving the climate transition objective. The EFC highlights that sound economic and fiscal policies along with initiatives such as the completion of the Banking Union and the deepening of the CMU will be decisive to foster the international role of the euro. At the same time, the EFC highlights that greater international use of the euro also entails potential trade-offs which should continue to be monitored.*

Payment services in the single market

An important part of the future of payment services in the single market is digital finance. In September 2020, the Commission adopted a digital finance package, which includes a digital finance strategy; legislative proposals on crypto-assets and digital resilience, and a renewed strategy for modern and safe retail payments.

The framework on crypto-assets aims to allow for innovation while preserving financial stability and protecting investors.

The 'digital operational resilience' part of the strategy aims to ensure that financial firms can withstand Information and Communication Technologies (ICT)-related disruptions and threats. Banks, stock exchanges, clearing houses and fintechs have to comply with strict standards to prevent and limit the impact of such incidents.
In 2020, Member States commended the Eurosystem for its work on a digital euro. Member States acknowledged the potential benefits of central bank digital currencies and highlighted the complexity of the issue.

- ⇨ *In December 2019, the Council and the Commission adopted a joint statement asserting that "no global "stablecoin" arrangement should begin operation in the European Union until the legal, regulatory and oversight challenges and risks have been adequately identified and addressed". The EFC endorsed Council conclusions in which it welcomes the Commission's retail payments strategy for the EU and considers that developing new cross-border payment solutions is crucial for European competitiveness, while all payment solutions should provide an adequate level of consumers' protection and be beneficial to the end-user.*

Macro-prudential framework in banking

The macroprudential framework in banking set up after the global financial crisis ensured that the EU banking sector was much more resilient at the onset of the COVID-19 crisis than it was in 2008. Macroprudential policy in banking was also part of the policy mix adopted to limit the impact of the shock caused by the pandemic. Selected macroprudential requirements introduced before the crisis were relaxed in the course of 2020 to provide the banking sector with capital relief, thereby enhancing banks' ability to absorb losses, while maintaining the provision of key economic services. While the EU banking sector has so far maintained lending to households and enterprises, the main impact of the pandemic on bank balance sheets has not materialised yet because of public support measures.

At the end of 2019, twelve Member States had set a non-zero countercyclical capital buffers (CCyB). However, in 2020 ten of those Member States announced the release or reduction of their CCyB rates because of the economic challenges posed by the pandemic. In 2020, eight Member States also decided to reduce the buffer rates for some other systemically important institutions (O-SIIs) or to extend the phase-in period for the O-SII buffer. In most cases, these decisions aimed to mitigate the impact of the COVID-19 crisis. To limit the effects of the pandemic, six Member States adopted additional borrower-based measures or tightened/relaxed measures already in place to address vulnerabilities stemming from the real-estate sector. At the end of 2019, systemic risk buffers (SyRBs) were used in thirteen Member States, however, five Member States released or reduced their SyRBs in 2020 and one decided to postpone the introduction of the SyRB.

The Commission, the ESRB and the EBA continuously monitor the use of macroprudential measures and their compatibility with the free movement of capital.

⇨ *With input from the relevant authorities, the EFC will continue to carefully consider the measures taken by Member States to address macro-prudential risks in the banking sector in order to ensure that their application does not unduly impact the free movement of capital and the economic recovery.*

5. GLOBAL DEVELOPMENTS

UK Withdrawal from the EU

The UK's exit from the Single Market has not triggered financial stability issues or significant disruptions. It appears that market participants did prepare for this change. The relationship with the UK on financial services will be organised through a non-binding regulatory cooperation framework. Key tools will be unilateral and autonomous equivalence decisions. The Joint Declaration on Financial Services Regulatory Cooperation commits the EU and the UK to settle on such a framework by March 2021.

In September 2020, the EU granted a temporary equivalence in the area of central clearing until mid-2022 to fence off financial stability risks. This decision allows the European Securities and Markets Authority (ESMA) to recognise UK central counterparties (CCPs). At the same time, the EU underlined the need for the industry to reduce the exposure of EU clearing members to UK CCPs. In November 2020, the Commission granted a temporary equivalence for central securities depositories (CSDs) for 6 months, so that Irish market participants can migrate securities to an EU CSD.

A dedicated chapter in the partnership agreement liberalises capital movements and payments relating to the transactions liberalised under the FTA, subject to certain exceptions. The partnership does not cover investment protection or investor-to-state dispute settlement.

- ⇨ *The EFC will continue to monitor the possible market impact of Brexit and supports the conclusion of a Memorandum of Understanding setting up a financial regulatory forum between the EU and the UK. The EFC considers that Member States should be closely involved in the setting up and in the discussions of the EU-UK regulatory forum.*

Libor transition

Announcements by the Financial Conduct Authority (FCA) of the United Kingdom and the administrator of LIBOR have made it clear that LIBOR will be wound down in most of the currencies and tenors for which it is calculated by the end of 2021, with other tenors and currencies of LIBOR to follow in 2023.

In order to avoid the negative consequences of the cessation of LIBOR in the EU, a political agreement was reached in December 2020 on a legislative initiative granting the Commission the power to designate a contractual replacement for a benchmark in cessation. The legislative amendments entered into force in February 2021 and will ensure continued orderly functioning of contracts that reference such a widely used benchmark and, consequentially, financial stability and the well-functioning of financial markets in the Union.

EU contribution to global developments on capital movements and payments

As the Lisbon Treaty granted the EU exclusive competence for the regulation of FDI, the Commission engaged in an ambitious negotiation agenda that covers investment liberalisation and protection as well as investment dispute settlement in free trade agreements. The EU is willing to increase market access, through Free Trade Agreements (FTAs) with third countries, as well as through stand-alone investment agreements.
Negotiations for a comprehensive agreement on investment with **China** were launched in 2014 and concluded, in principle, in December 2020. Wider trade agreements with **Singapore** and **Vietnam** entered into force in November 2019 and August 2020 respectively.

In June 2019, the EU reached political agreement with **Mercosur** on a trade agreement. The negotiated text is in legal revision and, after translation into the official EU languages, will be submitted to the Council and the European Parliament for approval. Negotiations to update the trade aspects of the Association Agreement with **Chile** have been ongoing since 2017. Two rounds took place in 2020 and negotiations will continue in 2021. Agreement in principle on trade arrangements was reached with **Mexico** in 2018. Once legal scrubbing and translation of the negotiated text are finalised, the agreement will be submitted to the Council and the European Parliament for approval.

The EU launched negotiations for FTAs with **Australia** and **New Zealand** in 2018. In 2020, three rounds of negotiations were held with each counterparty. Negotiations with **Indonesia** have been ongoing since 2016. One virtual round took place in 2020.

In October 2019, the Commission launched negotiations on the deepening of the Economic Partnership Agreement with **the Eastern and Southern African countries**. Two rounds of negotiation have taken place so far.

In 2020, the EU participated in **World Trade Organization** (WTO) negotiations on a multilateral framework on investment facilitation for development. The framework would build on measures such as transparency for investment conditions and opportunities, and streamlined administrative procedures for investment. Liberalisation and protection are not covered.

July 2020 saw the first of three rounds of negotiations for the modernisation of the **Energy Charter Treaty** (ECT).

The EU has one of the world's most open investment regimes: collectively the Member States have the fewest restrictions on FDI in the world. However, in some cases non-EU investors might seek to acquire strategic assets. In response to such concerns, a number of Member States have introduced investment screening mechanisms. Putting in place appropriate screening mechanisms is key to preserve critical assets and industries in EU and the economic sovereignty of the EU. The EU-wide cooperation on screening provided for in the 2019 FDI Screening Regulation has applied since 11 October 2020.

The global public health challenge caused by the COVID-19 crisis has revealed important vulnerabilities relating to the resilience of critical industries in the EU. In March 2020, the Commission issued guidance to Member States on protecting the EU's strategic assets ahead of the full application of the FDI Screening Regulation in view of serious concerns as to the protection of EU healthcare capacities and the volatility of European stock markets, which threatened to trigger a sell-off of critical EU assets.

According to the Member States' notifications, 17 had set up mechanisms to screen investments in order to safeguard public security or public policy interests (Denmark, Germany, Slovenia, Spain, France, Italy, Latvia, Lithuania, Hungary, the Netherlands, Austria, Poland, Portugal, Romania, Finland, Malta and Czech Republic).

- ⇨ *The EFC welcomes the conclusion of Free Trade and investment agreements with third countries and trading blocks and the adoption of an EU-wide coordination framework for screening incoming FDIs, which is key to the EU open strategic autonomy.*

Investments in real estate and agricultural land

Following Article 63 TFEU, all unjustified restrictions on capital movements between Member States as well as between Member States and third countries should be removed. In the real estate sector these transactions include acquisitions, rights of usufruct, easements and building rights. The EU's free movement of capital rules allow Member States to temporarily apply restrictions to the Treaty freedom.

For the acquisition of agricultural land, Member States may maintain, during a transition period, derogations from the free movement of capital rules as foreseen in their Accession Treaties. Some Member States adopted new laws on the acquisition of agricultural land following the expiry of their transition periods. However, the Commission has found some to be discriminatory and overly restrictive. Since 2015, it has taken legal action against Bulgaria, Hungary, Lithuania, Slovakia and Latvia. Lithuania and Slovakia have since then aligned their laws with EU legislation, and the Commission has hence closed the respective infringement procedures in 2019. Croatia is the only Member State for which a transition period still applies. This period has been extended to 30 June 2023.

- ⇨ *The EFC welcomes the reduction of barriers to investment in the real estate and agricultural sectors in the EU, and welcomes the Commission's work in monitoring the situation and pursuing infringement cases where appropriate, taking into account the Commission's Interpretative Communication on the Acquisition of Farmland of 12 October 2017.*

6. CONCLUSIONS

The EU economy faced unprecedented challenges in 2020. A robust banking surveillance framework built over the previous decade safeguarded financial stability and helped more resilient banks absorb the shock and maintain financing to the economy since the start of the COVID-19 crisis. In that context, completing the Banking Union is of the utmost importance.

Policies promoting more integrated capital markets will be more crucial than ever in steering the benefits of a massive recovery plan, unlocking additional funding. A genuine CMU would also contribute to a stronger international role of the euro.

The EU will have to balance its deeply-rooted openness to foreign capital flows with its efforts to protect strategic assets. It will actively pursue its digital finance agenda with the aim to strengthen technological sovereignty and establish the right framework for avoiding the misuse of these new technologies. The EU will also implement the Green Deal and continue to establish a sustainable finance framework in order to channel financial flows to 'green' investments.

- ⇨ *The EFC supports the digital finance and green finance agenda. It encourages the deepening of the CMU, notably to reap the full benefits of the Recovery and Resilience Facility. The EFC also considers that the completion of the Banking Union is crucial. The implementation of these policies will contribute to the free movement of capital and the freedom of payments, thus underpinning the EU single market as an attractive market for safe and sustainable long-term investments, and fostering the use of the euro as an international currency.*