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THE DIRECTOR GENERAL

Mr Zbyněk Stanjura
Minister for Finance of the Czech Republic and President of the Economic and Financial Affairs Council
Government of the Czech Republic
nábřeží Edvarda Beneše 4,
118 01 Prague 1
CZECHIA

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Dear Minister,

Extraordinary Tax Measures

I write to you regarding current developments and discussions to limit gains from rising interest rates and high energy prices by imposing temporary extraordinary tax measures at national level to offset the impact of a worsening cost-of-living crisis.

Taxes on energy companies following high oil and gas prices, and banks, following the rise in interest rates, are on the political agenda across Europe. In the March REPowerEU communication, the European Commission suggested to Member States a so-called windfall tax on 'infra-marginal' profits made by some electricity generators, and Italy has already introduced a windfall tax on energy company profits. Other Member States are seeking powers to set a tax on banks for windfall profits made from net interest and fees charged to clients because of higher interest rates, Poland and Romania allowed homeowners to suspend mortgage payments, and Hungary already introduced a bank tax.

BusinessEurope is worried about these national initiatives and measures. European companies are focussing on finding solutions to deal with the immediate consequences of the war in Ukraine and remaining supply disruptions linked to the COVID crisis. Governments and authorities, at EU and national level must do their utmost to avoid imposing new burden on companies to preserve EU economic leverage. This requires making sure that all EU policies help to bring stability and support sustained growth and employment in an increasingly uncertain economic environment.

With inflationary pressures continuing to rise, the ECB has set out further steps towards the normalisation of monetary policy. All players need to be vigilant to the growth of inflationary expectations. Europe's banks have waited for a long time for higher interest rates during the long period when rates were negative. It is reasonable to expect that a normalization of interest rates will allow the interest margin to return to levels that will allow profitability to be restored above the cost of capital, overcoming the anomalous situation due to the coexistence of negative interest rates in recent years.

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A specific tax levied on banks may affect financial stability and the ability to lend to companies. This view has been endorsed by the ECB, which, in ruling on other similar initiatives, concluded that "using the proceeds of any ad hoc taxes imposed on banks for general budgetary purposes would be undesirable to the extent that such taxes would place undue burdens on banks" and, furthermore, specifies that "the introduction of the tax should be carefully considered with regard to its impact on the profitability of affected financial institutions and thereby on their internal capital generation capacity which in turn affects both their resilience to adverse shocks and the ability to extend credit and support the real economy".

Financial market stability is fundamental for the EU economy and European companies. This includes ensuring that banks can properly finance the economic recovery and twin transition and ensuring that EU firms are not put at a competitive disadvantage compared to their peers.

Windfall taxes on energy companies' profits, such as proposed by the European Commission might impact the ability of some electricity generators to make necessary investments (investors may require higher risk premium) and risk distorting the market in the long-term. In addition, there will be difficulties in identifying 'excess' profits on high energy prices, and a clear methodology at EU-level would need to be considered. This methodology should also take into account existing profit taxes at the national level which already have a cushioning effect on profits by nature.

Faced with the huge challenges linked to the war in Ukraine while still dealing with the consequences of the COVID crisis and carrying out the demanding but necessary green and digital transitions, the EU should avoid imposing new burden on companies and focus on how to quickly adjust its policies to this new reality. The best way to build a resilient economy and minimize economic risks for both European companies and citizens is to strengthen the European Single Market and to develop a proactive growth agenda that supports the competitiveness of European companies.

We hope that you share these concerns and remain at your disposal should you wish to discuss this further.

Yours sincerely,

Markus J. Beyrer

CC: Paschal Donohoe, President of the Eurogroup and Minister for Finance of Ireland
Paolo Gentiloni, Commissioner for Economy
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