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Dear readers,

From the beginning of the year, the baton of the Presidency has been in the hands of Spain and the observers can assess for the first time how the symbiosis between the presiding country and the newly established permanent authorities and positions is working, particularly with regards to President of the European Council. So far, many both inside and unfortunately outside the EU are unclear on who is really acting on behalf of the Union. The first consequence of this initial chaos is speculation about the cancellation of the intended May EU – US Summit, where President Obama reportedly did not receive a clear explanation as to who from Europe should be his counterpart during the possible negotiations. We can thus express hope that the benefits of the adoption of the Lisbon Treaty would outweigh the current partial initial embarrassment at the start of its operation.

Concerning January economic events, the media focused on Greece. The long-perceived suspicion proved to be true in January – the official data monitoring the recent developments in the Greek economy began to diverge dramatically from data provided by Eurostat or the private sector. Already last October, the European Commission refused to verify the data provided by Greece for its autumn economic forecast and supplemented its decision with publicly accessible comments. Since then, a wave of speculation spread, accompanied by deteriorating ratings of Greece's ability to meet its obligations. In January, Greece put its cards on the table and admitted that the information published on its economic development was overstated. The related discussion touched the need to establish new and respected rules for the entry and stay in the euro zone and also mentioned the possibilities of leaving it. The situation culminated by the European Commission's adoption of Greece's repeatedly rejected plan to remedy the fiscal situation, which anticipates an ambitious reduction of the deficit rate of nearly 10 percentage points in terms of its relation to GDP over the next three yeats. This resulted in the present calming down of the situation, which, however, may flare up again in this very uncertain period, either because of Greece's failure to fulfil this plan, or because another vulnerable euro zone member would be caught by the fiscal trap.

January was also marked by other relatively heated debates (although virtually all of Europe was groaning under the pressure of snow and severe frost). Based on the detection of a possible case of aircraft terrorism, a very vivid discussion developed on the need of security scanners at airports. Greece can also be mentioned in other context: Greek historian and sociologist Nikiforos Diamandouros was re-elected as European Ombudsman. The process of public hearing – the so-called grilling – of the candidates for the European Commission turned out favourably for the Czech representative Štefan Füle; there was some embarrassment over the fact that experienced Commissioner Olli Rehn was not too competent in the economic and financial portfolio, and Bulgaria was even forced to replace its candidate.

Petr Zahradník

POLITICS

Stefan Füle Scored During MEP Grilling

The Czech Commissioner-designate Štefan Füle was quizzed by the MEPs from the European Parliament's Foreign Affairs Committee for three hours.

In the Commission, Štefan Füle will be in charge of the enlargement and neighbourhood policy, which includes for the **Eastern Partnership policy,** a effort initiated by the Czech Presidency that the Czech candidate wishes to support. Accordingly, most of the questions dealt with the eastern neighbours of the EU and the accession negotiations with Turkey and Croatia.

Füle told the MEPs that he was interested in closer cooperation with the countries involved in the Eastern Partnership programme. He spoke about the establishment of visa-free travel with Bosnia and Herzegovina and Albania already in 2010 and about his intention to work together with non-governmental organisations (particularly in Belarus), and to launch a dialogue with Kosovo.

Füle believes that Turkey's accession to the **EU could be of strategic benefit to both sides.** He respects that there are different views in the European Parliament and he is ready to discuss any of these aspects in any format. He also undertook to back the ratification of the Ankara protocol later this year.

The final applause of a part of both the right and the left wing MEPs suggested that **Štefan Füle left a good impression in the Parliament.** Füle will work closely together with the High Representative of the Union for Foreign Affairs and Security Policy Catherine Ashton, who according to many deputies, was not so well prepared to the hearing held on 11 January as was Mr. Füle. "He didn't talk in phrases and managed to create a pleasant atmosphere. The applause after the end of the hearing was at least two and a half times longer than that of Baroness Ashton," said Slovak MEP for SDKÚ-DS Eduard Kukan.

The enlargement portfolio will be less important during Füle's tenure than in the times of Günter Verheugen, when in 2004, the EU was enlarged by ten new member states including the Czech Republic. By 2014, when Commissioner Füle's mandate expires, the European Union will be enlarged by Croatia and Iceland at the most. Nevertheless, accession steps will continue with Serbia and other Balkan countries (mainly Macedonia), while no substantial progress could be expected regarding the possible accession of Turkey.

http://www.europarl.europa.eu/news/expert/infopress_page/008-67124-011-01-03-901-20100111IPR67123-11-01-2010-2010-false/default_en.htm

Big Plans of the Re-elected European Ombudsman

Nikiforos Diamandouros was **re-elected European Ombudsman** in January. The MEPs elected him by absolute majority of 340 votes and his new tenure will expire in 2014.

The re-elected European Ombudsman **received confidence of an absolute majority of the MEPs** in the yesterday vote. He got 340 out of the 648 valid votes. The other candidates, Pierre-Yves Monette from Belgium and Vittorio Bottoli from Italy, received 289 and 19 votes respectively. Mr. Diamandouros has held the position since 2003, when he finished his five-year's (1998-2003) term as the Greek ombudsman.

The task of the European Ombudsman is to investigate citizens' complaints of EU institutions and authorities. Established in 1995, the Ombudsman can be approached by EU citizens, companies and other organisations based in the EU. According to Diamandouros' 2009 annual report, **the citizens mainly complained about the unavailability of documents in the EU.** About one-third (36%) of the citizens complain of the lack of transparency of the EU administration. According to the official EU data, 66 complaints came to the Ombudsman's address from the Czech Republic in the 2008. That same year, the largest number of complaints was sent by the Germans (546) and the smallest number by Estonians (7).

The re-elected European Ombudsman has outlined his priorities. He will strive to ensure that citizens get the greatest possible benefit from the Lisbon Treaty and the Charter of Fundamental Rights of the European Union. Specifically, he wants to strengthen constructive dialogue with EU institutions and bodies and improve service to citizens by using available resources more efficiently. He also plans to step up cooperation with national and regional ombudsmen and other EU institutions and bodies, such as the SOLVIT system of centres or the Europe Direct network of information centres. The European Ombudsman also wants to improve the visibility of his office through various targeted information campaigns.

Finally, Mr. Diamandouros will seek to accelerate the progress of investigations carried out by his office and develop a more transparent and more accurate method of evaluating the work of his office.

http://www.europarl.europa.eu/news/expert/infopress_page/020-67588-018-01-04-902-20100118IPR67587-18-01-2010-2010-false/default_en.htm

Citizens' Initiative for Adopting EU Legislation

The Spanish EU Presidency has obtained the consensus of all 27 EU countries to set the rules of the so-called citizens' initiative envisaged by the Lisbon Treaty. **A million European citizens from a minimum of nine member states** can call on the Commission to submit a legislative proposal.

Spain has received the support of all 27 member states to push forward the citizens' initiative, said Spanish State Secretary for European Affairs Diego López Garrido. The Lisbon Treaty stipulates only a million citizens of **"a significant number of member states"** and the ministers now agreed on nine states, that is one third of EU members.

The ministers also discussed other aspects of the citizens' initiative mechanisms, such as **the method of checking the authenticity of signatures** or the possible attempts to abuse the initiative by harnessing it for purposes contrary to the Union's values.

The European Citizens' Initiative (ECI) is one of the major innovations in the Lisbon Treaty, which should **strengthen the involvement of European citizens in the development of EU policies** and democratise the EU. Civil society will be able to influence the agenda of the EU for the first time in history.

Definition of the Citizen's Initiative

Article 11(4) of the Treaty of Lisbon stipulates: "Not less than one million citizens who are nationals of a significant number of member states may take the initiative of inviting the Commission, within the framework of its powers, to submit any appropriate proposal on matters where citizens consider that a legal act of the Union is required for the purpose of implementing the Treaties."

The citizens' initiative is one of the achievements of the Lisbon Strategy, which will remove part of the criticism of the democratic deficit in the EU decision-making process. We don't assume, however, that it would be used too much in practice.

http://www.euractiv.cz/evropske-instituce/clanek/milion-obcanu-z-deviti-clenskych-zemi-muze-iniciovat-prijeti-unijni-legislativy-006969

ECONOMY AND EURO

Rehn: No EU Exclusions for Excessive Deficits

The new Finnish Commissioner for Economic and Monetary Affairs Olli Rehn was questioned on 11 January by the MEPs. He said that **European economic recovery depends on closer cooperation** and a more cohesive voice of the EU states on the world economic forums.

Two important proposals were discussed, among others, during his hearing. Rehn proposed to establish an office to supervise the EU financial sector and **a post of an EU representative on international economic forums,** such as G20. He said he would propose the establishment of such a representative during next months.

The idea of establishing the **"High Representative for Economic Affairs"** is not new. The strongest supporters of this idea are France and Germany. Rehn urged the MEPs to approve the creation of the new financial surveillance bodies as soon as possible so that they could start working before the end of summer.

He also encouraged the MEPs to approve the Commission's proposal for the establishment of **the European Systemic Risk Board** (ESRB) and **the European supervisory authorities** (ESAs), so that they could begin working before the autumn 2010. In the field of supervision of the systemic risks, there is a vacuum that we need to fill, the Finnish Commissioner has said to the members of the Economic and Monetary Affairs Committee.

Rehn intends to revive the Lisbon strategy within **the "EU 2020"** plan. He has said that EU 2020 will rely heavily on

the fulfilment of the Stability and Growth Pact, which prescribes the permitted limit of public debt - 3% of GDP.

However, **there would be no sanctions** against the current violators of the Pact (now 20 of 27 member states). When the deputies have asked if it is possible that countries like Greece with anticipated deficit of 12.7% of GDP will be excluded from the Union, Rehn replied that "definitely not".

Greece, however, is subject to other potential sanctions. According to Reuters, the European Commission will start very soon a proceeding with Greece **because Greece fails to provide Brussels with trustworthy statistics in the long term.** The new Greek government has promised to report true debt and deficit of public finance, but it is trusted by hardly anyone after a series of lies. We need not look far into the past. Last April, Athens talked about the expected deficit for the year 2009 of 3.7% of GDP and it became clear in October that it would exceed 12%. More information on Greece can be found in the commentary "Greece's journey from Drachma to Euro and back?" below.

http://www.europarl.europa.eu/news/expert/infopress_page/008-66991-008-01-02-901-20100108IPR66990-08-01-2010-2010-false/default_en.htm

BUDGET

Czech Net Position Towards the EU Reaches Record Levels in 2009

In 2009, the net position of the Czech Republic towards the EU budget reached **the best result since its entry into the EU.** As in previous years, the CR remains a strong net beneficiary from the EU budget. The difference between income and contributions for 2009 reached CZK 42.3 billion, which is a significantly better amount than 2008, when it amounted to CZK 23.8 billion. In terms of the relation to the Czech gross domestic product, CR's income from the EU budget in 2009 reached about 2.2%, and the percentage of net income was 1.2% of GDP.

The decisive role in the CR's positive balance in relation to the EU budget in 2009 was played by **the income from the Structural Funds and the EU Cohesion Fund,** which reached a total of CZK 51.9 billion and formed about two thirds of the CR's total income from the EU budget. Another important item of the CR's income from the EU budget was represented by the funds for the Common Agricultural Policy amounting to CZK 23.2 billion.

As regards contributions to the common EU budget, the largest item is traditionally **the deduction derived from VAT of each member state,** which represented last year CZK 26.78 billion. The VAT resource and the traditional own resources played a negligible role.

Since its joining the EU on 1 May 2004 until 31 December 2009, the CR has paid to the EU budget a total of CZK 182.5 billion and received CZK 280 billion; **the positive balance of the net position reached a total of CZK 97.5 billion.** The strong growth in the CR's net position towards the EU budget in recent years is due primarily to the CR's increasing use of the EU budget, while the CR's contributions to the EU budget are growing at a moderate pace.

The data should not be overestimated since **the main pros and cons of our membership in the EU cannot be categorised in the credit/debit accounting columns.** We can state, however, that in terms of net financing, our membership in the EU has been rewarding.

http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/tiskove_zpravy_52837.html

Net Positon of the CR towards the EU in 2009

	mil EUR	mil CZK
Income from the EU budget		
Structural Actions	**1 962.84**	**51 907.29**
Structural Funds	1 238.97	32 764.59
Cohesion Fund	723.87	19 142.70
Agriculture	**876.04**	**23 166.96**
Direct Payments and Market Op.	509.33	13 469.16
Rural Development	366.72	9 697.80
Internal Policie	**86.95**	**2 299.43**
Pre-accession Instruments	**29.2**	**772.14**
Total Income from the EU	**2 955.03**	**78 145.82**
Contribution to the EU budget		
Traditional Own Sources	167.94	4 441.20
Source derived from VAT	174.17	4 606.00
Source derived from GNI	1 012.70	26 780.90
Total Contribution to the EU	**1 354.82**	**35 828.10**
Net Position towards the EU	**1 600.22**	**42 317.72**

Source: Czech Ministry of Finance, as conversion rate was used the average FX rate in 2009 (source: CNB)

FINANCE

Eurobonds Again on the Scene to Save Greece

The leader of the Socialist faction in the European Parliament Martin Schulz **has revived the discussion on the introduction of Eurobonds,** which should serve mainly to support the weakest members of the Eurozone. The new

Commissioner for Economic and Monetary Affairs Olli Rehn is not against it but Germany does not like the idea.

Martin Schulz's repeated call for **the introduction of common bonds for the Eurozone members** could have hardly surprised anyone. The left-wing MEPs have been gaining support for them since the beginning of the financial crisis at the end of 2008.

The idea of the introduction of Eurobonds is not at all new: **It was proposed** as one of the sources for financing the EU budget in **1993 by the former President of the European Commission Jacques Delors,** and then the Eurobonds were discussed again during the financial crisis last year. However, the idea of Eurobonds was stopped by the then Commissioner for Economic and Monetary Affairs Joaquín Almunia in cooperation with Germany.

The Socialist MEPs (backed unusually by the Liberals) have now found a new pretext for the recovery: They could be an excellent tool to help Greece, which has found itself in serious financial problems, they claim. According to Schulz and Guy Verhofstadt, **the possibility of issuing Eurobonds would help Greece out of a scrape** – it would not have to continue to face the investors' distrust and thus high interest rates on its own bonds. And the whole Eurozone would be relieved.

Moreover, it appears that Eurobonds have a new influential advocate. The new Commissioner for Economic and Monetary Affairs **Olli Rehn says he has no major problem with them.** On the other hand, their introduction would have to be accepted by all euro area countries, including Germany, which, however, has not suggested any change of opinion.

The existence of Eurobonds is anticipating further integration in the fiscal area. If individual states would finance their budget needs from one common financial instrument, **they would largely give up their autonomy in the area of public finance.** And, in our view, the time for a common fiscal policy, if only in one of its parts, has definitely not yet come. If the Greeks do not help themselves, then the more transparent solution is the provision of a direct loan by the other member states.

http://www.euractiv.cz/ekonomika-a-euro/clanek/eurobondy-opet-na-scene-kvuli-zachrane-recka-007015

Taxation of Banker Bonuses Encounters its First Obstacle

The plan of the UK and France to tax banker bonuses has its first crack – companies engaged in asset management in the UK should be exempted from the new tax. They threatened that in case of its introduction, **they would start leaving the London City in droves.**

The UK together with France came to the December EU Summit with a plan **to tax the bonuses of financial institution managers** with a 50% rate when they exceed 25 thousand pounds.

It turned out, however, that the institutions that would be hit by the new measures most of all, i.e. the companies engaged in asset management, would not give up without a fight. According to the information of the Investment Management Association (IMA), which represents these companies in the UK, the threat (e.g. of the JP Morgan investment bank) that **in the case of imposition of the tax, they could leave the country,** was effective. Reportedly, they will be exempted from the new legislation.

Although the imposition of taxation on banker bonuses has been considered even at the Union level, **its implementation is still far away.** The enthusiasm of the politicians is declining with the lessening chance of attracting into their countries those firms that would leave other states that prefer the taxation.

More realistic is **some "softer" form of bonus regulation in the banking sector,** e.g. by means of a revision to the Directive on Capital Adequacy of Banks. According to a report (from February 2009) of the expert commission headed by the former IMF chief Jacques de Larosière, such a revision should ensure, in particular, that the bankers would get bonuses solely based on good performance of the institutions that are managed by them. Importantly, they should be assessed in a longer-term horizon of several years, which should prevent the deepening of economic cycles (i.e. primarily the occurrence of investment "bubbles" in pursuit of bonuses).

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1120

TRANSPORT AND ENERGY

Passenger Railway Transport Opened-up in the EU in Theory

According to a new directive, the operators of rail tracks in all EU member countries may **open international market of passenger railway transport** from 1 January 2010. So far, however, it does not seem that the directive would cause any major changes.

Tough negotiations have been in progress in the last three years in the EU on the third railway package, which was adopted in mid-2007. **The first two parts of this**

agreement entered into force at the beginning of December 2009. It includes a regulation on the rights and obligations of rail passengers and a directive on the issue of certificates for train drivers.

The third part of the package, the directive opening up the international market for rail passenger transport, **came into force on 1 January 2010.** It allows all European railway transport operators, who meet the prescribed conditions, to enter the market in all 27 member states and operate passenger rail transport among the member states. The European Commission believes that the new legislation will provide the railway companies with new opportunities and reduce the monopoly of traditional state transporters.

The EU directive **allows international railway trains to transport passengers** between stations in different countries as well as inside the countries (cabotage – a situation where the transporter has no residence in a country).

So far, the directive **entitles the member states to restrict access to routes** where transport is provided by contracted transporters within the framework of the so-called public service. They will be allowed to impose the restriction in the case that the proportion of international transport would exceed half the total number of transported passengers within the country. According to the directive, however, the individual companies will have access from 1 January 2012 to the entire infrastructure, even if their share in passenger transport exceeds 50%.

Up to now, only a few companies announced that they wanted to take advantage of the new opportunities. According to the potential competitors of the large state railway companies, the EU rules are **too stringent and do not motivate them to expose themselves to high risk.**

http://www.europarl.europa.eu/sides/getDoc.do?language=CS&type=IM-PRESS&reference=20070823IPR09782

EXTERNAL RELATIONS

Spanish Presidency Seeks to Solve the Israeli-Palestinian Conflict

One of the characteristics of the Spanish Presidency should be its focus on external relations. Spain, as the Council's leader, wants to organise **a record number of bilateral summits with third countries.** Its diplomatic efforts will be also focus on the Middle East.

The Spaniards have great ambitions with respect to the Middle East policy. According to Miguel Angel Moratinos, Spain's Minister of Foreign Affairs, they would welcome **the establishment of a Palestinian state as early as in 2010** and want to win the other member states for this vision. When explaining the Spanish foreign policy plans to the journalists on 18 December in Brussels, Moratinos has said that the establishment of an independent Palestinian state is seen by Madrid as one of the priorities of its six-month leadership of the Union.

He also pointed out that the establishment of the state must be based on **consistent negotiations, agreement and recognition by the international community.** In his opinion, the EU should primarily avoid finding itself in a situation where it would have to decide whether to recognize the unilateral Palestinian declaration of independence of 1988.

The European foreign ministers already agreed in December that the independent Palestinian state whose capital would be the eastern part of Jerusalem (Al-Quds in Arabic) should be recognized. The negotiations, which were reopened after seven years in 2007, came to a deadlock because of the recent war in Gaza. In addition, their further recovery is blocked by Israel, which refuses to stop the building of Jewish settlements in the occupied territories and continues to insist on the indivisibility of Jerusalem, despite the UN resolution guaranteeing the Palestinians control over the eastern part of the city. **The Palestinians have conditioned their willingness to return to the negotiations by an absolute cessation of the building of the settlements** on the West Bank.

According to Moratinos, who was active for a long time in the Middle East as a top Spanish diplomat, Spain's primary aim will be **to reopen the peace talks between Israel and the Palestinians.**

But the solving of the peace process between the Israelis and the Palestinians has been too tough for hundreds of

diplomats. Therefore, we do not believe that the Spanish Presidency would succeed. Nevertheless, it would be extremely beneficial, because **it would eliminate the long-term source of tension in the Middle East.**

http://www.eu2010.es/export/sites/presidencia/comun/descargas/Spanish_Presidency_Program.pdf

ENVIRONMENT

Commission to Tackle "Chemical Cocktails"

EU environment ministers have asked the European Commission to prepare new legislation to protect human and animal health **from exposure to multiple combined chemicals** – the so-called chemical cocktails.

In their last meeting in 2009, the EU-27 environment ministers agreed that assessments for individual chemicals are not sufficient to protect human health and suggested to **extend monitoring to the so-called chemical cocktails.**

These refer to the combined effects of chemicals that appear safe in isolation but when **absorbed together may carry health risks,** such as declining sperm counts, increased rates of cancer in adults and autism in children (who, according to researchers, are particularly vulnerable to the combined effects of chemicals).

Environmental and health NGOs and the scientists have long warned of the danger of chemical cocktails, but a shift in attitude occurred not until 2009, when the Environment Commissioner Stavros Dimas highlighted this issue **as one of the main future challenges on the global chemicals agenda.**

The fact is **that under REACH,** the EU's chemicals legislation, gradual registration, risk assessment and permitting (or banning) is anticipated with respect to the individual chemicals used in industry, but not much consideration is given to the harmful combined effects of chemicals.

The EU-27 environment ministers asked the European Commission to prepare a report by the end of this year on how exposure to combinations of endocrine disruptors should be dealt within existing legislation. It should be clear by 2012 whether it will be necessary to supplement or amend it to comply with the latest scientific knowledge.

http://www.euractiv.cz/zivotni-prostredi/clanek/komise-bude-bojovat-proti-chemickym-koktejlum-006925

EU Unclear on 30% CO2 Emissions Reduction

The EU environment ministers failed to come to an agreement at an informal meeting in Seville. While countries like the UK, France and Germany want to support the EU raising its reduction target from 20 to 30%, countries like Poland and Italy do not agree with major reducing the greenhouse gas emissions. They are afraid it would **endanger their competitiveness.**

Less than a month after the unsuccessful round of international climate negotiations in Copenhagen, which produced just a "toothless" agreement containing no binding reduction targets, the EU environment ministers were discussed under the baton of the Spanish Presidency **which direction the European negotiating strategy should go in.** The ministers hope that the world would succeed in reaching a binding international agreement to replace the Kyoto Protocol at the next conference scheduled for December 2010 in Mexico.

Based on the information contained in the report of the International Panel on Climate Change, there is concern that if by 2020, industrialized countries fail to reduce their greenhouse gas emissions by 25 to 40% as against the year 1990, **it would not be possible to keep global warming below 2°C,** which is temperature at which the consequences of climate changes are not yet irreversible.

So far, this does not comply with neither the targets of the **EU, which committed itself to reduce the emissions by 20%** (or by 30% in the case that other world's major emitters would join), nor the promised 17% target of the United States (compared with the year 2005).

In light of the recent developments, several EU countries headed by the UK, Germany and France demanded that **the EU would confirm its promise to increase its commitment to 30%.** However, it always has been a conditional offer – if the ambitious targets of emission reduction would be joined by the other countries.

The commitment increase **is objected by countries, such as Italy, Poland and Hungary,** who are afraid that in the time of economic crisis, such a step would endanger Europe's competitiveness.

Accordingly, the EU's **aim for the nearest future is to reduce CO2 emissions by 20% (compared to the year 1990) by the year 2020.**

http://mzp.cz/cz/news_100117_neformalni%20zasedani

JANUARY 4

Statistics: EU-27 imports of telecom products increased by 61% over 2000 - 2008: http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-09-103/EN/KS-SF-09-103-EN.PDF

JANUARY 5

Entry into force of new system to better control fisheries and fight against illegal fishing: http://ec.europa.eu/fisheries/press_corner/press_releases/2009/com09_81_en.htm

JANUARY 6

Spain takes over revamped EU Presidency: http://www.europarl.europa.eu/news/public/story_page/008-66869-011-01-03-901-20100106STO66862-2010-11-01-2010/default_en.htm

JANUARY 7

Antitrust: improved transparency and predictability of proceedings: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/2

JANUARY 8

Regional Policy: Regional Innovation Scoreboard: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?tpa_id=135&item_id=3919

Social Protection and Social inclusion in Belarus and Moldova: http://ec.europa.eu/social/main.jsp?langId=cs&catId=89&newsId=662&furtherNews=yes

JANUARY 11

Future of cohesion policy in richer regions: new working paper available: http://ec.europa.eu/regional_policy/sources/docgener/work/2009_03_richer.pdf

JANUARY 12

Euro coin counterfeiting in 2009: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/2

EU calls for comments on PROGRESS programme: http://ec.europa.eu/social/main.jsp?langId=cs&catId=89&newsId=663&furtherNews=yes

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Enlargement: Ivo Josipovic elected Croatia president: http://ec.europa.eu/enlargement/index_en.htm

Commission launches monitoring of patent settlements concluded between pharmaceutical companies: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/12

Spain: in 2009 the EIB provided EUR 2.5 billion to finance SME and municipality projects: http://europa.eu/rapid/pressReleasesAction.do?reference=BEI/10/3

JANUARY 14

Regional Policy: RegioStars 2010 finalists announced: http://ec.europa.eu/regional_policy/newsroom/index_en.htm

The European Commission's management of pre-accession assistance to Turkey: http://europa.eu/rapid/pressReleasesAction.do?reference=ECA/10/2

JANUARY 15

Italy: EUR 500 million for Gavio group's motorways:

http://europa.eu/rapid/pressReleasesAction.do?reference=BEI/10/4

JANUARY 18

The intermediary banks and financing institutions for credit lines: http://www.eib.org/about/news/the-intermediary-banks-and-financing-institutions-for-credit-lines.htm?lang=en

Solidarity with Haiti: http://www.consilium.europa.eu/showFocus.aspx?id=1&focusId=436&lang=en

806 construction workers in Lithuania to receive help from EU Globalisation Fund: http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=666&furtherNews=yes

JANUARY 19

Extraordinary Foreign Affairs Council meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/112392.pdf

Monthly Labour Market Monitor January 2010:

http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=665&furtherNews=yes

EU and Iraq sign a Strategic Energy Partnership Memorandum of Understanding: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/29

Regional Policy: Committee of the Regions publishes final report on "The European Economic Recovery Plan in Regions and Cities: One Year On": http://portal.cor.europa.eu/lisbon/news/Pages/EERPSurvey.aspx

Statistics: 17% of EU27 population at risk of poverty: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-18012010-AP/EN/3-18012010-AP-EN.PDF

Population at risk of poverty

CR	**9%**	Ireland	16%
The Netherlands	11%	Cyprus	16%
Slovakia	11%	**EU-27**	**17%**
Denmark	12%	Poland	17%
Hungary	12%	Portugal	18%
Austria	12%	Estonia	19%
Slovenia	12%	Italy	19%
Sweden	12%	United Kingdom	19%
France	13%	Greece	20%
Luxembourg	13%	Spain	20%
Finland	14%	Lithuania	20%
Belgium	15%	Bulgaria	21%
Germany	15%	Romania	23%
Malta	15%	Latvia	26%

Source: Eurostat; The annual national at-risk-of poverty threshold is set at 60% of the national median income per equivalent adult. The median income separates the total population into two equal parts.

JANUARY 20

Economic and Financial Affairs Council meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/112456.pdf

€ 18 million EU support for the promotion of dairy products: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/34&format=HTML&aged=0&language=EN&guiLanguage=en

What next for biodiversity protection in the EU?: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/32

JANUARY 21

New markets for SMEs with easy access to information on standards in China: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=3982&lang=en

JANUARY 22

Flash consumer confidence indicator: http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-01-21-flash-consumer-confidence-indicator_en.htm

JANUARY 25

EIB supports with EUR 400 million development of automotive sector in Romania: http://europa.eu/rapid/pressReleasesAction.do?reference=BEI/10/5

JANUARY 26

Foreign Affairs Council meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/112569.pdf

New study on "Public Goods provided by Agriculture in the European Union": http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/46

Regional Policy: 20 years of support for urban development:

http://ec.europa.eu/regional_policy/newsroom/index_en.htm

JANUARY 27

State aid: Overview of national measures adopted as a response to the financial/economic crisis: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/13

JANUARY 28

Commission takes Germany to court on social security rights of disabled migrant workers: http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=675&furtherNews=yes

State aid: Commission authorises €576 million Spanish film support scheme:

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/57

JANUARY 29

Statistics: Financial Turmoil: its impact on quarterly government accounts: http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-10-005/EN/KS-SF-10-005-EN.PDF

EU Excessive deficit procedure - Commission assessment on Hungary, Latvia, Lithuania and Malta: http://ec.europa.eu/economy_finance/index_en.htm

Terrorists or passengers exposed? MEPs voice doubts on body scanners: http://www.europarl.europa.eu/news/public/story_page/031-67880-025-01-05-903-20100121STO67830-2010-25-01-2010/default_en.htm

Commission takes legal action against Greece on discriminatory pension age:

http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=674&furtherNews=yes

GREECE'S JOURNEY FROM DRACHMA TO EURO AND BACK?

Greece does not deserve the euro and it should return to its drachma. This simple conclusion may cross the mind of quite a few economists, as well as well-informed laymen. It got through the gate of the Maastricht criteria by a whisker and at the price of fraud in public finance statistics. In addition, the Greeks have not finished with the practice of fiscal ploy. Last autumn, they suddenly adjusted the estimated public budget deficit from 3.7% to 12.7% of GDP! Allegedly, they forgot to add some government debts.

Since joining the euro zone, the Greek public sector deficit has always exceeded – except in 2006 – the required level of three percent for GDP, and the public debt has always been far away from the Maastricht standard of 60%.

The long-term problems of public finance have been highlighted by the economic crisis, the financial investors' tolerance to pay the Greece's debts decreased and the government borrowings are conditioned by higher and higher risk premium. While still two years ago, the Greek government borrowed money on the market at rates only 0.3 percentage points higher than those paid by the German government (for ten years maturity), now investors require a 2.5 percentage point higher interest rate than for how much they are willing to lend to Germany.

The difficult situation of Athens was on the agenda of the Ecofin meeting of finance ministers of the member states. The ministers were rattling their sabres before the meeting claiming that they would not be pulling Greece out of the mess. Instead of assistance, they envisaged financial penalties for its long-term failure to comply with the Stability and Growth Pact, which requires from the EU states moderation in public spending.

In my opinion, Greece does not need to be afraid of anything like this. It is true that the Stability and Growth Pact allows applying financial penalties to disobedient countries. So far, however, they have never been used. The year 2003 set a precedent when Germany and France got in conflict with the SGP rules. The European Commission proposed to punish the two countries, but after intense lobbying by the two superpowers, Ecofin swept the proposal aside. Greece is well aware that it will not become the first punished state when other EU members were forgiven similar offences.

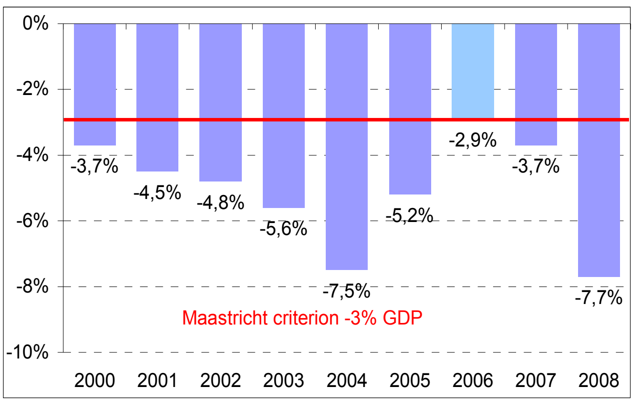
The scenario of Greece's forced exit from the euro zone is even more unrealistic. Mere thoughts regarding the expulsion of Greece if uttered aloud by the highest representatives of the EU or the member states would have fatal consequences for the whole single currency project. If Greece leaves the euro zone, the investors will start to doubt about Portugal, Spain and Italy, with the threat of domino effect spreading to other countries, which would return to their national currencies.

Therefore, there will be no radical solution. The question remains whether the situation will be solved by the Greek government itself or whether external financial aid will be necessary. In the former case, the financial markets will believe the ambitious recovery plan of the Greek government to push down the public finance deficit to the level of 2.8% of GDP by 2012. The rating agencies will raise again the country's credibility rating, the investors will not fear to lend money to Greece and its government bonds will not fall down into the category of shabby bonds.

On the other hand, the enduring or decreasing trust in Greece's creditability will lead to a rescue operation of the other euro zone members led by Germany. For political reasons, the loan will not be given directly, but through an international financial institution, such as the IMF. Its conditions will be harsh: Greece will have to reduce pensions and salaries of state employees, cut public investment and start painful structural reforms.

The party in Greece is over and its citizens will have to tighten their belts. The near future will show whether they will initiate it themselves or whether it will be prescribed to them by foreign creditors. The drachma will remain in the history books and in the coming years we will pay with euros on our holiday on the Peloponnese.

Greek public budget deficit as of GDP



Source: Eurostat

Meeting of the key EU institutions

7. - 9. 2. 2010	**San Sebastian, Spain**	- Informal Meeting of Competitiveness Ministers
12. - 13. 2. 2010	**A Coruña, Spain**	- Informal meeting of ministers for Transports
15. 2. 2010	**Brussels, Belgium**	- Eurogroup Meeting
15. 2. 2010	**Brussels, Belgium**	- Education, Youth and Culture Council meeting
16. 2. 2010	**Brussels, Belgium**	- Economic and Financial Affairs Council meeting
17. - 18. 2. 2010	**San Ildefonso, Spain**	- Meeting of Development Ministers
19. 2. 2010	**Madrid, Spain**	- Informal Regional Policy Ministers Meeting
21. 2. 2010	**Brussels, Belgium**	- Informal meeting of Trade ministers
22. 2. 2010	**Brussels, Belgium**	- General Affairs Council meeting
22. 2. 2010	**Brussels, Belgium**	- Foreign Affairs Council meeting
22. - 23. 2. 2010	**Brussels, Belgium**	- Agriculture and Fishing Council meeting
24. -25. 2. 2010	**Palma de Mallorca, Spain**	- Informal Defence Ministers meeting
25. - 26. 2. 2010	**Brussels, Belgium**	- Justice and Home Affairs Council meeting

ECONOMIC PROSPECTS OF THE EUROPEAN UNION FOR 2010

INTRODUCTION

It seems to be true that while the recession – that is further decrease in economic performance – is already behind us, or at least its end relates to the present rather than the future, the impact of the crisis is still far from being warded off. Although several indicators of financial tension have returned to their pre-crisis levels, the banking sector and more generally, the sector of financial markets in the EU remain fragile and cautious in many aspects. The possible additional losses in this area in several of most affected countries are presently estimated (for the rest of the so far non-quantified year 2009 and for the year 2010) at additional EUR 200–400 billion. There is also a need to improve financial health of a number of overindebted households and firms exposed to risk, which would allow them in the future a sound, rational and prudent use of financial products, thus promoting the process of economic recovery.

For some time, capital costs are likely to remain higher (than before the crisis) due to the increased risk premiums. It is expected, therefore, that these factors may lead to some limitation on the investment growth and consumption in the upcoming short-term (and in the case of more serious affliction, medium-term) outlook. In addition, the full impact of the crisis on the labour market and public finance has not occurred yet. On the other hand, there is certainly some hope that the recovery could prove to be more considerable if the effect of the measures to restore the health of the financial sector and the related trust proves to be stronger in comparison with the current expectations.

After the dissipation of the initial slight (or rather cosmetic) economic growth, which is significantly supported by stimulation measures, it can be expected later this year that EU economic activity would somewhat calm down or even slow down, and then we can expect gradual strengthening of the domestic and external demand. At the given stage of economic development, there are, however, two outstanding areas that significantly determine how the EU economy will develop in the medium term – namely the development (or now rather the crisis) of the labour market and public finance reflected mainly in immense deterioration of the volume and ratio of public debt.

If we start with the labour market, its development up to now (although very bleak and in some countries, such as Spain, literally horrifying) is still slightly more favourable than the previous – yet bleaker – expectations. This can be partly explained by the use of short-term measures of the economic policy, together with the application of some "anti-dismissal" tools on the labour markets in some member countries. Nevertheless, it is expected that companies will increase and intensify the dismissal process and that the unemployment rate will more likely tend to grow. Historical evidence shows that the increase in unemployment following financial crisis could become rather enduring. On the other hand, the better-than-expected development could be partly a reflection of the positive impact of the recent reforms in labour markets, which were implemented by some member countries and which make their labour markets more flexible and resistant to crisis impacts.

As regards public finance, the crisis has taken its heavy toll in the form of the debt development through its impact on fiscal imbalance and lower growth. Although the expected sharp increase in the rates of government debts is not necessarily an extraordinary moment in the context of the current phase of the financial and economic crisis, the high initial debt levels, particularly in some of the member states, make the situation of public finance much more difficult in terms of their long-term healthy sustainability.

When the gradual economic recovery gains strength enough – perhaps in 2011 and in the period to follow – it will have to be followed by a period of radical fiscal consolidation, which will help to return public debt back to a sustainable track.

The EU economic prospects are heading towards a gradual process of recovery, which will be the key to addressing the challenges in the area of the labour market and debt that have been identified as crucial to ensure the transition to the period of solid sustainable economic recovery in the long term.

OVERVIEW

The EU economy is gradually emerging from recession with GDP growth slowly turning positive again. In terms of time, this stage took place mainly in the second half of 2009 – most probably in the final quarter (we have to wait a couple of weeks for definite confirmation in the form of published statistics). This perhaps better-than-expected rebound in the given context can be replaced in the near term by a certain easing in growth.

The outlook supposes a rather gradual trajectory of recovery within a longer period of time as some factors and circumstances may restrain domestic and external

demand in the medium term. Future developments in the labour market and public finance will be crucial in this regard.

The recession is over (hopefully), but the major challenges associated with recovery remain

The current recession has proved to be the deepest, longest and most broad-based in the history of the EU, or more precisely, of the process of European integration. GDP for both the EU and the euro zone is likely to fall by 4% (maybe by more) year-on-year in 2009. The cumulative output loss amounts to a little more than 5% since the recession started in the second quarter of 2008. Very roughly, this is about three times more than the average loss in the previous three recessions.

All EU economies are affected by the crisis where according to the latest estimates, the 2009 rate of decline – among the large member states – ranges from more than 2% in France, to values between 4.5–5% in Germany, Italy and the UK. In Poland, GDP growth is expected to slow sharply for the year 2009, although Poland has escaped so far a fall in GDP (in fact, as the only one EU economy), which creates certain speculations about a possible delay of the manifestation of the crisis in Poland and the likelihood of its occurrence in the months to follow. This divergence in economic performance reflects, inter alia, varying exposures of each member country to major financial sector disturbances, differing degrees of trade and economic openness, and the existence (or decline) of a consumer (housing) boom prior to the crisis.

All EU countries hit, but to different degrees

Signs of improvement in the economic situation have become increasingly apparent when examining the confidence indicators and when viewed through the “hard data” optics since the late summer of 2009. The implemented exceptional monetary and fiscal measures have not only prevented a systemic meltdown, but also allowed for a marked improvement in financial market conditions, even with several indicators back at pre-crisis levels. The outlook for the world economy has also strengthened and especially so in emerging-market economies, mainly in Asia, where China is unquestionably leading the way (reporting only a relatively mild economic slowdown of its otherwise fantastic performance).

The certain initial positive upturn in economic activity in the EU and abroad is, however, largely driven by temporary factors whose effect is sooner or later likely to pass. In particular, the favourable impact of inventory adjustment (with the destocking process, which in fact is coming to an end) and stimulus measures are slowly fading away in line with expectations during the turn of the years 2009 and 2010. The recovery thereafter is projected to be different from the signs of earlier cyclical upturns as the economy is finding its way to a new equilibrium. Several factors are expected to dampen domestic demand including a need for financial deleveraging across key sectors, an expected further deterioration of the labour market and supply-side constraints stemming from the adverse impact of the financial crisis on potential output.

The traditional pattern of EU economic recoveries typically begins with a pick-up in exports. The EU and its economy initially benefits from an improved outlook for global growth and a rebound in trade, notably in the more export-oriented EU economies. However, global activity is also set to go through a soft patch in the course of 2010 when temporary factors peter out, while especially private demand may not recover fast enough to support growth in a noticeable way. The EU’s external economic environment is also affected by the ongoing rebalancing of world demand. As a result, the total growth in EU exports will reach the stage of conclusive and visible dynamism rather slowly during this year and perhaps the following year.

Upturn in the EU economy is potentially weakening further ahead as the economy moves towards its new equilibrium

This time, exports are not providing the usual kick-start to the recovery of the EU economy, while domestic demand is held back.

Notwithstanding the certain limited support from an anticipated improved external economic environment, a sustained economic pick-up and more solid recovery would require a substantially improved outlook for private domestic demand. Traditionally, an upturn in exports spurs demand for investment, which subsequently supports employment and private consumption growth. At present, however, this export – domestic demand nexus is anticipated to be weaker in the context of the entire EU economy.

A historically low capacity utilisation rate, relatively weak demand prospects, subdued profitability gains and still moderating credit growth are the fundamental factors that now influence the intended (unusually moderate) recovery of investment in gross fixed capital, which is projected to turn positive only in 2011. This, together with the need to deleverage households' balance sheets further and the expected rather bleak labour-market situation, is likely to make the recovery of private consumption sluggish (with actual recovery of more than 1% growth year-on-year within the whole EU economy only during 2011).

Overall, after the temporary and short-term boost occurred in the second half of 2009, the EU real economy growth is expected to ease somewhat and then to accelerate (but still very gradually) perhaps only by the second half of 2010. As both external and domestic demand gradually strengthen, growth could recover to about 0.5% quarter-on-quarter during 2011 in both the EU and the euro zone. Taking into account the weak carry-over basis of 2009, annual growth rates are likely to be limited to values of around 0.75% in 2010 in both the EU and the euro zone. In 2011, the year-on-year GDP growth could reach values of around 1.5%, thereby starting to gradually close the output gap opened up as a result of the crisis.

Unemployment, still on the rise, is putting a lid on possible wage and price increases

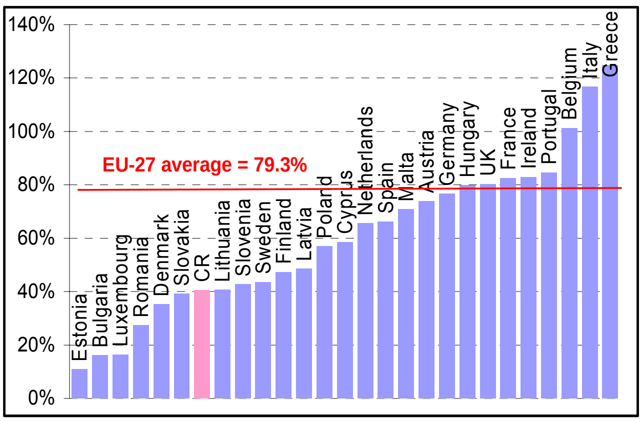
The recession has caused a considerable deterioration in the labour market parameters in the EU, although a less dramatic one in its effect hitherto than initially expected. This is largely explained by the use of economic policy short-term measures, along with the impact of the recent labour-market reforms undertaken in some member states. However, firms are expected to increase labour shedding in the coming months so that the unemployment rate may increase further, reaching 10.25% in the EU and 10.75% in the euro area in 2011. Looking ahead to the medium term, the financial crisis within the EU may create a number of risks with impacts on labour-market developments – including the possibility of recovery of redundancies, persistently high unemployment and a more apparently shrinking workforce.

Growing slack in the economy, accompanied by high unemployment, could dampen wage and inflationary pressures in the period ahead, although consumer price inflation is expected to rebound somewhat from its current extremely low levels throughout Europe. In 2010, it is expected to average 1–1.25% in both the EU and the euro zone and then to grow slightly to around 1.5% in 2011. Most probably, the differences across countries will be less pronounced than they were prior to the crisis and both actual inflation and inflation expectations remain very favourable in the EU.

Both the debt and the deficit of public finance are critically worsening

However, there are no favourable signs with respect to the development of public finance. Public finances have been hit hard by the crisis and the budget deficits are likely to worsen further in 2010 whereby the average deficit would increase to 7.5% of GDP by 2010 in the EU and up to around 7% in the euro area (as compared with 2.25% in the EU and 2% in the euro area in 2008). This increase in the lack of financial discipline follows from the working of automatic stabilisers put into real life after the economic situation has substantially deteriorated at the end of 2008; the discretionary measures taken to support the economy; and the stronger-than-usual (in more standard economic conditions) responsiveness of public revenues to the exceptional decline in economic activity and, as a result, tax bases, which partly reflect the changed composition of growth (towards less tax-rich components).

Public debt as of GDP in the EU - forecast for 2010



Source: European Commission, Autumn 2009 outlook

Similarly, the development of public debt is bearing the brunt of the crisis. It is expected to increase to 79.25% of GDP in 2010 in the EU (and to even more terrible 84% in the euro zone). A certain slight improvement is foreseen in the deficit ratio in 2011 as a result of the above-mentioned gradual recovery of economic activity and also due to the fact that most of the budget-intensive temporary supporting measures will come to an end.

However, the debt ratio remains on an increasing path in view of the still high primary deficit and rising interest payments, which might be only partly offset by the recovery in nominal GDP growth. Although a one-off increase in government debt does not in itself put public-finance sustainability at risk, in combination with sustained large deficits, lower potential output and an unfavourable demographic development, the debt evolution is a source of concern for its long-term sustainability.

The economic situation remains highly uncertain. Overall, risks to the growth outlook are relatively balanced. On the one hand, the recovery could prove more pronounced in the near term, with activity temporarily supported by the impact of incentive measures and the trend of the inventory cycle. Further ahead, economic and policy measures might boost the soundness of the financial sector, and the increased and higher-than-expected confidence could help domestic demand. On the other hand, if the banking sector does not repair its balance sheet primarily in the countries heavily afflicted by the financial crisis, the credit channel is likely to remain impaired posing a major downside risk to the sustainability of the recovery. The impact of deteriorating labour-market conditions on wage formation and savings behaviour could also prove worse than expected. Moreover, the low capacity utilisation and higher cost of capital could be a burden for investment recovery.

Inflation risks are pressed down and balanced in the short term. Higher commodity prices imply upward price pressures, but these are expected to be broadly offset by downward pressure stemming from the remaining slack in the economy.

DIFFERENCES IN ECONOMIC PERFORMANCE INSIDE THE EU

All EU member states, except Poland, are estimated to register a lesser or larger fall in economic activities for the final values of 2009. As already noted above, among the large member states determining to a certain degree the economic development of the whole EU, the contractions range from the expected values of around 2.25% in France to values around or even more than 5% in Germany and Italy.

Within the euro zone, the countries most affected are Slovenia and Ireland (in both cases the expected decrease represents around 7.5%), Finland (decrease of around 7%) and Slovakia (estimated year-on-year decrease of around 6%).

Outside the euro zone, the contractions are generally expected to be more severe (an approximately equal decrease of 4.5% is predicted in the case of Denmark, Sweden and the UK). The situation is literally extreme in the Baltics (decrease of 14% in Estonia and about 18% in Latvia and Lithuania, each).

Structural issues

Within the GDP structure, the current recession is characterised primarily by sizable losses in trade and investment spending. The cumulative loss in export and import volumes at the end of 2009 represented 18% and 17%, respectively. This drop was over four times as large as the average decline in previous recessions for exports and about free times for imports.

The decline in spending on gross fixed capital represented some 13%, almost three times larger a drop than in previous recessions. In stark contrast to these double-digit falls, the reduction in private consumption spending within the EU is substantially lower (approximately two percent decrease) and basically comparable with the consumption drop during the previous recessions. In fact, private consumption appears to have been a stabilising factor in the current period of sharp drop in GDP (which is about twice as high as the drop in private consumption).

In view of the mobilisation of automatic stabilisers and the adoption of additional stabilising measures by EU member states and their governments, it is evident that the amount of public spending did not drop and, moreover, it even quite substantially increased (by about 2.5%) and such public action was considerably more significant as compared with the previous recessions. Consistent with this outline, the contributions of the respective demand components show that the main drags on growth during this downturn were the collapse in fixed capital formation and strong stock liquidation.

However, given that the deep fall of exports was nearly matched by that of imports, the drag from net exports appears comparatively small. Nevertheless, this perspective reveals the important role of external demand in the contraction of economic activity, as the former was

in large part responsible for the decline in investment and the sharp destocking.

The crisis has had asymmetric effects across the EU member states, which may play a very important role also in the phase of the upcoming gradual recovery. Their impact widely varies depending, inter alia, on:

- the degree of exposure to risky assets and the size of the financial sector both in absolute volume and relative to GDP (a very important factor, for instance, for the UK);
- the export dependency of the economy (between large countries, e.g. **Germany**) and the current account position of balance of payments of the respective economies (especially in the case of **Hungary** and the Baltic states: **Estonia, Lithuania and Latvia**); and
- the extent to which house (real estate) prices had been overvalued and construction industries oversized – at variance with reality in the long term (e.g. Ireland and Spain).

For instance, the impact of the composition of growth on the actual development has been substantial and different across countries, depending on their initial current account position of balance of payments (with surplus countries having had a comparatively stronger contraction of net exports, while deficit countries having registered larger contractions in domestic demand). Thus, the crisis appears to have triggered adjustments of current account imbalances within the EU. To what extent this process is cyclical or lasting (structural) remains an open question – at least for now.

The recognition that growth in the pre-crisis period was amply supported by unsustainable financial conditions suggests that the economy in the European Union may now be in a transition phase to a new steady state, with possibly numerous structural breaks and changes in the traditional relationships linking economic variables. These considerations make the context of the forecasts of future development yet more difficult, since the usual extrapolation of parameters without considering the qualitative changes brought about and provoked by the global economic and financial crisis, could be considerably insufficient in this regard.

What might this new equilibrium (or balanced state) for the EU economy look like? What are the main forces by which it may be particularly influenced?

1. It seems reasonable to expect a **higher cost of capital**, due to higher risk premium than in the pre-crisis period, as the crisis has made investors acutely aware of consequences of misprising risk.
2. A related aspect is that the current crisis has **exposed the EU economy to sizable financial vulnerability**, caused mainly by the extremely high rate of indebtedness and conditional dependence of households, firms, governments and the public sector. The ensuing process of financial remedy of these sectors is likely to take some time and constrain the response of each sector to the economic recovery.
3. The full impact of the severe recession triggered by the crisis **has yet to be felt in the labour market and the development of public finances**. In labour markets, apart from the cyclical deterioration, some traditionally key industry sectors that are harshly hit by the crisis may have to be downsized (substantial reduction of their capacities) or relocated to relatively more advantageous regions and territories. This process may potentially lead to increases in structural unemployment. Regarding public finances, following the exceptional fiscal stimulus, a protracted period of fiscal consolidation will have to follow at some stage to put public debt back on a sustainable footing.
4. In the absence of appropriate economic policy responses, a considerable deterioration in these areas **could impinge on growth prospects in the medium term**. A key question at the current juncture is whether and to what extent the crisis will cast a long shadow on potential output.
5. The external environment for the **EU and the euro zone is likely to become different** too.

These various forces are likely to affect member states differently. For instance, within the euro zone, Spain and Ireland, and outside it, the Baltics, which are most affected by an increase in unemployment, may also face the risk of a considerable increase in the NAIRU, since part of the deterioration in the labour market conditions is related to the need to adjust sectors that got oversized in the pre-crisis period.

Because the path to recovery will remain apparently the most important topic for 2010, we will pay adequate attention to it also in the next issues of the EU News Monthly Journal this year.

WILLY BRANDT (GERMANY)

Willy Brandt was born on the eve of World War I, on 18 December 1913 in the North German Hanseatic town of Lubeck. As with each of the great Europeans that we have already presented, Willy Brandt is also connected with some curiosities. For instance, the fact that Willy Brandt was originally a pen name and his own name was Herbert Ernst Karl Frahm.

Brandt began to engage himself politically from an early age and, just barely 17, he became a member of the Social Democratic Party of Germany SPD. He had twice been forced to leave Germany in the face of raising Nazism – the first time in 1933, the second time seven years later. During his first emigration in Norway, he studied history and became a professional journalist. Under another pseudonym, he returned in 1936 for a few months to Germany as a Norwegian student and then became a reporter of the events of the Spanish civil war. At the end of the 1930s, he was stripped of German citizenship and thus he took Norwegian citizenship. He spent his second emigration in Sweden until the end of World War II. Brandt felt very strong positive ties towards the two Nordic countries (he was fluent in both languages) even after his return to Germany in 1946, initially as a Norwegian civil servant.

Two years later, he became a German citizen again and a member of the Social Democratic Party of Germany SPD. He was elected member of the German Federal Parliament Bundestag in 1949. In the period 1953 to 1966 he was active in the politics of (then West) Berlin – in the role of its mayor in the last 9 years. His experience of the city divided by a wall since 1961, against which he was openly fighting, supplemented by his war experience has hardened Brandt in his thinking in favour of strong European integration. In the role of the Federal Minister of Foreign Affairs (since 1966) and then the Federal Chancellor (1969–1974), he used the power of his authority to push through the idea of a close interconnecting of Europe.

Brandt's largest political asset in the field of European integration could be expressed in two major points:

- “Ostpolitik” (Eastern Policy) – policy of a more receptive and responsive relationship between the western and eastern parts of divided Europe at the turn of the 1960s and 1970s, which 20 years later was reflected in his absolute support for the revolutionary movements in Central and Eastern Europe and naturally also the reunification of Germany;
- A major contribution to the process of the first historical enlargement of the EC in 1973.

In the form of Ostpolitik at the turn of the 1960s and 1970s, he tried to create the conditions for more responsive mutual communication between the two parts of Europe, which was divided by the Iron Curtain, including contractual settlement of the post-war relations between individual states and the conclusion of a number of intergovernmental peace agreements and agreements on cooperation. It is very likely that this policy contributed to the gradual erosion of orthodox Socialism in the Communist part of Europe and created a starting point for the revolutionary movement in this part of the continent in the late 1980s, and later for the reunification of Germany. Brandt gained international award for this effort in the form of the Nobel Peace Prize in 1971.

At the same time, Brandt expressed his unification visions even within the Western part of the continent. He contributed greatly to blunting the French reservations primarily against the UK and thus enabled practical implementation of the first EC enlargement in 1973.

Brandt's departure from the post of Chancellor was not commonplace. He resigned in May 1974 after the collaboration of his close advisor with the East German secret police Stasi was revealed.

Brandt remained the leader of the SPD until 1987, and almost until his death, he headed the Socialist International. Willy Brandt, the author of several books, founder of an independent think-tank devoted to international and economic affairs, the winner of numerous awards and one of the leading creators and contributors to the moderately advanced stage of the process of European integration, died in October 1992 in a small town of Unkel near Bonn.

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	X-09	XI-09	XII-09	X-09	XI-09	XII-09
Belgium	2.8	2.9	1.0	2.0	2.2	-2.5	8.1	8.1	8.2	-0.9	0.0	0.3
Bulgaria	6.3	6.2	6.0	-18.4	-25.2	-25.4	7.4	7.7	7.9	0.3	0.9	1.6
CR	6.8	6.1	2.5	-2.4	-3.2	-3.1	7.7	7.8	8.0	-0.6	0.2	0.5
Denmark	3.3	1.6	-1.2	3.0	1.5	2.2	6.9	7.2	7.4	0.6	0.9	1.2
Germany	3.2	2.5	1.3	6.5	7.9	6.6	7.5	7.5	7.5	-0.1	0.3	0.8
Estonia	10.0	7.2	-3.6	-16.9	-17.8	-9.4	na	na	na	-2.1	-2.1	-1.9
Ireland	5.4	6.0	-3.0	-3.6	-5.3	-5.2	12.6	13.0	13.3	-2.8	-2.8	-2.6
Greece	4.5	4.5	2.0	-11.2	-14.3	-14.6	na	na	na	1.2	2.1	2.6
Spain	4.0	3.6	0.9	-9.0	-10.0	-9.6	19.2	19.4	19.5	-0.6	0.4	0.9
France	2.2	2.3	0.4	-0.5	-1.0	-2.3	9.9	10.0	10.0	-0.2	0.5	1.0
Italy	2.0	1.6	-1.0	-2.6	-2.4	-3.4	8.2	8.3	8.5	0.3	0.8	1.1
Cyprus	4.1	4.4	3.7	-6.9	-11.9	-17.8	6.0	6.1	6.1	-1.0	1.0	1.6
Latvia	12.2	10.0	-4.6	-22.5	-22.3	-13.0	21.2	22.2	22.8	-1.2	-1.4	-1.4
Lithuania	7.8	9.8	2.8	-10.6	-14.5	-11.7	na	na	na	1.0	1.3	1.2
Luxembourg	5.6	6.5	0.0	10.3	9.7	5.5	6.0	6.1	6.2	-0.2	1.7	2.5
Hungary	4.0	1.0	0.6	-7.5	-6.8	-7.1	10.8	10.8	10.7	4.2	5.2	5.4
Malta	3.8	3.7	2.1	-9.2	-6.1	-5.6	6.9	7.0	7.2	-0.5	-0.1	-0.4
Netherlands	3.4	3.6	2.0	9.3	8.7	4.8	3.9	3.9	4.0	0.4	0.7	0.7
Austria	3.5	3.5	2.0	2.8	3.6	3.2	5.6	5.5	5.4	0.1	0.6	1.1
Poland	6.2	6.8	5.0	-2.7	-4.7	-5.1	8.7	8.8	8.9	3.8	3.8	3.8
Portugal	1.4	1.9	0.0	-10.0	-9.4	-12.1	10.2	10.3	10.4	-1.6	-0.8	-0.1
Romania	7.9	6.3	6.2	-10.5	-13.4	-12.2	na	na	na	4.3	4.6	4.7
Slovenia	5.8	6.8	3.5	-2.5	-4.8	-6.2	6.8	6.8	6.8	0.2	1.8	2.1
Slovakia	8.5	10.4	6.4	-8.2	-5.7	-6.6	13.3	13.5	13.6	-0.1	0.0	0.0
Finland	4.9	4.2	1.0	4.5	4.2	3.0	8.8	8.9	8.8	0.6	1.3	1.8
Sweden	4.2	2.6	-0.2	8.4	8.8	6.3	8.8	8.9	8.9	1.8	2.4	2.8
UK	2.9	2.6	0.6	-3.3	-2.7	-1.6	7.8	na	na	1.5	1.9	na
EU	3.1	2.9	0.9	-1.3	-1.1	-2.0	9.4	9.5	9.6	0.5	1.0	1.4

	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	2006	2007	2008
Belgium	0.3	-0.2	-1.2	88.1	84.2	89.8	118.4	118.1	113.9	106.7	106.3	110.7
Bulgaria	3.0	0.1	1.8	22.7	18.2	14.1	36.5	37.5	40.2	44.6	46.5	51.0
CR	-2.6	-0.7	-2.1	29.4	29.0	30.0	77.6	80.3	80.1	61.4	62.4	72.4
Denmark	5.2	4.5	3.4	31.3	26.8	33.5	122.9	120.1	118.4	138.4	137.7	141.0
Germany	-1.6	0.2	0.0	67.6	65.0	65.9	115.9	115.1	116.1	103.0	103.1	103.9
Estonia	2.3	2.6	-2.7	4.5	3.8	4.6	65.9	69.5	68.2	67.4	71.5	76.7
Ireland	3.0	0.3	-7.2	25.0	25.1	44.1	146.9	149.6	136.6	124.0	124.5	126.9
Greece	-2.9	-3.7	-7.7	97.1	95.6	99.2	92.9	94.2	93.9	88.8	89.4	94.1
Spain	2.0	1.9	-4.1	39.6	36.1	39.7	104.2	105.7	103.4	91.8	92.4	95.7
France	-2.3	-2.7	-3.4	63.7	63.8	67.4	109.0	108.9	107.4	108.8	108.3	111.1
Italy	-3.3	-1.5	-2.7	106.5	103.5	105.8	103.8	101.9	100.5	104.3	103.9	105.3
Cyprus	-1.2	3.4	0.9	64.6	58.3	48.4	90.2	90.8	94.7	90.5	88.8	89.6
Latvia	-0.5	-0.3	-4.1	10.7	9.0	19.5	52.5	57.9	55.8	60.5	65.9	74.7
Lithuania	-0.4	-1.0	-3.2	18.0	16.9	15.6	55.5	59.8	61.1	57.1	59.6	66.8
Luxembourg	1.3	3.7	2.5	6.6	6.6	13.5	268.7	275.1	271.4	111.8	112.4	116.2
Hungary	-9.3	-5.0	-3.8	65.6	65.9	72.9	63.5	62.6	62.8	60.3	66.1	69.7
Malta	-2.6	-2.2	-4.7	63.6	62.0	63.8	76.7	77.5	75.5	74.5	73.3	78.4
Netherlands	0.5	0.2	0.7	47.4	45.5	58.2	130.9	131.3	135.0	104.1	103.4	103.4
Austria	-1.6	-0.6	-0.4	62.2	59.5	62.6	123.7	123.9	123.1	102.0	101.4	104.6
Poland	-3.6	-1.9	-3.6	47.7	45.0	47.2	52.3	53.8	57.6	62.1	63.7	68.6
Portugal	-3.9	-2.6	-2.7	64.7	63.6	66.3	76.3	76.1	75.5	84.9	84.6	86.7
Romania	-2.2	-2.5	-5.5	12.4	12.6	13.6	38.3	42.5	45.8	57.1	61.5	62.1
Slovenia	-1.3	0.0	-1.8	26.7	23.3	22.5	87.8	89.5	90.7	76.8	77.8	83.0
Slovakia	-3.5	-1.9	-2.3	30.5	29.3	27.7	63.5	67.0	71.9	57.4	63.5	69.5
Finland	4.0	5.2	4.5	39.3	35.2	34.1	114.8	115.8	115.1	122.6	122.5	124.6
Sweden	2.5	3.8	2.5	45.9	40.5	38.0	121.4	122.3	121.5	118.5	117.3	114.4
UK	-2.7	-2.7	-5.5	43.2	44.2	52.0	120.7	118.5	117.2	110.3	110.3	99.4
EU	-1.4	-0.8	-2.3	61.3	58.7	61.5	100.0	100.0	100.0	100.0	100.0	100.0

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