BUSINESSEUROPE

THE DIRECTOR GENERAL

Mr Ioannis Stournaras
Minister for Finance
Hellenic Republic
Ministry of Finance
Kar.Servias 10
GR - 10562 Athens
GREECE

30 April 2014

Dear Sir,

FINANCIAL TRANSACTION TAX

It has been now 14 months since the Commission made a proposal to implement enhanced cooperation for a Financial Transaction Tax among eleven Member States. This period has provided the opportunity to further analyse the potential impact of such a tax on the EU economy. A wide variety of independent studies have supported the original findings of the Commission's impact assessment that such a tax would have a significant negative impact on investment, growth and jobs on the EU economy.

- The FTT will increase the cost of raising finance for investment in the EU given higher transaction costs and lower market liquidity for corporate bonds and equity. London Economics estimates the FTT could, in the long-run, result in a 3.6% drop in business investments and a reduction of 1% of GDP. The FTT would impact at a time when many EU companies are already financially constrained, with EU investment as share of GDP having fallen from 22% before the crisis to its present level of 17%.

- Similarly, Oliver Wyman suggests that non-financial companies would face annual costs of €8-10Bn as a result of the tax. Imposing the tax on government bonds would also raise financing costs by an estimated €15-20Bn annually.

- As well as resulting in higher unemployment, millions of pension fund holders across the EU will ultimately bear a large proportion of the cost of the FTT. Blackrock suggested that the original FTT proposal could mean that a worker who invested €10,000 in a pension fund from the age 40 would pay €15,000 in tax if they invest in an actively managed European equity funds.

It is an equal concern that independent studies, such as that by Deloitte, suggest the FTT will not improve financial stability in the EU and may even have a detrimental impact on current efforts to improve resilience and stability of the financial sector. Many central banks' high representatives have warned about the detrimental impact the FTT would have on banks' liquidity management, in particular by killing the repo market which is so important for banks' refinancing operations, with the risk of being pushed back to ECB liquidity provisions. While already affecting alternative funding routes to bank loans, the FTT will also affect credit supply, by making it harder for increasingly constrained banks to meet stricter liquidity and capital requirements.

AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279

BUSINESSEUROPEa.i.s.b.l.

WWW.BUSINESSEUROPE.EU

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: MAIN@BUSINESSEUROPE.EU
EU Transparency register 3978240953-79

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We understand that, on recognition of some of these concerns, discussion between participating Member States have focussed on the possibility for the scope of the tax to be narrowed, with the potential for a further widening left open as part of a step-by-step implementation. BUSINESSEUROPE would continue to be concerned by such an approach. The EU economy while recovering remains fragile, with long-term growth prospects well below potential. European leaders need to send a clear message across the globe that they are focussed on restoring investment, growth and jobs to our continent, that Europe is open for business. Even a narrowly scoped FTT will still have a negative impact on growth and jobs, while leaving the door open for further taxation through a step-by-step approach risks creating unnecessary uncertainty for investors.

I trust you will ensure that these points are fully reflected in your discussion. I believe the only sensible conclusion for those of us who want to see a job-rich recovery in the EU is for the FTT to be taken off the agenda.

Yours sincerely,

Markus J. Beyrer