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Dear readers,

The time designated for the Czech Republic's EU presidency has come to an end, bringing an opportunity to evaluate and reconcile everything that was accomplished over its course. We have devoted attention to this topic several times in previous issues of the EU News Monthly Journal.

Overall, it can be concluded that, considering the fact that we are a "newbie", our presidency ended more than satisfactorily, especially with regard to the work that was accomplished. However, the fall of the government and certain other events, which actually had nothing much to do with the presidency's actual performance, did not contribute to its media image.

The most important event in June was the European Council Summit, presided over by Czech Prime Minister Jan Fischer. The Summit was dominated by economic and institutional themes and, given the circumstances, it can be considered very successful from the perspective of professionalism.

As far as the media are concerned, the most anticipated event of the Summit was meeting Ireland's requirements for obtaining, its approval of the Lisbon Treaty.. The Summit also discussed the consequences and manifestations of the economic crisis and included a debate on the topic of climate change.

The European Council also voiced justified apprehension about the medium-term fiscal development of practically all the EU's member states and called for the need to maintain a strong commitment to healthy public financing (as far as the short-term is concerned however, it will surely remain unheard).

In addition to the European Council Summit, EU events were dominated by the elections to European Parliament. The Group of the European Peoples' Party (Christian Democrats) and European Democrats came out of it with a significant lead over of the Party of European Socialists, which came in second. Results at the national level in the Czech Republic came out comparably. The Civic Democrats received the highest number of votes and CSSD was second. The interests of Czech citizens will also be defended by representatives from the Communist Party of Bohemia and Moravia and the Christian Democratic Party.

June also witnessed the full start of discussions on who will fill the top elected positions in the European Union bodies. In the case of the President of the European Commission, the current incumbent – José Manuel Barroso from Portugal - has the greatest chance of being elected. He received the unanimous support of the leaders from all of the EU's member states at the European Council Summit. The post of the president of the European Parliament will not start to be officially discussed until the first constitutive meeting of Parliament takes place in mid-July.

Petr Zahradník

The European parliamentary elections brought surprising results, when the centre-right Group of the European Peoples' Party (Christian Democrats) ended quite a bit ahead of the Party of European Socialists (PES). The Czech Presidency launched the decision-making process for selecting the president of the new European Commission. At the European Council Summit, current President José Barroso received the unanimous support of the leaders from the member states.

POLITICS

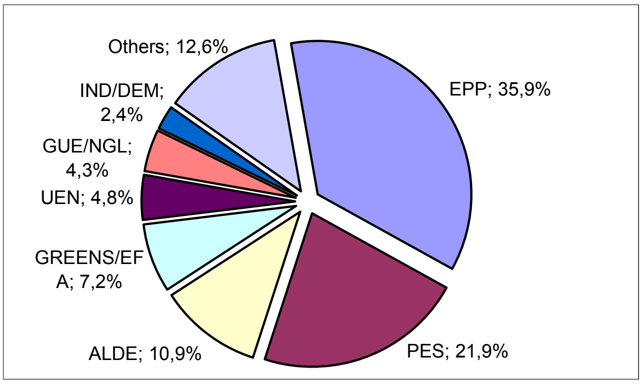
European Elections Bring Victory to the Right Wing

European parliamentary elections, which, for the first time in history, took place simultaneously in all twenty-seven member states of the European Union, **ended in a convincing victory for the centre-right Group of the European Peoples' Party** (Christian Democrats) and European Democrats (EPP-ED) over the Party of European Socialists (PES). The third largest group remains the Alliance of European Liberals and Democrats (ALDE), which attained 83 parliamentary seats. The Green Party came in fourth with 50 seats and the Union for a Europe of Nations (UEN) obtained 25 mandates. The borderline leftist Confederate Group of the European United Left / Nordic Green Left (GUE/NGL) won 36 mandates.

The four-day long European elections finished off with a long night. For the first time in the thirty-year history of direct elections to the European Parliament, the citizens of all 27 EU member states voted for their MEPs at the same time. With their votes, voters decided on **the future composition of the 736 member assembly for the coming five years.**

In spite of the fact that the powers of the European Parliament have been consistently growing since the very first election in 1979 (also strengthened by the new Lisbon Treaty), participation in elections continues to decrease and voters generally see them as a way of punishing their governments for the policies they implement at home. Whilst 62% of all voters participated in the 1979 elections, this number was 45% in 2004 and **decreased even further to 43% this year.**

Results of the 2009 European elections



Source: European Parliament

The **success of more extremist parties**, such as the Movement for a Better Hungary (Jobbik), the Dutch Party for Freedom led by Geert Wilders, the Austrian Freedom Party (led in the past by Jörg Haider) and the Greater Romania Party, are also somewhat surprising.

In the Czech Republic, the Civic Democrats dominated the European parliamentary elections and with the 31.45% of all votes that they received, came in with nine percentage points more than CSSD, which came in second. Representatives from the Communist and Christian Democrat parties will also travel to Brussels. In the Czech Republic, the same number of voters turned up at the election ballot boxes as five years ago – 8% (2.37 million) of all those entitled to vote.

Results of the 2009 European elections in the Czech Republic

party	votes	seats
ODS	31,5 %	9
ČSSD	22,4 %	7
KSČM	14,2 %	4
KDU-ČSL	7,6 %	2
Suverenita	4,3 %	-
SZ	2,1%	-
SNK-ED	1,7 %	-
NEZ	0,5 %	-
Others	15,8 %	-
Total	**100,0 %**	**22**

Source: European Parliament

The results of the European parliamentary elections also brought about a change in parliamentary factions. Our ODS joined together with the British Conservatives and the Polish Law and Justice Party and created **a new political grouping that calls itself the "European Conservatives and Reformists Group".** In its own words, this grouping holds pre-European but anti-federalist views. In order for the new grouping to meet EP rules, it accepted one MEP apiece from five small political parties from Belgium, Finland, Hungary, Latvia, and the Netherlands. Shortly after this step was taken though, the new grouping lost its Finnish member. If one more individual were to abandon the faction, it could not function independently (an independent MEP faction must consist in 35 MEPs from at least seven member states).

http://www.elections2009-results.eu/cs/new_parliament_en.html

Summit Supports Barroso for Second Working Term

At the June Summit of the European Council, the member states voiced their **unanimous support for retaining José Manuel Barroso as the President of the European Commission** for an additional five-year term. Barroso must now convince the European Parliament to support his repeat appointment and, according to accessible information, this will not be an easy task.

"I'm extremely proud of the unanimous support I received," said Barroso at a recent press conference. Barroso admitted that he was moved by the support he received from all the member states. He added that he has "a feeling that the **work of this Commission was recognised,**" he added.

Shortly prior to the European summit, José Manuel Barroso took an unprecedented step when he addressed a letter to the top representatives of the member states and governments and **outlined his perception of how he would lead the European Commission over the next five years** and asked for their support for a second term. Barroso broke with tradition by taking this step, whereby the heads of the member states selected the new leader of the European Commission after a closed discussion.

President Barroso outlined the two main priorities to which he would like to devote attention during his second mandate. **Priority number one consists in resolving the financial and economic crisis.** The second priority is to conclude international agreements on climate change at the meeting that will take place in Copenhagen this December. He did not, however, say anything about long-term challenges and plans.

The Czech Presidency, which will be followed by the Swedes, then started discussions with the various political factions in the European Parliament and **will strive to negotiate support for Barroso.**

Parliament should **address the issue of selecting a new chief for the European Commission at its first session in mid-July.** At this time, the Socialists, Greens and Liberals have started escalating a campaign against his reappointment. Sources close to the parliamentary discussions provided information that MEPs might be willing to back down in exchange for leadership positions in important parliamentary committees.

http://ec.europa.eu/commission_barroso/president/pdf/speech_20090618_en.pdf

Lisbon Treaty One Small Step Closer to Ratification

At the European Council Summit, European leaders **reached a compromise on the Irish guarantees** that should ensure that the Irish will say "yes" to the Lisbon Treaty the second time around this autumn.

The approved guarantees attempt to satisfy Irish demands and prevent **a repeat of the ratification process in some other member states of the EU-27**, which is something the British delegation feared.

In addition to guarantees pertaining to **military neutrality, employee rights, ethical issues, and taxation,** it would be useless to search the text for mention of the fact that each member state will retain its commissioner – this was already included in the conclusions from the December Summit of the EU-27.

As stated by Czech Prime Minister Jan Fischer, **the guarantee changes "not a dot or comma" of the Lisbon Treaty.** "The approved guarantees are sufficiently fixed and also legally binding, as they were approved by the heads of state of the member countries. It is important to mention that these guarantees are not only for Ireland, but, for example, in relation to taxation they also apply to the other states," said Fischer.

If ratification of the Lisbon Treaty reaches a successful conclusion this autumn, discussions will start on resolving the specific manner in which the political obligations of European statesmen will be "remoulded" into a legally binding form. The guarantees are interpretative by agreement, nevertheless during the approval of future accession agreements (most likely with Croatia), **it is assumed that they will be "tagged onto" this document,** which will of course go through the parliamentary approval rounds.

The second Irish referendum on the Lisbon Treaty **is scheduled for 2 October**.

The Lisbon Treaty overcame one other hurdle on its way towards full ratification. **The German Constitutional Court ruled that the Lisbon treaty is compatible with German Constitution, but only if the roles of both chambers of Germany's parliament** are strengthened through legislation. This will require approval of the German parliament in order to transfer additional powers to the community level (comparable to the "special mandate" in place in the Czech Republic). The German government has already made it known that it will present the proposed amendment soon.

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/CS/ec/108634.pdf

On 1 July, Sweden took over the burden of the country presiding over the European Union. In its most recent report on the status of public financing in the EU member states, the European Commission issued a warning against disproportional public budget deficits, which it will be necessary to bring back into balance quickly once the economic recovery process starts. Based on a report published by the European Commission, average car prices in the EU went down by 3.1% in real numbers.

Sweden Becomes EU's New Presiding Country

Sweden's Minister for European Union Affairs, Cecilia Malmström and Foreign Minister, Carl Bildt **presented the political priorities for the Swedish Presidency of the EU.** On 1 July, the Kingdom of Sweden assumed leadership of the European Union for the coming six months and will thus be able to influence the activities and course of the entire EU-27.

Sweden will have to face a number of challenges – primarily **pertaining to the uncertainty of institutional questions in the EU and the impacts of the economic crisis.** The Scandinavian country is also preparing for the summit on climate change that will be held in Copenhagen and the primary task of which is to present the document that will replace the Kyoto Protocol.

Further EU enlargement is not one of the ambitious points included in the Swedish programme. Nevertheless, Sweden hopes that this autumn the EU will publish the requirements for granting visas to the countries that meet the requisite conditions. Most likely, these include Macedonia, Montenegro and Serbia.

Foreign Minister Carl Bildt also warned that his country **does not intent to participate in resolving any bilateral conflicts.** This is in relation to the border dispute between Croatia and Slovenia, the long-standing argument between Greece and Macedonia in relation to the latter country's name, and the tension between Russia and Ukraine with regard to gas deliveries.

Minister for European Union Affairs Cecilia Malmström did not conceal her conviction that the coming six months will not be a walk in the park for the presiding country. The programme of main points that Sweden intends to attain during the designated timeframe also include the **battle against global climate change.** This topic will be the subject of the UN conference that will be held in Copenhagen in December.

The current economic crisis also presents **challenges associated with resolving growing unemployment and budget deficits** in the member states, and is included on the Swedish Presidency's agenda.

Other topics mentioned by both ministers included **Turkey's possible membership in the EU,** the institutional changes that will come with the Lisbon Treaty and the current situation in Iran.

http://www.se2009.eu/en/meetings_news/2009/6/22/bildt_and_malmstrom_on_the_priorities_for_the_swedish_eu_presidency

BUDGET

Commission Warns Against Disproportionate Fiscal Stimuli

In its newest report on the state of public financing in the EU, the European Commission is trying to convince the governments that if their anti-crisis fiscal measures are to be effective, they **must be followed by a clear strategy that will return public financing to normal once the economy recovers.**

The European Union's member states plan **on supporting their economies over the course of 2009 with fiscal stimuli that total 1.1% of the GDP.** Specific levels of support do, however, vary from state to state. Whilst Spain (2.4%), Austria (1.8%) and Finland (1.7%) intend to pour the most resources into their economies, other countries, such as Belgium and Slovakia, plan to support their economies from the public budget to a much lower degree (0.4% and 0.1% of the GDP respectively). The Czech Republic and its 1% of the GDP are slightly below the European average.

If the effects of automatic stabilising elements are included, public finances can support the European economy in the extent of approximately 5% of the GDP over the 2009-2010 timeframe, **which corresponds to more than EUR 600 billion.** This information was provided in the regular Report on Public Expenses published by the European Commission.

Fiscal stimulus measures in 2009 and 2010 by Member State

% GDP	2009	2010	% GDP	2009	2010
Spain	2.3	0.6	Poland	1.0	1.5
Austria	1.8	1.8	Netherlands	0.9	1.0
Finland	1.7	1.7	Portugal	0.9	0.1
Malta	1.6	1.6	Slovenia	0.6	0.5
Germany	1.4	1.9	Ireland	0.5	0.5
Sweden	1.4	1.6	Belgium	0.4	0.4
UK	1.4	0.0	Denmark	0.4	0.8
Luxembourg	1.2	1.4	Estonia	0.2	0.3
EU-27	**1.1**	**0.7**	Cyprus	0.1	0.0
CR	**1.0**	**0.5**	Slovakia	0.1	0.0
France	1.0	0.1			

Source: European Commission, figures for 2010 is expressed towards 2008, i.e. they contain measures which came into force in 2009 and other effects which will come into force in 2010. For Bulgaria, Greece, Hungary, Italy, Lithuania, Latvia and Romania the net fiscal effects are neutral.

The Commission, however, **brings attention to the fact that once the economy recovers, the governments must move away from extraordinary fiscal measures as quickly as possible.**

According to the Commission, increasing indebtedness, resources for rescuing the financial sector in some countries, the estimated increase in expenditures due to the ageing population, and the anticipated slower tempo of economic growth all raise **apprehension about the sustainability of public budgets.**

We agree with the European Commission's apprehensions. At the time when the financial crisis was in the deepest phase last autumn and panic dominated amongst investors, rescue measures on the part of European governments were necessary. The use of certain stimulating instruments of the type that were implemented at the end of last year and the start of this year for supporting the supply and demand sides of the economy is also justifiable. Their **effectiveness is, however, limited – from the perspective of time, as well as in relation to confidence amongst businesses and consumers** that the governments have the situation under control and once the economy starts rebounding from the bottom, they will be able to bring the public budgets back into balance.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/982

INTERNAL MARKET

European Commission Reports: Car Prices in the EU Decreased by 3.1% Last Year

Based on a report published by the European Commission at the start of June, **the prices of personal automobiles were lower** in January 2009 as compared to January of 2008 **in twenty-three of the twenty-seven member states.** The average decrease (taking into account the nominal prices paid by consumers, including VAT and registration fees) was 1.3%. If we consider that the average inflation rate was 1.8%, then the actual decrease in car prices attained an average level of 3.1%.

This number is adjusted for the development of inflation and is thus a real decrease. According to the European Commission, the primary reason for this trend is the current economic crisis.

The overall decline was accompanied by **increasing differences in prices amongst individual member states.** This is also explained by the economic crisis, which led to countries outside of the Eurozone to weaken their domestic currencies in relation to the euro in conjunction with a decline in purchasing tendencies on the part of consumers and overall demand.

Car prices in the Eurozone did not decrease as drastically in the entire EU **and the real decline was only 0.9%.**

The greatest real drop in prices in the Eurozone was recorded in Slovakia (-10.9%), followed by Finland (-7.3%) and Slovenia (-4.6%). In the new member states, real prices decreased by 6.9%, whereby the greatest drops occurred in Latvia (-14.7%), Estonia (-14.2%) and the Czech Republic (-13.0%).

Average price of Škoda Octavia Ambiente 1,6/75 kW in January 2009 in euros

Luxemburg	13 305	**CR**	**11 864**
Germany	13 151	Romania	11 813
Malta	13 092	Hungary	11 350
France	12 916	Bulgaria	11 307
Spain	12 841	Slovenia	11 257
Slovakia	12 808	Latvia	11 002
Belgium	12 787	Finland	9 916
Italy	12 683	Lithuania	9 911
Ireland	12 648	Estonia	9 440
Austria	12 313	Sweden	9 040
Cyprus	12 164	Poland	9 031
Netherlands	11 871		

Source: European Commission, prices are without VAT, figures for Greece, Portugal, Denmark and UK are not available

In absolute terms, within the Eurozone **the least expensive cars can, on average, be purchased in Finland** (prices are an average of 6.7% lower than the EMU average), Greece and Slovenia. When the entire EU is considered (after converting prices to euros) they can be purchased in those counties whose domestic currencies weakened the most. The list is led by Great Britain, followed by Sweden and Poland.

http://ec.europa.eu/competition/sectors/motor_vehicles/prices/report.html

FINANCE

EU Agrees on a Regulatory Framework for the Financial Markets

The European Council voiced its support for the new rules for supervision over the financial sector after the leaders of European countries assured Britain that the European supervisory authorities will not be able to place binding requirements on countries with regard to how they

The energy ministers from the member states approved new rules on the mandatory crude oil supplies that member states must maintain for emergency use. The European Commission is preparing a new Transport White Paper, which is intended to resolve the greatest challenges in this particular sector in relation to climate change, the ageing population and gradual urbanisation.

manage their budgetary resources (e.g., they cannot order bank restructuring).

The new rules for supervising the financial sector **are intended to prevent a repeat of last year's financial crisis,** which shook the banking sector, required massive state expenditures for rescuing banks and pitched Europe into a deep recession.

The supported objective that the European Commission placed on the table this May anticipates the division of supervision over financial markets into two parts**. Systemic risks will be the responsibility of a new institution, specifically the European Systemic Risk Board (ESRB),** which will "monitor and assess potential threats to financial stability and, if required, issue warnings on risks as far as recommendations for additional measures and subsequently monitor their implementation".

As far as specific institutions are concerned, they will be watched over by new colleges comprising the **national supervisory authorities from all the countries that are united in the European System of Financial Supervisors (ESFS)** and in which the specific financial institutions operate. The framework of these colleges provides for the exchange of information as well as the coordination of control activities. In addition, the ESFS will also coordinate the tasks of three other institutions (for the banking sector, insurance sector and pensions funds), which will also be newly established from already existing Union committees. They will adopt binding decisions in those cases when the national supervisory authorities deviate from the common European rules in force for all financial institutions and if the colleges cannot reach an agreement with regard to any international institution.

The European Commission will now start working on the proposal for the actual legislation. They should submit it by no later than the start of this autumn. The new rules should start to be effective in 2010.

http://www.eu2009.cz/cz/news-and-documents/press-releases/prvni-den-summitu-eu-prinesl-shodu-v-klicovych-otazkach--25461/

ENERGY AND TRANSPORT

Ministers Reach an Agreement on Emergency Crude Oil Supplies

The Council of Energy Ministers has approved **new rules pertaining to the emergency crude oil stocks** that each member state is required to maintain for crisis situations. This consists of three legislative proposals aimed at energy effectiveness and where the Agency for the Cooperation of Energy Regulators (ACER) will be located.

This February the Czech Presidency launched the discussion on **the directive on emergency oil stocks,** which is a part of the energy safety and effectiveness package introduced by the Commission last autumn. The directive assigns the member states the obligation to maintain certain minimum supplies of crude oil and petroleum products (whereby this second category should make up one-third of the reserves) and establishes the rules that must be applied if they are released during an emergency.

"Thanks to the directive, oil stocks will be more transparent and more precise information will be available on existing stocks of crude oil and petroleum products. This will enhance Europe's energy security in the event of a major disruption of oil supplies," said Vladimír Tošovský, the Czech Industry and Trade Minister.

Emergency stocks should be at least at a level **equal to either the net imports of crude oil over a 90-day period, or 61 days of average domestic consumption.** Only the higher of these two amounts is taken into account.

The Council also discussed the future location of the **Agency for the Cooperation of Energy Regulators (ACER),** however, the ministers did not reach an agreement on this point. Slovakia, Slovenia and Romania all expressed interest in hosting the ACER.

In addition, the ministers discussed **the report on the advances that have been made in the preparation of the three directives included in the legislative package focused on energy efficiency.** Such issues as labelling electrical appliances, tyres and the energy efficiency of buildings were discussed.

http://www.eu2009.cz/cz/news-and-documents/press-releases/ministri-pro-energetiku-se-dohodli-na-nouzovych-zasobach-ropy--25208/

The Commission Presents its Vision for the Future of European Transport

According to the European Commission, transport should be better integrated after 2010. **The main driving force for its development should be new technology** that will be sustainable and will meet user requirements.

The message in which the European Commission formulates its vision for the future of transport up to 2020 should, in the European executive's eyes, call forth a public discussion that **will culminate in the adoption of a new Transport White Paper next year.**

According to European Transport Commissioner Antonio Tajani, even though it is not anticipated that Europe's population will increase dramatically, **ageing and gradual urbanisation will require special measures in the area of transport.**

Based on the Commission's estimates, 84% of Europe's inhabitants will reside in cities by 2050. This will **lead to more frequent traffic jams and greater ecological problems.**

From the perspective of environmental protection, **the greatest challenge is more than likely decreasing greenhouse gas emissions** – transport is still 97% dependent on fossil fuels. The Commissioner went on to say that an important component of this strategy therefore consists of respecting the goals that have been set for 2020. Overall, in 2020 the Union should be producing 20% of all energy from renewable sources. This goal cannot be met, however, unless innovative technologies are used, according to Tajani. Based on his words, Europe must continue researching safer and more reliable vehicles that will run using alternative energy resources.

It is possible to send the Commission comments on its message in the form of public consultations up through the end of this September. They will be analysed and the results presented in the autumn. A new Transport White Paper will follow in 2010, which **will contain more specific recommendations on the form that transport directives should take during the 2010 to 2020 timeframe.**

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/936

EMPLOYMENT AND SOCIAL AFFAIRS

The Commission Has a Plan for the Unemployed

The European Commission has presented **a plan for jump-starting the EU labour market,** on which it intends to spend EUR 19 billion.

The unemployment rate in the Union is soaring upwards quickly and is already at record heights. **It climbed all the way to 9.2%** in the Eurozone **and it is expected that it will increase even further.** A number of labour market experts are bringing attention to the fact that there are still millions of jobs available in Europe, but that a high number of unemployed individuals do not have the right skills for the contemporary economy. For this reason, the European Commission came up with a gigantic plan for assisting the unemployed, for which it has estimated expenditures of about EUR 19 billion.

The plan that was presented includes such items **as loans to entrepreneurs, a number of requalification programmes** aimed primarily at the young unemployed and small and medium-sized enterprises. The Commission also intends to make investments towards improving the information provided to the unemployed about available jobs.

"This crisis started in the financial sector but its effects are now being felt by everyone," said Vladimír Špidla, the EU Commissioner for Employment. "We have been working closely over recent months with national governments and with workers' and employers' organisations on the best ways to tackle the social impacts of the crisis. In particular, **we need to focus on getting young people into work,** and we must not let them miss their entry into the labour market," he added.

The European Commission's initiative might present a small helping step; however without any more marked recovery of the Union's economy, unemployment will continue to rise. It is a question as to whether it would not be more beneficial for the labour market **to relax the quite often rigid labour legislation and reform the pension and social systems,**

The European Commission is considering the temporary repeal of the rule that requires member states to use national public resources for co-financing projects that receive support from the European Social Fund. The ministers of the environment have agreed on the form of the directive on preventing and limiting pollution (IPPC)

which would make it possible to decrease social security contributions and thus lead to less expensive labour costs.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/859

REGIONAL POLICY

Commission Plans Temporary Interruption of Co-Financing for ESF

At the start of June, the European Commission proposed a rule for this year and next, requiring member states to add co-financing from their national budgets to the resources received from the European Social Fund which were repealed due to the ongoing financial crisis. Starting in 2011, the rule would once again be applied.

Specifically at this time, when the bad economic situation combined with fiscal stimuli for improving it are resulting in the radical worsening of public financing in the member states, this relaxation of the rules might be beneficial.

The level of co-financing provided from national public resource varies from state to state in relation to specific need and ranges from 15% to 30%. For the CR, 15% co-financing was negotiated for the 2007-13 programme period.

The Czech Ministry for Regional Development has thus far expressed a cautious opinion on the proposal. “At this point it is not an official proposal. According to Daniel Braun, the director of the ministry’s department responsible for the administration and coordination of the National Strategic Reference Framework, the Commission must first present it officially and then it will be discussed at the Council level. “We are currently analysing it and we see certain risks. We must, however wait, for the actual proposal,” he stated.

The proposal has already been discussed by the European Union’s Employment, Social Policy, Health and Consumer Affairs Council (EPSCO). “I think this measure is important. It did meet with majority support, however, I would like to say that some objections were raised as well,” said Commissioner Vladimír Špidla after the meeting. The Czech News Agency cited Špidla as saying that some of the ministers fear that the proposal might lead to disrupting the balance amongst member states or possibly individual countries might request funding for lower quality projects if the co-financing obligation is not in place.

Now it is the Commission’s turn. It must prepare the actual amendment to the applicable regulation that governs the use of resources from the European Social Fund.

http://europa.eu/rapid/pressReleasesAction.do?reference=COR/09/62

ENVIRONMENT

Agreement on Industrial Pollution Reached by the Council

The ministers of the environment **have agreed on the form of the directive on preventing and limiting pollution (Integrated Pollution Prevention and Control, or IPPC),** which will replace seven existing directives.

The new legislation will bring the most changes for large combustion plants. Sizable modifications will also be made to the integrated prevention system. **On the other hand, the member states refused a significant increase in the number of facilities that will fall under IPPC jurisdiction.**

Thus far, however, the directive has not won the support of the MEPs, who feel that it does not provide sufficient guarantees for decreasing dangerous emissions due to the benevolent approach taken by certain member states with large industrial installations. For this reason, **Parliament proposed** in March **that binding emission limits** (“safety nets”) **should be set,** which would be given priority over the rules that ensue from the referential documents founded on the BAT principle.

Discussions on IPPC amongst the member states were truly complex and thus it **cannot be anticipated that the member states will accede to the European Parliament’s wishes in any significant manner** when searching for a compromise solution with regard to IPPC.

The main contextual changes, as compared to the rules set forth in the current seven directives, were made primarily in relation to the integrated prevention system and large combustion plants. In the first case, these consist primarily in **stricter measures pertaining to soil and groundwater protection.** As far as the second is concerned, the Czech Presidency successfully pushed through **a provision whereby polluting combustion plants will receive only a time-limited exception for a certain period** before they have to comply with stricter regulations.

There will also be greater control in relation to inspections at facilities that have already received permits from the authorities. **Member states will be obligated to prepare inspection plans** (these will take place once every year or once every two or three years – according to the level of risk associated with specific facilities).

http://www.eu2009.cz/cz/news-and-documents/press-releases/ministri-zivotniho-prostredi-eu-budou-rozhodovat-o-podobe-smernice-o-prumyslovych-emisich-25638/

The time allocated to the Czech Presidency expired at the end of June, justifiably bringing an opportunity to assess and reconcile all that was accomplished during its course. An evaluation of the historic first presidency of the Czech Republic over the Council of the European Union is the theme of our special commentary.

THE EUROPEAN COUNCIL'S SUMMIT AND THE CZECH PRESIDENCY

A country's ability to lead the key meetings of European councils to a satisfactory conclusion is generally considered to be the most important of the objective criteria that can be used to determine how successful or unsuccessful a country's presidency over the Council of the EU was. Over the course of a presidency there are usually no more than three, which then represent the true peak moments of presidential performance. The European Council Summit in June, which was dominated by economic and institutional topics, can then be considered to have been very successful professionally, given the current configuration of influences. Let us briefly review what specifically was covered and the conclusions that were reached.

From the perspective of the media, more than likely the most eagerly anticipated point of June's European Council Summit came in the form of accommodating Ireland's requirements, on the basis of which it will be possible for it to approve the Lisbon Treaty. Although the effects of this step are primarily of an institutional and procedural nature, they nevertheless also have obvious economic consequences, especially with regard to adaptability and flexibility in adopting decisions and the EU's ability to act as a single unified entity towards other global economic centres.

The heads of state and governments thus took on legal guarantees proposed as a result of the ongoing apprehension of the Irish population with regard to the contents of the Lisbon Treaty – guarantees pertaining to such areas as the right to life, family and education; jurisdiction in tax matters; and security and defence measures.

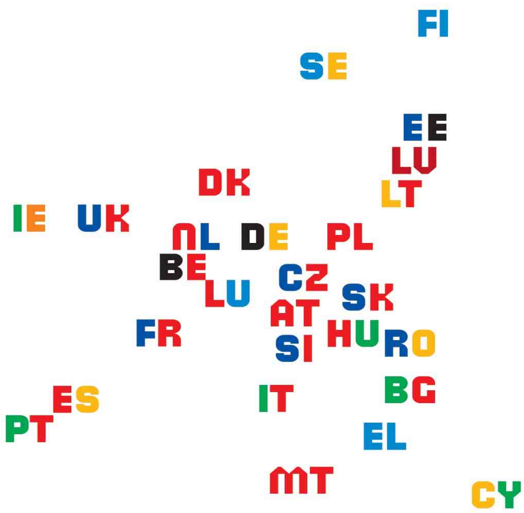
The Summit also addressed the consequences and manifestations of the economic crisis, primarily from the perspective of its actual and anticipated impact on citizens. It discussed the evaluation of measures that have been adopted thus far for supporting the banking and financial sectors and the real economy (cautiously evaluated as successful) and started preparing others, primarily in relation to creating a new financial architecture and pertaining to the supervision of financial intermediation processes.

The goal is to protect the European financial system against future risks and provide guarantees that the mistakes of the past cannot be repeated. As far as this particular matter is concerned, the European Council's positive opinion on establishing the European Systemic Risk Council is most significant. The primary mission of this council is to monitor and assess potential threats in relation to financial stability. The proposal for creating a new structure for European supervisory authorities is also important.

Top priority was given to establishing instruments that will assist in dealing with aspects of employment during times of crisis – both for employees who retain their jobs, as well as for those who are searching for new work. The updated version of the European Economic Recovery Plan remains the primary starting point for measures aimed at the real economy. In addition to regulatory and structural measures, it also anticipates significant budgetary support of up to 5% of the Union's GDP for the 2009-2010 timeframe.

In relation to this, the European Council expressed justifiable apprehension with regard to medium-term fiscal development in practically all of the EU's member states and called for the need to maintain a strong commitment to healthy public financing (as far as the short-term is concerned however, it will surely remain unheard). Specifically, very dim perspectives for deficit levels in the next two years, with significantly more long-term negative impact in the future, led to a search for methods on how to revisit the topic of fiscal discipline – hand-in-hand with gradual economic recovery at the start of the next decade. Some things that were considered include setting absolute expense limits and determining maximum bearable thresholds for the difference between deficits and real economic performance in individual states.

Another very important dimension of the June Summit was the debate on climate change, which is another factor that greatly influences the parameters for a sustainable economic development model and the creation of new jobs.



Diary

The European Commission is considering the temporary repeal of the rule that requires member states to use national public resources for co-financing projects that receive support from the European Social Fund. The ministers of the environment have agreed on the form of the directive on preventing and limiting pollution (IPPC)

2 JUNE

Statistics: Significant country differences in adult learning: http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-09-044/EN/KS-SF-09-044-EN.PDF

Climate change: Commission welcomes fall in 2007 greenhouse gas emissions for third consecutive year: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/851

Yearly Change of Greenhouse gas emissions in CO2

Denmark	-6.2%	Romania	-1.0%
Slovakia	-4.1%	Ireland	-0.7%
Austria	-3.9%	Netherlands	-0.5%
Belgium	-3.9%	Poland	-0.1%
Hungary	-3.7%	Slovenia	0.7%
Portugal	-3.4%	**CR**	**1.2%**
Luxembourg	-2.9%	Cyprus	1.6%
Germany	-2.4%	Spain	2.1%
Sweden	-2.2%	Malta	2.3%
Finland	-2.0%	Greece	2.9%
France	-2.0%	Latvia	3.5%
Italy	-1.8%	Bulgaria	5.9%
UK	-1.7%	Lithuania	8.1%
EU-27	**-1.2%**	Estonia	14.8%

Source: European Commission; data for year 2007

3 JUNE

Social protection expenditure in 2006, EU27 spent 26.9% of GDP on social protection: http://ec.europa.eu/social/main.jsp?langId=cs&catId=89&newsId=517&furtherNews=yes

Commission's study finds out that European 20% renewables target can give jobs to 2.8 million people: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/861

4 JUNE

Commission adopts guidance on training aid and aid to disadvantaged and disabled workers: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/863

5 JUNE

A benefit of a financial nature intended to facilitate access to employment: http://europa.eu/rapid/pressReleasesAction.do?reference=CJE/09/48

8 JUNE

Justice and Home Affairs Council Meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/jha/108356.pdf

Raising awareness in the event of disasters: http://www.consilium.europa.eu/showFocus.aspx?id=1&focusId=376&lang=en

9 JUNE

Agriculture and Rural Development: No change for rosé wine: http://ec.europa.eu/agriculture/newsroom/en/347.htm

EU Roaming Regulation clears final hurdle: Council paves way for cheaper roaming prices as of 1 July: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/880

10 JUNE

Economic and Financial Affairs Council meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/108392.pdf

11 JUNE

New rules on state aid to ship management companies: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/900

ECOFIN adopts Council Conclusions on climate change: http://ec.europa.eu/economy_finance/thematic_articles/article15369_en.htm

EU and Canada start negotiations for economic and trade agreement: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/896

European Commission outlines its vision for the area of freedom, security and justice in the next five years: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/894&format=HTML&aged=0&language=CS&guiLanguage=en

12 JUNE

Transport, Telecommunication and Energy Council meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/trans/108411.pdf

Environment: Bathing water quality improving in the EU: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/903

15 JUNE

EESC calls for a wide-ranging EU-US air transport agreement: http://eesc.europa.eu/activities/press/cp/docs/2009/communique-presse-eesc-083-2009-en.doc

16 JUNE

External Relations Council meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/gena/108525.pdf

17 JUNE

EU-Ukraine Cooperation Council: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/108533.pdf

"Clean Sky" Joint Technology Initiative launches a €25 million first call for proposals for research on cleaner air transport: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/925

18 JUNE

Excellent take-up by Member States for first year of School Fruit Scheme: http://ec.europa.eu/agriculture/newsroom/en/349.htm

Statistics: 79 million EU citizens were at-risk-of-poverty in 2007, of whom 32 million were also materially deprived: http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-09-046/EN/KS-SF-09-046-EN.PDF

Shaping transport policy for the future: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/936

19 JUNE

External Relations Council meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/gena/108525.pdf

Parental leave: revised Framework Agreement: http://ec.europa.eu/social/main.jsp?langId=cs&catId=89&newsId=526&furtherNews=yes

European Commission calls for an open, independent and accountable governance of the internet: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/951

22 JUNE

Brussles European Council: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/108622.pdf

Blue Card opens door to recruiting highly-skilled foreign workers: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=3206

Completing administrative procedures electronically: European Commission to boost cross-border services by means of up-to-date technology: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/967

23 JUNE

Auditing: Commission consults on possible adoption of international standards for statutory audit of EU companies: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/975&

Achievements of Europe's Regional Policy 2004-2009: http://ec.europa.eu/regional_policy/policy/impact/pdf/legacy_2009_en.pdf

Tax revenue and implicit tax rates by type of economic activity: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-22062009-AP/EN/2-22062009-AP-EN.PDF

24 JUNE

Agriculture and Fisheries Council Meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/agricult/108682.pdf

25 JUNE

Commission adopts guidance on in-depth assessment of regional aid to large investment projects: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/993

Reinforcing cooperation between Europe and Africa:

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/989

26 JUNE

Commission acts to enforce the Directive on working conditions in the international rail sector: http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=541&furtherNews=yes

The European Commission requests Spain to change its tax provisions related to the exchange of shares: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1019

29 JUNE

Adoption of an opinion reaffirming the fundamental principle of free movement of workers: http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=543&furtherNews=yes

30 JUNE

Environment Council Meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/envir/108792.pdf

Quarterly report on the euro area - June 2009: http://ec.europa.eu/economy_finance/thematic_articles/article15481_en.htm

Commission calls on Member States to implement new guidelines for improving Single Market: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1051&format=HTML&aged=0&language=EN&guiLanguage=enhttp://ec.europa.eu/justice_home/news/intro/news_intro_en.htm

In this chapter, we focus on certain selected observations that we consider to be important with regard to the impacts on the real economic sector in the EU member states and in relation to the enlargement process. We will strive to outline the level to which the preliminary expectations of the new member states with regard to the enlargement process are reflected in their growth performance. The main topic of this issue is loosely tied to the main theme of the May issue of the EU News Monthly Journal.

FIVE YEARS IN THE EU – IMPACT ON INDIVIDUAL SELECTED AREAS OF REAL ECONOMY

DOPADY NA EKONOMICKÝ RŮST

In this section we will focus on selected observations which we consider important with respect to the impact that EU enlargement had on the real economic sector in the new EU member states. We will strive to outline the level which initial expectations of the enlargement process in the new member states were met in their growth performance. It has been confirmed that growth in these countries did increase considerably after their accession to the EU. Economic expansion was primarily a result of improvements to the capital base and structure, as well as productivity growth and, up until 2008, made it possible to narrow the income (performance) gaps between the new and old member states. Likewise, the old member states profited from the enlargement process, in particular those that increased their direct foreign investments and trading volume with the new member states (this applies primarily to Austria, Italy and Germany; and then with regard to the Baltic States, the northern countries of Denmark, Sweden and Finland).

Another significant reason for economic acceleration in the new member states can be attributed to strong, up to above-average, domestic demand which became apparent primarily in construction and the financial services sectors. In addition, there was a radical shift in investment structure, which heralded a change in overall economic structure, ranging from the processing industry (primarily machine building) to services and the construction (which was dominated by housing and, in some countries, the construction of public infrastructure, which took place, for the most part, in the transport sector).

In 2008, a new question entered into this particular discussion: How long will the break in monitored indicators, which was introduced during this specific year, remain given that the crisis has impacted that the apparent “catching-up” strategy along with the hitherto trajectory path? The growth adjustment between the old and new parts of the EU was sharply interrupted. Nevertheless – it might seem that, even in spite of the economic decline, the course of relative real convergence and development will not come to a halt. It is coming to light that– at least for the time being –the average rate of decline in the old members is higher than in the new members (especially when compared to the Visegrad Four). It will also strongly depend on the ability to accelerate economic growth during the recovery period and support it with investments founded on qualitative parameters, productivity and a highly-qualified workforce.

It was anticipated that enlargement would be beneficial for all the member states, but especially for the new acceding states – partially due to their smaller economic size and strength as compared to the old member states. Furthermore, the impact of enlargement would be proportionally more significant, due their lower level of development, which would lead towards a continuation of the convergence process.

Increased intensity of trade and business relations; strong inflows of direct foreign investments; a lower level of risk premiums; higher effectiveness as the result of adopting integrated market mechanisms; strengthened macroeconomic stability; and implemented structural reforms that were stimulated either directly or indirectly by membership in the EU were all considered to be the most significant factors behind these positive results.

A European Commission Study prepared by its Directorate General for Economic and Financial Affairs (DG ECFIN) in 2001 projected the annual additional growth potential for the new member states to be between 1.3% and 2.1% for the 1994 to 2009 timeframe, while the potential positive impact of the EU’s enlargement to the east of the old member states was estimated to be between 0.5 to 0.7% per year.

The impact on the old member states varied in specific cases, whereby those that are geographically and otherwise closer to the newbies are profiting from the enlargement the most. The resulting improved options for trade and investment contributed approximately 0.5% to Germany’s subsequent GDP growth, 0.6% in Austria, and 0.5% in the case of both Italy and Denmark. In addition, over a longer timeframe, it is more than likely that this share will increase even more thanks to the return rate on long-term investments (especially in the case of the smaller older members of the Union).

Five years prior to the time the 2004 new member states acceded to the Union, their average per capita GDP expressed at standard purchasing power parity (as the basic indicator for monitoring the development of real convergence over time) was at approximately 40% of the level in the EU-15. In 2008, it was at 52%. The greatest performance improvement was reported by the “super-newbies” – Bulgaria and Romania – where the relative level of income was more than 75% lower than the EU-15

average, but currently it has increased to be more than one-third of the EU-15 level. The lowest income gaps are reported by Cyprus, Slovenia, the Czech Republic, and Malta, whereby this gap is even smaller than in the case of Portugal, where it is more than 30% below the average of the old member states. In addition, it is more than likely that once the current crisis is over, the situation will be such that it will significantly scramble the sequence of real convergence progress and some economic newbies will gain a firmer foothold amongst the old member states.

During the 1999 to 2008 timeframe, all of the member states were able to significantly narrow their performance gap with

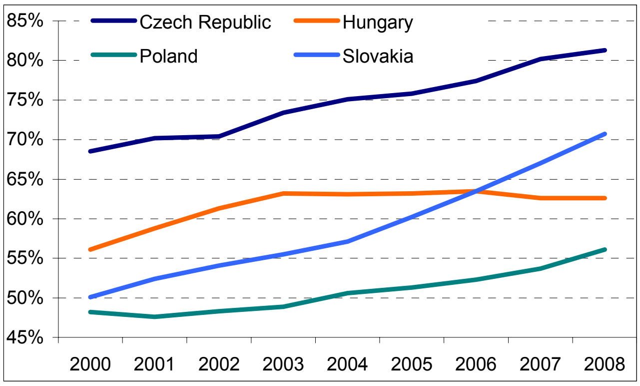
Real Convergence Using the Visegrad Group and its Regions
(*Per capita* GDP as a percentage of the EU average)

Ø EU-27 = 100; NUTS II Regions	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Czech Republic	**70.4**	**73.4**	**75.1**	**75.8**	**77.4**	**80.2**	**81.3**
Prague	147.6	153.9	154.5	158.5	162.3		
Central Bohemia	67.2	69.2	71.3	69.8	73.0		
Southwest	64.0	66.9	69.6	69.9	71.2		
Northwest	56.3	60.0	60.9	60.4	61.1		
Northeast	61.6	62.8	63.9	64.3	64.7		
Southeast	63.7	66.6	67.2	67.5	69.3		
Central Moravia	56.4	58.3	59.5	59.3	60.1		
Moravia-Silesia	54.1	56.7	61.4	64.2	64.6		
Poland	**48.3**	**48.9**	**50.6**	**51.3**	**52.3**	**53.7**	**56.1**
Lodz	44.1	45.1	46.6	47.2	48.0		
Masovia	74.5	76.0	77.1	81.3	83.6		
Lesser Poland	41.3	42.0	43.2	43.8	45.4		
Silesia	52.6	53.2	56.9	55.4	55.5		
Lublin	34.0	34.5	35.1	35.1	35.3		
Subcarpathia	33.8	34.6	35.3	35.4	35.8		
Swietokrzyskie	37.2	38.2	39.1	38.4	39.8		
Podlaskie	37.3	37.1	37.8	38.0	38.4		
Greater Poland	50.1	51.2	54.4	54.9	55.1		
West Pomerania	47.4	46.3	47.0	47.7	47.7		
Lubusz	42.4	42.3	45.2	46.3	46.5		
Lower Silesia	49.8	50.0	51.5	53.0	56.0		
Opole	39.0	38.8	43.5	42.5	42.1		
Kuyavia-Pomerania	44.0	43.8	45.2	44.8	45.7		
Warmia-Masuria	36.8	38.6	39.3	39.3	39.5		
Pomerania	48.2	48.1	49.4	50.4	51.5		
Hungary	**61.3**	**63.2**	**63.1**	**63.1**	**63.5**	**62.7**	**62.9**
Central Hungary	99.5	99.9	99.6	103.0	105.5		
Central Transdanubia	54.3	58.9	60.1	59.4	57.6		
Western Transdanubia	63.9	68.8	66.0	62.7	63.8		
Southern Transdanubia	45.2	45.7	45.2	43.8	42.9		
Northern Hungary	39.2	40.9	42.1	41.6	40.7		
Northern Great Plain	40.1	42.0	41.6	40.2	40.1		
Southern Great Plain	43.3	44.0	44.3	42.9	42.1		
Slovakia	**54.1**	**55.5**	**57.1**	**60.2**	**63.5**	**67.0**	**70.7**
Bratislava	122.4	124.8	129.0	146.6	148.7		
Western Slovakia	49.4	51.9	54.1	56.8	62.8		
Central Slovakia	45.5	45.9	46.6	46.5	49.2		
Eastern Slovakia	41.1	41.3	42.1	43.0	44.0		

Source: Eurostat

regard to the EU-15, i.e., come closer economically – with the exception of Malta, where the difference remained approximately the same. A similar phenomenon can be seen in the case of Hungary if we focus on the timeframe starting with accession to the EU. Over this period of time, Hungary's relative position has not changed in any profound manner, meaning that its level of catching up has been minimal and characterised more by stagnation particularly in the Hungarian situation. Over the same 1999 to 2008 timeframe, as far as the old EU member states are concerned,Italy's position worsened visibly (and after a year it is now possible to consider Italy as only being an average – and statistically speaking even a slightly below-average – developed EU country). On the one hand Germany's position, in spite of strong ties to the newly acceding countries and their economies, stagnated, whilst on the other, Luxembourg, Ireland and Greece significantly improved their relative positions.

Real convergence - GDP/cap in PPS (EU-27 = 100 %)



Source: Eurostat

These results unambiguously show that countries with lower starting per capita GDP levels tend to grow faster (within the Visegrad Group this is confirmed especially in the case of Slovakia, but can also be seen in Poland) and thus visibly come closer to the EU average.

From the perspective of the new member states, at the current time it is crucial to monitor and ensure that the essentially satisfying development of catching up to the EU average is also accompanied by balanced economic development within individual countries. As can be seen from the table, the process of regional real convergence is by far not as convincing. Especially in the case of Hungary it is not difficult to identify regions with divergent economic development starting at the time of that country's entry to the EU. It is thus appropriate to focus attention on ensuring that certain goals are met, specifically goals such as those that are monitored by EU cohesion policy – i.e., to ensure that economic and social differences within one country move together towards catching up and attaining average EU values. It is possible to lay down a hypothesis that the speedy economic development of a country can, as a whole, be accompanied by internal regional disparities.

This hypothesis can be founded on, amongst other things, the argument that in the very early phases of strong economic development there is a tendency for capital and a qualified workforce to be concentrated in only one or a few regions in a developing country, which will consequently dominate the country's overall economic growth, however at the expense of pulling back people and limiting the attainment of satisfactory capital income in regions that are not accelerating economic centres.

During the next phase, thanks to the influence of synergetic effects and fiscal transfers, more balanced development can be ensured even for "unprivileged" regions. This is yet another reason why – in addition to cohesion policy – it makes sense to consider a balanced division of investment activities within a country, primarily with regard to the focus and location of primary foreign investments.

This scenario introduces new determining criteria with regard to the new member states. Regional disparities within a number of them have deepened. On average, these disproportions are higher in the new member states as compared to the old. Amongst the Visegrad countries (and amongst all the EU-27 countries) regional differences have deepened the most in Slovakia – primarily due to the allocation of direct foreign investments in a relatively small number of locations. Regional differences have, however, also deepened under conditions of significant economic growth in all of Slovakia's regions.

Likewise, regional differences are considerable in the Czech Republic as well. Once again, however, they were attained during a period of generally strong economic dynamics recorded in the majority of regions. Furthermore, the extent of regional differences is given by the eminent position held by Prague, which is the tenth most developed region out of approximately 280 NUTS II regions in the entire EU-27. In Hungary, regional differences are as a whole comparable to the average level in the new EU member states. Relative regional cohesion is, however, accompanied by divergent manifestations in a relatively high number of Hungarian regions. When it comes to the relative regional distribution of economic maturity, the greatest level of homogeneity has been attained in Poland; however, of the members of the Visegrad Four, this country distinctly has the lowest absolute per capita GDP values.

Given the above, we can conclude that economic catching up in all of the new member states continues to be dominated by a relatively limited number of regional development centres ("islands of prosperity"), whereas the majority of the old member states rely on more balanced and equilateral growth and development.

It is also of interest to identify the areas and structures in which the process of economic catching up has been most visible. Capital expansion and increased productivity both represent significant forces that have pulled towards growth. The same applies to investments – first in the industrial sector and later also becoming significantly apparent even in the services sector. Nevertheless, it also appears that a portion of the catching-up process was supported by enormous demand, financed by cheap credit, which expanded the economy's supply potential quite significantly.

This process – not so much in the countries of the Visegrad Group, but rather in the Baltic States – led to a sharp reversal in the perspectives for real convergence within economies that are facing marked structural and macroeconomic imbalances.

GDP growth in an enlarged EU was approximately one-tenth of a percentage point higher during the 2004 to 2008 timeframe as compared to the 1999 to 2003 timeframe. While average growth in the old member states remained at 2.2%, it increased significantly in the new member states – from 3.4% during the 1999 to 2003 period up to 5.6% during the 2004 to 2008 period. This growth was attained through higher domestic demand, which was partially accompanied by the negative contribution made by net exports to economic growth (when increased demand was to a large degree ensured by increased imports). On the other hand, in the old member states the structure and components of growth essentially remained stabilised.

GDP Growth and its Main Components (in %)

	New Member States		Old Member States	
	1999-03	**2004-08**	**1999-03**	**2004-08**
GDP growth	3.4	5.6	2.2	2.2
Private consumpt.	4.0	5.5	2.5	1.7
Public consumpt.	3.1	2.3	2.2	1.8
Investments	2.0	10.2	2.3	3.4
Exports	8.7	11.8	4.8	5.7
Imports	7.9	12.4	5.0	5.6
contribution to GDP Growth				
- domestic demand	3.4	6.4	2.2	2.1
- net exports	0.0	-0.8	0.0	0.1

Source: Eurostat

After enlargement, the increased rate of domestic demand in the new member states was pulled forward by private consumption followed primarily by massive investments, i.e., the creation of gross fixed capital, whilst government and public consumption remained lower and more conservative. At the same time, the very positive effects exports had on growth were on average, negatively compensated and thus in actuality erased by the even greater increase in imports.

The creation of macroeconomic imbalances as a result of domestic demand's greater dependency led to the subsequent slowdown in economic expansion. In 2008, worsened financial conditions combined with the psychology of an economic downturn let to deteriorated growth performance in the majority of new member states. At first in those that had the most visible extent of imbalances and structural flaws (the Baltic States and Hungary).

The old member states also enjoyed the benefits of an accelerated wave of investments. However, its positive impact on GDP was hindered by a slowdown in private and public consumption. After enlargement, growth in the old member states continued to be supported by exports, the level of which exceeded imports.

Five years after enlargement, average GDP growth in the new member states continued to be the highest in the three Baltic economies. After enlargement, Estonia was replaced as one of the three fastest growing economies by Slovakia. (Currently however, these countries are reporting the greatest level of decline, thus they are losing the position they attained through the real convergence process over the past approximately eight years in quite a considerable manner). Whilst over the course of the pre-accession period the contribution that domestic demand made towards growth exceeded 6% in only three new member states (Bulgaria, Latvia and Estonia), an additional four countries became members of this group after accession (Lithuania, Romania, Slovakia, and Poland).

In addition to Slovakia, the group of countries that were reporting a positive contribution towards growth on the basis of net exports during the pre-accession period included only Poland, Cyprus and Slovenia. After enlargement, the Czech Republic and Hungary joined the list.

Thus whilst the three Baltic States, together with Romania and Bulgaria, were relying primarily on growth pulled forward by domestic demand during the period following accession to the EU, during the same period the Central European countries (the Czech Republic, Hungary and Slovakia) relied on a more balanced composition of growth factors.

SECTOR COMPOSITION OF GROWTH

Within a market economy that functions closer to the ideal, in the long run the most productive economic sectors expand and the less profitable ones are weakened – both from the perspective of their output volume, as well as their input (labour, production capacity, etc.).

In the old member states, growth was pulled forward considerably by the financial services sector. This particular sector gained in significance and its contribution to the Gross Value Added indicator increased from 0.8% to 0.9%. It is possible to identify a group of countries in which improvement was pulled forward by the industrial sector, e.g., Germany, where industrial value added increased by 1.4% annually prior to expansion and by 4.1% after the accession of the new member states in 2004.

Contributions to Growth by Sector
(in %, year-on-year growth)

	New Member States		Old Member States	
	1999-03	2004-08	1999-03	2004-08
Gross Value Added	**3.4**	**5.5**	**2.2**	**2.4**
Agriculture	0.1	0.0	0.0	0.0
Industry	1.0	2.0	0.5	0.5
Construction	-0.1	0.5	0.1	0.1
Services	1.1	1.7	0.6	0.5
Financial Services	0.7	1.0	0.8	0.9
Public Services	0.5	0.3	0.4	0.3

Source: Eurostat, European Commission

In the new member states, the acceleration in these sectors was markedly more pronounced. The contribution made towards growth by the industrial sector, which was at only 1% prior to enlargement, increased to 2% during the post-enlargement period. In a comparable manner, private services contributed 1.8% to Gross Value Added prior to enlargement and reached an average level of almost 2.8% after 2004.

The great increase of value added by the industrial and service sectors in the recently acceded members is a visible sign of a shift between sectors, which is a characteristic for the adaptation and catching-up process. Even before enlargement, the industrial sector in the new member states started gaining in significance and subsequently more productive technologies started to be transferred from the old EU member states.

At the same time, considerable resources were moved to the visibly developing services sector. The associated speedy expansion of credit allocated to households resulted in the fact that construction reported a great contribution towards growth– however – taking worsening financial conditions into account – the continuation of this development is most likely not sustainable in the coming years.

By comparing the sector lines between some of the old and new member states (given and strengthened primarily though direct foreign investments and the inclusion of companies from new member states in international industrial groups), the rapid growth reported in the new countries had a spiralling effect, which has already come to light in some of the EU's old member states. At least two structures can be identified amongst the Baltic States and the northern countries, and also in Central Europe.

Sector Lines in Selected Regions

(in %)	**Northern Countries**		**Central Europe**	
	Finland Sweden	Estonia Lithuania Latvia	Austria Germany	CR Hungary Poland Slovakia
Total Output				
1999 – 2003	2.92	5.91	1.48	3.05
2004 - 2008	3.81	8.90	2.13	5.35
Agriculture				
1999 – 2003	0.04	0.09	0.00	0.08
2004 – 2008	0.09	0.06	0.02	0.15
Industry and Construction				
1999 – 2003	1.33	1.82	0.23	0.81
2004 – 2008	1.61	2.54	1.03	2.59
Market Services (including financial intermediation)				
1999 – 2003	1.25	3.34	0.98	1.61
2004 - 2008	1.88	5.31	0.95	2.28
Public Services				
1999 – 2003	0.30	0.55	0.25	0.49
2004 - 2008	0.24	0.83	0.11	0.21

Source: Eurostat, European Commission

From the perspective of the effects that the first five years of EU membership have had, mutual trade relations played a very important role, whereby all of the Visegrad Four countries are reporting a very high level of economic openness. The nature of trade relations is strongly accompanied by the nature of direct foreign investments, which go hand in hand with the intensity of business relations.

In July, Sweden takes over the presidential throne from the Czech Republic. The agenda for the Economic and Financial Affairs Council includes a discussion of Ecofin's work programme for the autumn months (the main point will be a plan of restructuring the regulatory framework for financial services), as well as starting preparations for the EU's 2010 budget. The main points of the Agriculture and Fisheries Council meeting will consist in sustainable fishing and the impact of climate change on agriculture.

Meeting of the key EU institutions

6.7.2009 - Eurogroup	**Brussels, Belgium**
6.-7.7.2009 - Informal Meeting of Health Ministers	**Jönköping, weden**
6.-9.7.2009 - Informal Meeting of the EPSCO Council	**Jönköping, weden**
7.7.2009 - Economic and Financial Affairs Council	**Brussels, Belgium**
10.7.2009 - Economic and Financial Affairs Council	**Brussels, Belgium**
13.7.2009 - Agriculture and Fisheries Council	**Brussels, Belgium**
13.-16.7.2009 - EP Plenary Session	**Strasbourg, France**
15.-17.7.2009 - Informal Meeting of Justice and Home Affairs Ministers	**Stockholm, Sweden**
23.-24.7.2009 - Informal Meeting of Energy Ministers	**Åre, Sweden**
24.-25.7.2009 - Informal Meeting of Environment Ministers	**Åre, Sweden**
27.-28.7.2009 - General Affairs and External Relations Council	**Brussels, Belgium**

Public consultation on EU legislation

Topic of the consultation	Organiser	Deadline
New architecture of Financial Supervision	DG MARKT	15.7.2009
Possible revision of the recreational craft directive	DG MARKT	19.7.2009
Review of the Directive on Deposit Guarantee Schemes	DG MARKT	27.7.2009
2012 as European Year for Ageing and Intergenerational Solidarity	DG EMPL	31.7.2009

The statistical window in a tabular form shows important macroeconomic indicators from all member states and the EU as a whole. It includes economic performance indicators (per capita GDP as compared to the EU average, GDP growth, unemployment rate), external economic stability indicators (current account to GDP), fiscal stability indicators (public budget to GDP, public debt to GDP), and pricing indicators (annual inflation based on HICP, base price level).

Key macroeconomic indicators

	GDP growth y-on-y			Current account to GDP*			Unemployment rate			Inflation y-on-y average		
in %	2006	2007	2008	2006	2007	2008	III-09	IV-09	V-09	III-09	IV-09	V-09
Belgium	3.0	2.8	1.1	2.0	1.7	-2.5	8.0	8.2	8.2	0.6	0.7	-0.2
Bulgaria	6.3	6.2	6.0	-18.4	-25.2	-25.3	6.3	6.5	6.5	4.0	3.8	3.0
CR	6.8	6.0	3.2	-2.6	-3.2	-3.1	5.8	6.0	6.1	1.7	1.3	0.9
Denmark	3.3	1.6	-1.1	2.9	0.7	2.0	5.1	5.5	5.7	1.6	1.1	1.1
Germany	3.0	2.5	1.3	6.5	7.9	6.6	7.5	7.7	7.7	0.4	0.8	0.0
Estonia	10.4	6.3	-3.6	-16.7	-18.1	-9.2	12.4	14.0	15.6	2.5	0.9	0.3
Ireland	5.7	6.0	-2.3	-3.6	-5.4	-4.5	10.6	11.1	11.7	-0.7	-0.7	-1.7
Greece	4.5	4.0	2.9	-11.1	-14.2	-14.4	8.7	na	na	1.5	1.1	0.7
Spain	3.9	3.7	1.2	-9.0	-10.0	-9.5	17.3	18.0	18.7	-0.1	-0.2	-0.9
France	2.2	2.3	0.4	-0.6	-1.0	-1.9	9.0	9.1	9.3	0.4	0.1	-0.3
Italy	2.0	1.6	-1.0	-2.6	-2.4	-3.4	7.4	na	na	1.1	1.2	0.8
Cyprus	4.1	4.4	3.7	-6.9	-11.7	-18.3	4.7	5.1	5.3	0.9	0.6	0.5
Latvia	12.2	10.0	-4.6	-22.5	-22.5	-12.7	14.1	15.3	16.3	7.9	5.9	4.4
Lithuania	7.8	8.9	3.0	-10.6	-14.6	-11.6	12.0	12.9	14.3	7.4	5.9	4.9
Luxembourg	6.4	5.2	-0.9	10.4	9.8	5.5	6.1	6.3	6.4	-0.3	-0.3	-0.9
Hungary	4.0	1.2	0.5	-7.6	-6.4	-8.4	9.7	10.0	10.2	2.8	3.2	3.8
Malta	3.3	3.9	2.7	-9.2	-6.1	-6.2	6.8	7.0	7.1	3.9	4.0	3.4
Netherlands	3.4	3.5	2.1	9.3	7.7	7.5	3.1	3.2	3.2	1.8	1.8	1.5
Austria	3.4	3.1	1.8	2.8	3.1	3.5	4.3	4.3	4.3	0.6	0.5	0.1
Poland	6.2	6.6	5.0	-2.7	-4.7	-5.5	8.0	8.1	8.1	4.0	4.3	4.2
Portugal	1.4	1.9	0.0	-10.0	-9.4	-12.1	9.1	9.3	9.3	-0.6	-0.6	-1.2
Romania	7.9	6.2	7.1	-10.5	-13.5	-12.2	6.2	na	na	6.7	6.5	5.9
Slovenia	5.9	6.8	3.5	-2.5	-4.2	-5.5	5.3	5.7	5.9	1.6	1.1	0.5
Slovakia	8.5	10.4	6.4	-8.2	-5.7	-6.6	10.4	10.8	11.1	1.8	1.4	1.1
Finland	4.9	4.2	0.9	4.5	4.1	2.0	7.6	7.9	8.1	2.0	2.1	1.5
Sweden	4.2	2.6	-0.2	8.4	8.6	8.4	8.1	8.5	8.9	1.9	1.8	1.7
UK	2.8	3.0	0.7	-3.4	-2.9	-1.6	7.2	na	na	2.9	2.3	na
EU	3.1	2.9	0.9	-1.3	-1.1	-2.0	8.5	8.7	8.9	1.4	1.3	0.7

	Public budget to GDP*			Public debt to GDP			GDP per capita to Ø EU			Price level to Ø EU		
in %	2006	2007	2008	2006	2007	2008	2006	2007	2008	2005	2006	2007
Belgium	0.3	-0.2	-1.2	87.9	84.0	89.6	118.4	118.0	118.4	106.0	106.2	105.4
Bulgaria	3.0	0.1	1.5	22.7	18.2	14.1	36.5	37.2	39.2	43.1	44.8	46.0
CR	-2.6	-0.6	-1.5	29.6	28.9	29.8	77.4	80.2	81.3	58.4	61.5	62.6
Denmark	5.2	4.5	3.6	31.3	26.8	33.3	122.9	120.0	117.1	139.6	139.2	136.9
Germany	-1.5	-0.2	-0.1	67.6	65.1	65.9	115.7	114.7	115.6	103.7	103.3	103.2
Estonia	2.9	2.7	-3.0	4.3	3.5	4.8	65.3	67.9	65.0	64.6	66.5	71.3
Ireland	3.0	0.2	-7.1	24.9	25.0	43.2	147.3	150.2	143.1	124.8	124.9	126.0
Greece	-2.8	-3.6	-5.0	95.9	94.8	97.6	94.1	94.8	96.5	88.4	89.1	88.6
Spain	2.0	2.2	-3.8	39.6	36.2	39.5	104.0	105.4	104.2	92.0	93.3	93.0
France	-2.3	-2.7	-3.4	63.7	63.8	68.0	109.1	108.9	108.1	107.4	107.3	106.7
Italy	-3.3	-1.5	-2.7	106.5	103.5	105.8	103.8	101.9	99.3	104.0	104.1	102.9
Cyprus	-1.2	3.4	0.9	64.6	59.4	49.1	90.2	90.8	92.5	89.7	90.1	87.7
Latvia	-0.5	-0.4	-4.0	10.7	9.0	19.5	52.5	57.9	55.1	57.1	60.6	65.0
Lithuania	-0.4	-1.0	-3.2	18.0	17.0	15.6	55.5	59.5	60.6	55.1	56.6	59.7
Luxembourg	1.4	3.6	2.6	6.7	6.9	14.7	267.0	267.2	258.4	102.7	103.2	105.1
Hungary	-9.2	-4.9	-3.4	65.6	65.8	73.0	63.5	62.7	62.6	63.5	60.0	65.7
Malta	-2.6	-2.2	-4.7	63.7	62.1	64.1	76.7	77.7	78.9	73.1	73.4	73.2
Netherlands	0.6	0.3	1.0	47.4	45.6	58.2	130.8	130.9	132.2	104.5	103.9	103.1
Austria	-1.6	-0.5	-0.4	62.0	59.4	62.5	124.3	123.8	124.7	101.9	101.2	100.0
Poland	-3.9	-1.9	-3.9	47.7	44.9	47.1	52.3	53.7	56.1	61.3	62.1	63.4
Portugal	-3.9	-2.6	-2.6	64.7	63.5	66.4	76.3	76.2	75.5	85.3	85.7	84.6
Romania	-2.2	-2.5	-5.4	12.4	12.7	13.6	38.3	42.1	44.9	54.3	57.0	64.7
Slovenia	-1.3	0.5	-0.9	26.7	23.4	22.8	87.6	89.2	90.8	75.8	75.3	76.9
Slovakia	-3.5	-1.9	-2.2	30.4	29.4	27.6	63.5	67.0	70.7	55.8	58.3	63.0
Finland	4.0	5.2	4.2	39.2	35.1	33.4	114.8	115.8	115.5	123.3	121.7	121.4
Sweden	2.5	3.8	2.5	45.9	40.5	38.0	121.4	122.2	120.2	117.9	117.5	116.4
UK	-2.7	-2.7	-5.5	43.4	44.2	52.0	120.3	119.0	118.4	110.2	110.8	112.3
EU	-1.4	-0.8	-2.3	61.8	58.7	61.5	103.9	100.0	100.0	100.0	100.0	100.0

*Source: Eurostat, *) net balance, GDP per capita according to PPP*