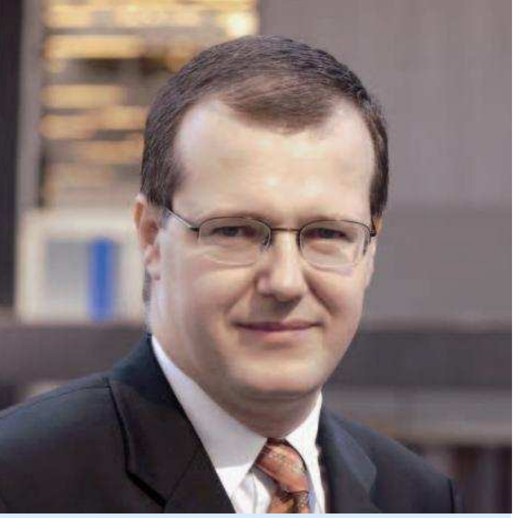
EU News
Monthly Journal

**Number 99,
December 2011**

ČESKÁ SPOŘITELNA



EU OFFICE
Česká spořitelna, a.s.
Olbrachtova 1929/62
140 00 Praha 4
tel.: +420 956 718 012
fax: +420 224 641 301
EU_office@csas.cz
http://www.csas.cz/eu

Jan Jedlička
Head of EU Office
+420 956 718 014
jjedlicka@csas.cz

Petr Zahradník
+420 956 718 013
pzahradnik@csas.cz

Iva Dlouhá
+420 956 718 015
idlouha@csas.cz

Helena Kerclová
+420 956 718 012
hkerclova@csas.cz

under the auspices of Pavel Kysilka
CEO of ČS

Dear readers,

From the perspective of the economic prospects of the EU and the eurozone, the current period differs in many ways both from the irrational hysteria, which we had witnessed shortly after the outbreak of the Greek infection almost two years ago, and from the climate of moderate optimism that we have perceived with a cooler head for much of this year's first half. In a way, the current period is worse than the time when emotions were being soothed and efforts were being made to restore confidence in a much improvised manner during April and May 2010. This is because at that time, the aim was to find something positive. Now, it is mostly about depression.

The current time has brought into the refining of arguments and proposals for further procedures the required rationality, which, unfortunately, is beginning to produce ideas and scenarios that do not count too much on a coherent and cohesive Europe and that are basically anticipating its more or less noticeable disintegration and breakup.

In the given atmosphere, it is then perhaps no surprise that certain social circles in the UK try to call a referendum on the withdrawal of the country from the EU. An example of a cold-blooded, rational and at the same time very negative scenario with a depressive touch is also a way to address the needs of the banking sector to raise capital in the historically extremely short period of time: in some cases of the German, Italian or Spanish banking sectors there are open discussions about scenarios regarding nationalisation of the most affected banks. And what should one think of the open call of a number of governors of national central banks (e.g. the British) pointing out the need for banks to get ready for the breakup of the eurozone, while this possibility is described as more likely in reality.

No, these words should not advocate futile whitewashing – it is rather reminiscent of the Titanic. However, I have the feeling that the resignation of what the Union has achieved in recent decades is now all too evident and begins to cause the development of strategies that prefer projects that are more nationally oriented and enclosed by country borders. There is no doubt that it is more than needed to clean up and remedy the relations and mechanisms ruined for years or decades. However, with regard to the confidence and ambitions of other territories of the global economy, to resign and to retreat seems to me as the first step for Europe to lose its efforts to recover from the ongoing crisis for a long time while leaving the initiative and decision-making on itself to "someone else".

The aggressive, confident and somehow instructional speeches of the representatives of a number of non-European states, in particular, those to the East of Europe, as well as of major corporations in the same part of the world or the leaders of top global institutions from the same region can clearly indicate who that "someone" may be.

Petr Zahradník

In the next six months the Union will be presided by the Danes, who have partially revealed their priorities. They include the 2014-2020 budgetary period, the eurozone debt crisis and the strengthening of the European External Action Service. According to Brussels, economic growth will decrease next year to 0.6% but this year there will be an increase of 1 percentage point. Finance ministers discussed the EFSF increase through leverage.

POLITICS

Denmark wants to make strides on EU budget

Denmark, which will **head the EU Council in the first half of next year**, will focus in particular on the negotiations on the EU budget for 2014-2020, whose proposal was submitted by the European Commission by the end of June.

The Danish Ambassador to the EU Jeppe Tranholm-Mikkelsen said that at the time when Copenhagen started preparing for the rotating EU Presidency, it was generally considered that it would be possible to conclude the question of the budget successfully no later than June 2012, at the end of the Danish Presidency.

Now it is assumed that the member states could agree with the institutions on the **future seven-year budget** not until the second half of next year, under Cyprus EU Presidency.

However, Tranholm-Mikkelsen insisted that his country would do its utmost and "**invest a lot of energy**" to the multi-annual financial perspective. In concrete terms that would be a "negotiating box" of some 15 to 25 pages of draft Council conclusions that would still contain a number of unsettled issues and square brackets signs, explained the Danish ambassador.

Despite the fact that in 2000 the Danes rejected in the referendum to adopt the common euro currency, **the crisis of the eurozone will be a high priority** of the Danish Presidency in the first half of next year.

The Danish Presidency will also **focus on foreign policy issues**, such as the strengthening of the European External Action Service (EEAS) or the further enlargement of the EU.

Under the Danish baton, the Union should focus also on **"domestic" issues** related to social inclusion of the Roma, the French-Italian border spat over refugees from Tunisia or the still outstanding problem of the bid of Romania and Bulgaria to join the Schengen borderless area.

But if the agenda of the Danish EU Presidency were not formed by events of economic and foreign policy nature, the Danes – according to Tranholm-Mikkelson – would prefer to get fully **concentrated on themes related to the environment and sustainable economic growth**.

http://um.dk/en/politics-and-diplomacy/denmark-in-the-eu/the-danish-eu-presidency-2012/the-priorities-of-the-danish-eu-presidency/

Paris and Berlin hasten plans for two-speed Europe

The original plan of German Chancellor Angela Merkel was that all 27 EU member countries would agree by the end of 2012 on **the adjustment of the basic European treaties**. The new rules should enable tighter **budget controls over the economies** of the countries using the common euro currency. This plan, however, did not find support in all EU countries, the approval of the changes would take at least a year and the current situation requires a solution in a matter of weeks.

One possibility, which is now being studied by the French and German leaders, is **an agreement only between the eurozone states**, which would **create their own Stability Union** and concentrate on it. The Stability Union could be a decisive step to winning more confidence from the markets, said German Finance Minister Wolfgang Schäuble.

Another option being explored is **a separate agreement outside the EU treaty** that could involve a core of around 8-10 eurozone countries. While Germany and France are convinced that moving towards fiscal union – which could pave the way for jointly issued eurozone bonds and may provide more leeway for the European Central Bank to act forcefully – is the only way to get on top of the debt crisis, **some other eurozone countries are hesitant about faster fiscal integration** – either because they cannot afford it so quickly or because they simply disagree about it.

Consequently, the French and German negotiators are exploring at least **two models for more rapid integration**. Initially, the agreement would not necessarily be joined by all euro area countries, but gradually they would accede to the document which could become part of the European treaties at a later stage.

The agreement on deeper fiscal integration can also give **more space to the European Central Bank**. It has bought the bonds of the indebted countries in intermittent fashion usually when they have reached crisis point. Much more radical acts of the ECB could turn the market tide but Germany and the ECB have opposed any such move.

To solve the debt crisis will require compromises from all key parties. To make Germany agree with stronger interventions by the ECB, the southern wing will have to give up part of the powers in the area of public finances in favour of Brussels.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1381

ECONOMY AND EURO

The Commission warns against another recession

The Commission presented in early November the autumn economic forecast for the next two years. European Commissioner for Economic and Monetary Affairs Olli Rehn has said that the growth in Europe came to a standstill and that **there is a risk of a new recession**. According to this forecast, economic stagnation will last until 2012.

Economic growth has stalled

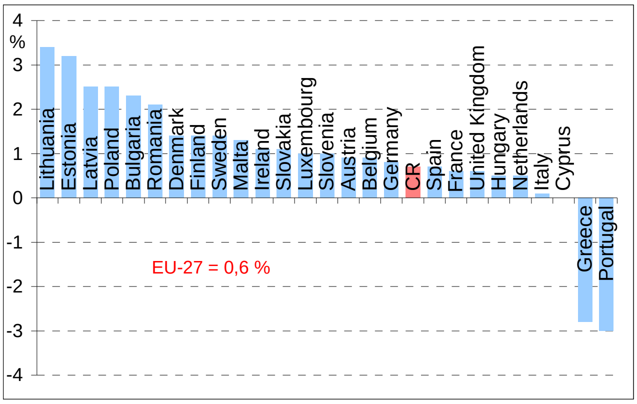
Annual GDP growth in 2012 is estimated **at 0.6%** in the EU and 0.5% in the euro area. A return to slow growth of 1.5% is expected not until 2013. The economic outlook in Europe is not good for investment either. According to Brussels, the uncertainty associated with the spreading debt crisis in the eurozone will force enterprises to increase cost saving. The same will apply to households. Banks will restrict lending.

Outlook of the Czech economy

The Commission also **reduced the outlook for the Czech economy**. In spring, Brussels expected a growth of 2% this year in the Czech Republic, but now it is about two tenths of a percentage point less. The prospects for next year are worse too. In spring, the Commission estimated a growth of 2.9%, **but now it is only 0.7%.**

The unemployment rate should slightly increase in 2012 to 7%. While in the EU **inflation** will fall, it will **increase to 2.7% in the Czech Republic due to higher VAT**. There will be a slight increase of public debt to 41.9%. The deficit of public budgets will cosmetically improve. It will reach the value of -3.8% of GDP.

Real GDP growth in 2012



Source: European Commission

The unfavourable future prospects will be reflected **in the labour market**. The relatively high unemployment rate oscillating around 9% will not decrease before 2013.

Public finances continue to improve gradually

Budget deficit outcomes for 2011 are now projected at **4.7% of GDP in the EU** and 4.1% in the euro area. The general austerity steps should reduce the deficits in the future to represent in 2012 3.9% in the European Union and 3.4% in the euro area. **The aggregate debt-to-GDP ratio** is expected to peak in the European Union **at about 85%** in 2012 and to remain at the same level in the following year. The situation in the euro area will be slightly worse as compared to the whole of the European Union.

Abating inflation

Energy prices have been the main driver of inflation in 2011. As the European Commission expects their gradual decrease, **headline inflation is expected to fall back below 2%** in 2012. Persistent slack in the economy will continue to hold back underlying price pressures, while wages are expected to grow only moderately.

Key macroeconomic indicators

In %	EU-27			CR		
	2011	2012	2013	2011	2012	2013
Real GDP	1.6	0.6	1.5	1.8	0.7	1.7
Unempl. rate	9.7	9.8	9.6	6.8	7.0	6.7
Inflation	3.0	2.0	1.8	1.8	2.7	1.6
Gov. balance	-4.7	-3.9	-3.2	-4.1	-3.8	-4.0
Gov. Debt	82.5	84.9	84.9	39.9	41.9	44.0

Source: European Economic Forecast - autumn 2011

Risks to the outlook strongly tilted to the downside

According to the document, some countries, such as **Greece or Portugal**, **do not have much chance to get out**

The European Commission tabled several proposals based on which Brussels could control national budgets and, in extreme cases, even administer the economy of a member country in troubles. Hungary has demonstrated that the current debt crisis is not confined just to the euro area. In November, Hungary turned to the EU and the IMF with a request for a precautionary financial aid. The Commission presented a legislative proposal regulating the activity of auditors.

of recession next year. The economy of Cyprus should stagnate, while Italy, which is the most serious candidate to become the next victim of the debt crisis, should experience a microscopic 0.1% growth.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1331

Eurozone rescue plan enters endgame

Eurozone finance ministers approved methods at the Eurogroup meeting that **allow the Financial Stability Facility (EFSF) increase its capacity**. The rescue fund currently amounts to EUR 440 billion.

However, in view of the loans that the EFSF has already provided to countries, such as Greece, Ireland and Portugal, its **current capacity is close to EUR 250 billion**.

The adjustments, thanks to which the fund can now guarantee bonds of indebted countries up to 20-30% and create common investment funds, to which private and public investors will be able to contribute, **will not be enough for the possible rescue of Italy or Spain**.

The amount considered now in Brussels is i**n the range of EUR 600-750 billion**. Possible rescue of Italy and Spain would require only the first three years approximately EUR 1 trillion.

Finance Commissioner Olli Rehn has reiterated that the Eurogoup is seeking **the involvement of the IMF** in the rescue efforts "through bilateral loans or investments".

In connection with the increase of the funds in the IMF there are also speculations on the role, which could be played in this process by the European Central Bank.

There are rumours that the IMF might act as a middleman through which **the ECB would provide assistance to the indebted countries**. This would require a substantial turnaround particularly from Germany, which has so far refused to speak about the involvement of the ECB.

Dublin was commended by the eurozone representatives for the successful implementation of its reforms. Accordingly, the **next tranche of financial assistance of EUR 8.5 billion** will go to Ireland in January as planned.

After having received written representations from the Greek Prime Minister Lucas Papademos and Greek opposition leaders undertaking to support the austerity programme of 26 October 2011, the Eurogroup decided to **release the long-delayed eight-billion tranche of Greek aid**. Without it, Athens would get into insolvency by the end of the year.

http://www.efsf.europa.eu/mediacentre/news/2011/2011-015-maximising-efsfs-capacity-approved.htm

Brussels seeks powers over eurozone budgets

The European Commission **tabled several proposals** based on which the European Union could scrutinise national budgets and, in extreme cases, administer the economy of countries struggling with uncontrollable debt levels.

The proposals enabling **transfer of the powers to control state budgets to the EU level** come in the form of two new regulations. They were presented alongside the Green Paper, which should start the process of consultations on the introduction of Eurobonds.

The new regulations include the following proposals:

- Forecasts of **independent experts on the development of public debt should be used** by member states for the approval of their budgets.
- All eurozone countries will have to submit their **draft budgets each year to the European Commission by 15 October** for approval.
- **The European Commission** will be able to assess the drafts and then issue an assessment, with the power to request changes and a redraft.
- **Member states** will have the power to ask that the Commission explains to national parliaments its budget recommendations or changes.

The blueprint also suggests that when a country is assessed by the Commission and other eurozone countries as being in a distressed state, **superior administrative control should be given to the European Commission** to monitor its economy.

These changes should be implemented using article 136 of the Lisbon Treaty, which allows eurozone countries to **adopt budget surveillance rules** for themselves, without requiring the approval of those outside the single currency area.

The stricter budgetary surveillance plans came alongside **a public consultation to launch stability bonds** to mutualise debt within the eurozone member states. That would ease market pressure on highly indebted economies but also push up the borrowing costs of healthier countries. This would primarily apply to Germany, which is therefore against this plan in the long term.

Greater control of the state budgets by Brussels (or fiscal union) or common Eurobonds represent a potential tool to address the current debt crisis. Only **the December European Council summit** will decide whether the

proposals will remain on paper or whether they will be implemented.

http://ec.europa.eu/commission_2010-2014/president/news/documents/pdf/regulation_1_en.pdf
http://ec.europa.eu/commission_2010-2014/president/news/documents/pdf/regulation_2_en.pdf

Hungary asked for international aid

Hungarian Prime Minister Viktor Orbán turned to the European Union and the International Monetary Fund with **a request for a precautionary financial aid**. Budapest fears that the economic crisis in Europe will have a serious impact also on its economy. The exact amount has not been established yet.

According to the information from the Hungarian media, Prime Minister Viktor Orbán has emphasized that the country is not dependent on external financing. According to the Hungarian Finance Minister Györgyho Matolcsy, the country does not need IMF support to finance government debt (82% of GDP) or to keep the budget deficit below 3% of GDP (one of the Maastricht criteria to adopt the single euro currency). It only wants **to use all available sources of finance**, including a temporary loan, to stimulate the national economy. According to early statements, the aid should be activated early next year.

Even so, the decision of the Hungarian government may appear surprising. When the first signs of the financial and economic crisis started to show in Europe in 2008, **Hungary was the first country** to turn to the European Union and the International Monetary Fund (IMF) with a request for a similar financial assistance. Because of the sharp austerity measures, by which the rescue loan of almost EUR 20 billion was conditioned, **the agreement failed**.

Orbán admitted at the same time that besides international organisations, the country is **considering assistance from China or Saudi Arabia**.

The European Commission confirmed that it received the request of the Hungarian authorities for possible financial assistance and added that Budapest turned with the same matter to the IMF. The EU executive's statement says that the Commission in cooperation with EU member states and the IMF will now submit the request to analysis.

The situation of Hungary, whose **long-term bonds** were traded at the end of November with **a yield of even more than 9%**, proves that debt problems apply to not only the eurozone states and that the problem has a wider dimension.

http://www.imf.org/external/np/sec/pr/2011/pr11422.htm

http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/809

ENTERPRISE

Brussels to announce audit sector shake-up

Based on the proposals adopted by the European Commission, there should be profound changes **in the way audits are carried out in EU countries**. Through the changes, it wants to lower the potential conflict of interest between the auditors and the audited companies and finally yet importantly, reduce the influence of the so-called Big Four – Deloitte, KPMG, Ernst & Young and PwC.

The role of auditors will be clarified and stricter rules will be introduced for the audit industry in particular to **strengthen the independence of auditors** and ensure greater diversity in the currently highly concentrated audit market.

There are also proposals **for a strengthened and more coordinated approach to the supervision of auditors in the European Union**. Together, all these measures should improve the quality of statutory audit in the European Union and restore confidence in the audited financial statements, particularly statements of banks, insurance companies and large companies listed on stock exchanges.

The proposals regarding the statutory audit of public-interest entities, such as banks, insurance companies and listed companies, envisage measures **to enhance auditor independence and to make the statutory audit market more dynamic**. The key measures in this respect are:

In the future cohesion policy for the period 2014-2020, the member states will be allowed to choose from 11 priority areas only. The European Parliament stepped in the debate on the future form of the EU's seven-year financial framework. Its members are demanding an increase in the budget for research and development, in particular for the Horizon 2020 programme, which should become the successor to the current 7th framework programme (for research and development).

- **Mandatory rotation of audit firms:** Audit firms will be required to rotate after a maximum engagement period of 6 years (with some exceptions). The client will be allowed to return to the original company after four years.
- **Mandatory tendering:** Public-interest entities will be obliged to have an open and transparent tender procedure when selecting a new auditor. The audit committee of the audited entity should be closely involved in the selection procedure.
- **Prohibition of providing non-audit services** by audit firms to their audit clients.
- **European supervision of the audit sector:** The Commission proposes that the coordination of the auditor supervision activities is ensured within the framework of the European Markets and Securities Authority (ESMA).
- The Commission proposes the creation of a **Single Market for statutory audit services** by introducing a European passport for the audit profession, allowing the auditors, after getting a license in one member state, easy and free exercise of their profession throughout the European Union.
- **Cutting red tape for smaller auditors:** The proposal also allows for a proportionate application of the standards in the case of small and medium-sized companies.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1480

ENERGY AND TRANSPORT

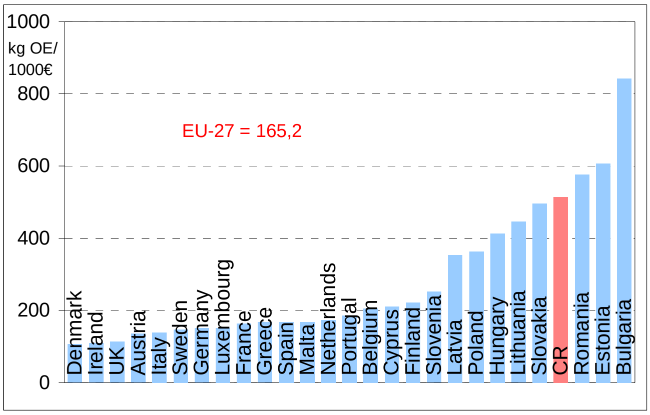
EU energy official 60% confident on efficiency target

The EU's chances of meeting its objective of **cutting energy consumption by 20% by 2020** are about 60%, says European Commission Director General for Energy Philip Lowe.

As the only one of the three "20-20-20" targets, the energy efficiency goal is not legally binding on the EU and even the new draft directive on energy efficiency brings no change in this respect. Lowe said that shortly before the EU's present policies were announced, Europe was only half way to meeting the target. Accordingly, EU legislators did not consider that **the 20% target would be successfully met by 2020**.

While the slowdown of European economy contributed to a decrease in energy consumption, "it has also negatively impacted energy efficiency investment decisions at all levels – public, commercial and private".

Energy intensity of the economy
(Gross inland consumption of energy divided by GDP)



Source: Eursotat; kilogram of oil equivalent per 1 000 Euro

The impact report states that **if nothing is done by the EU** (reference scenario), the 20% energy savings objective for 2020 would not be achieved under current policies – not even by 2050.

With **the new draft of the energy efficiency directive** Brussels believes that the chances of its achieving are more than 50%.

In addition, member states have different opinions on **how energy efficiency should be measured**. It is not clear, for example, whether the reduction of energy should be measured in absolute terms or based on indicators of energy intensity, which would compare the values of energy consumption per unit of production (see chart).

The Coalition for Energy Savings agrees that with a new directive the 20% target for 2020 can be well achieved, but it is necessary to **set binding objectives for the individual member countries**.

EU directive on energy efficiency

- Requires from energy companies to **save annually 1.5% of the energy** that they supply to end consumers. Exemption for companies of up to 50 people with annual turnover of 8 million a year.
- **Since 2014,** the public sector should annually renovate 3% of floor area of its buildings
- **The United Kingdom and the Netherlands** are against this directive

http://ec.europa.eu/energy/efficiency/eed/eed_en.htm

REGIONAL POLICY

EU funds after 2013: States don't like fixed shares

From the material prepared by the Polish Presidency for the informal meeting of ministers for regional development in Poznan, Poland, it follows that **the ministers agree with the proposal** according to which each member state would choose only a few priorities that it wants in the period 2014-2020 to finance from EU funds.

However, the states do not like the way in which the EU executive wants to achieve this concentration. The proposal was presented by the European Commission in its package of regulations on the future of cohesion policy in early October. In this material, **the Commission developed a set of 11 thematic priorities**, from which member states may choose in accordance with the needs of their regions. But as it follows from the proposal, which **envisages earmarking part of the funds in the EFRD and the ESF for certain areas**, some of the priorities would have to be followed by the states.

If the proposal were passed, then after 2013 the states would have to draw a predetermined portion of money from the European Regional Development Fund (ERDF) **for only three priorities proposed by the Commission**:

- research, development and innovation,
- support for small and medium-sized enterprises,
- transition to a low carbon economy.

In the less developed regions (regions of up to 75% of the EU GDP per capita), the amount that should go to these three priorities represents 50% of the funds to which they will be entitled in the next programming period, while in **the more developed regions** it is even 80%.

Similar concentration is envisaged by the Commission's proposal also for the European Social Fund (ESF), which is used to support, for example, **the reforms of educational systems, social inclusion and employment policy**.

The European Commission has justified the proposal for concentrating EU funding on a small number of areas by stating that it is **more efficient to give more money for a small number of priorities**, rather than allowing its dispersal among a wide range of supported areas. This is true on the one hand but on the other hand, the priority areas selected by the European Commission may not correspond to the real needs of certain regions.

http://pl2011.eu/en/content/future-and-development-europe-poznan

EP wants more money for indebted countries

MEPs grouped in the Committee for Regional Policy propose to increase co-financing from EU funds for countries that are currently plagued by serious economic difficulties. **The reason is the need for accelerated investment in growth and job creation**.

According to the MEPs, the rate of co-financing for the regions in the euro area countries (Greece, Portugal, Ireland), but also in countries that have not yet adopted the common euro currency (Hungary, Romania, Latvia) should climb up to 95%.

These are countries, **which have requested assistance in the past** from the EFSF eurozone rescue fund or fall under the system of medium-term financial assistance for balance of payments of member states, which are subject to the decision by the Council of the EU on the Commission's recommendation.Increased co-financing by the EU should only be temporary and should include only projects that will contribute to the growth of economy and the strengthening of its competitiveness.

The MEPs propose that a state could ask for higher co-financing from European funds only if **it gives a clear priority to the relevant projects** and proves that it is not able to provide co-financing by itself for budgetary reasons.

http://www.europarl.europa.eu/news/cs/pressroom/content/20111114IPR31472/html/MEPs-back-faster-EU-regional-funding-for-crisis-stricken-regions

Parliament eyes EU regional money to boost research

The European Parliament has already squared up for a fight with the European Commission over the research budget in connection with the prepared Multi-Annual Financial Framework (MFF) for 2014-2020.

The Horizon 2020 programme should replace in the new budget the existing 7th framework programme for science and research. According to the Commission's proposal, **EUR 80 billion should be earmarked in the budget** for the new communitarian programme for science and research.

However, the MEPs require a budget increase to 100 billion. Horizon 2020 should support projects that are financed by Brussels in the current period from the competitiveness and innovation framework programme and through the European Institute of Technology (EIT).

The requirements of the MEPs to increase money for science and research are likely not to stop with the science and research framework programme. The states should spend **a third of the money** from the resources of the cohesion policy **on investment in research infrastructure**.

Portuguese MEP Maria da Graça Carvalho (EPP) outlined the possible synergies between the Horizon 2020 framework programme and cohesion policy and made radical new proposals to encourage member states to divert more money from structural funds for science and research. According to Carvalho, the states, which would allocate greater part of the money to research, could ensure easier access to the Horizon 2020 funding.

While Horizon 2020 is a programme that is funded directly from the EU budget and the project teams in it compete for aid from EU money with teams from other member countries, the resources of cohesion policy are managed by each state itself. For this reason, it is advantageous **for new member states**, including the Czech Republic, **to preserve the current model of funding through cohesion policy**.

http://ec.europa.eu/research/horizon2020/index_en.cfm

EMPLOYMENT AND SOCIAL POLICY

Top-paying jobs grow but that's not all good news, say analysts

From the report on the situation in the European labour market prepared by the European Foundation for the Improvement of Living and Working Conditions (Eurofound) it follows that **employment in top-paying jobs grows**. This applies particularly to knowledge-intensive services and businesses (e.g. IT services, consultants' services, etc.). On the other hand, **employment is sharply declining in sectors with medium-paying jobs**, typically in construction and manufacturing.

The recession has accentuated **the long-running shift in employment** away from manufacturing and towards services, highlighting the polarisation of the employment market between the growing high-paid and declining low-paid jobs. The outlook of the kind of employment we are going to see in the coming years is quite worrying.

Europe is losing jobs that are reasonably well-paid compared to the level of education required. They are predominantly **male jobs in construction and manufacturing** that have enjoyed a wage premium for many years.

According the European employers' organisation BusinessEurope (its members include also the Association of Industry and Transport of the Czech Republic), this is **caused by the rigidity of labour markets**. Industry representatives say that rigidity has a negative impact on voluntary job movement as it makes it more difficult for workers to search for new or better paid employment opportunities.

The estimates of the employers' organisation show that by 2020, **Europe will need 16 million highly skilled workers** and **3.5 million medium-skilled workers**. According to BusinessEurope, the demand for low-skilled people will decline by 12 million at the same time. The employers' representatives also point out that **not everything can be outsourced to China or India** and that Europe needs to have production in its territory.

French socialist MEP Pervenche Berès, chairwoman of the Employment and Social Affairs Committee, has said that **education and vocational training are key to get Europe out of the current crisis**. Berès insisted that governments also have to come up with new investment strategies as well as reform taxation systems, alleviating fiscal pressure on labour. Recent data from Eurofound shows that training paid by employers is at its highest level since 1995 for the older, EU-15 member states.

OECD estimates show that 1% decrease in employers' social security contribution **leads to a 0.6% increase in employment**. Sweden, which has cut its labour taxation in 2007, had about 6 billion Swedish krona less in the public treasury. However, Swedish government believes that the reform is still self-financing as it is offset by higher employment (and thus higher tax payments).

http://www.eurofound.europa.eu/pubdocs/2011/41/en/1/EF1141EN.pdf

Of the other events of the month of November worth mentioning is in particular the decision of the European Central Bank to reduce further the key interest rates in the eurozone. In response to the development of the debt crisis, the European Commission has prepared a proposal for a directive and a regulation, which should regulate the credit rating agencies. European Energy Commissioner Günther Oettinger brought good news.

2 NOVEMBER

€3.9 million from European Globalisation Fund to help 528 former construction workers in Italy: http://ec.europa.eu/social/main.jsp?langId=cs&catId=89&newsId=1107

4 NOVEMBER

ECB - The interest rate will be decreased by 25 basis points: http://www.ecb.europa.eu/press/pr/date/2011/html/pr111103.en.html

8 NOVEMBER

Commission publishes EU cereals market information: http://ec.europa.eu/agriculture/newsroom/60_en.htm

Digital Agenda: EU & US conduct readiness tests for cyber attacks in "Cyber Atlantic 2011": http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1305

9 NOVEMBER

MEPs call for strong EU line ahead of Durban climate talks: http://www.europarl.europa.eu/news/en/headlines/content/20111104STO30697/html/MEPs-call-for-strong-EU-line-ahead-of-Durban-climate-talks

Budget 2012 negotiations in full swing: http://www.europarl.europa.eu/news/cs/pressroom/content/20111107IPR30755/html/Budget-2012-negotiations-in-full-swing

Local and regional dimension of the Eastern Partnership: http://www.cor.europa.eu/pages/PressTemplate.aspx?view=detail&id=a4b14e28-d318-4e8c-b896-640db33b7f52

10 NOVEMBER

Spotlight on trade negotiations with Canada: http://www.europarl.europa.eu/news/en/headlines/content/20111104STO30698/html/Spotlight-on-trade-negotiations-with-Canada

14 NOVEMBER

MEPs to discuss new rules to ensure fair competition on the railways: http://www.europarl.europa.eu/news/en/pressroom/content/20111111IPR31305/html/MEPs-to-discuss-new-rules-to-ensure-fair-competition-on-the-railways

21% of the part-time employed in the EU would like to work more hours: http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1113

Report shows overall positive impact of mobility of Bulgarian and Romanian workers on EU economy: http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1114

EEA: European transport sector must be ambitious to meet targets: http://www.eea.europa.eu/pressroom/newsreleases/european-transport-sector-must-be

Commission: Tackling double taxation for a stronger Single Market: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1337

15 NOVEMBER

More efficient cooperation in collecting excise duties: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1339

Consumers: EU move to reduce cigarette ignited fires to save hundreds of lives each year: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1342

Food: new legislation to make the use of additives in the EU safer and more transparent: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1341

16 NOVEMBER

Commission adopts 2012 Work Programme for European Renewal: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1344

World leaders talk climate in Durban: http://www.eib.org/about/news/world-leaders-talk-climate-in-durban.htm?lang=en

17 NOVEMBER

Roma discrimination must no longer be tolerated in Europe: http://www.europarl.europa.eu/news/en/pressroom/content/20111111IPR31311/html/Roma-discrimination-must-no-longer-be-tolerated-in-Europe

EU aid worth €42.3 million to find new jobs for redundant workers in Ireland, Austria and Greece: http://www.europarl.europa.eu/news/cs/pressroom/content/20111116IPR31607/html/EU-aid-worth-%E2%82%AC42.3m-for-redundant-workers-in-Ireland-Austria-and-Greece

Rail services: Parliament puts single European area back on track: http://www.europarl.europa.eu/news/en/pressroom/content/20111116IPR31605/html/Rail-services-Parliament-puts-single-European-area-back-on-track

Commission wants better quality credit ratings: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=5568

18 NOVEMBER

International agreed rules to speed up introduction of electric vehicles: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=5573

21 NOVEMBER

EU budget at glance - updated with latest figures: http://www.europarl.europa.eu/news/en/headlines/content/20111107MUN30717/html/EU-budget-at-glance-updated-with-latest-figures

€ 17 million additional EU support for the promotion of fresh fruit and vegetables following the E-coli crisis: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1373

22 NOVEMBER

Commission updates the EU list of air carriers subject to an operating ban: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1375

MEPS want concerted action on illegal online gambling: http://www.europarl.europa.eu/news/en/headlines/content/20111118STO31845/html/MEPS-want-concerted-action-on-illegal-online-gambling

23 NOVEMBER

Study proposes programme to help keep elderly in work: http://ec.europa.eu/research/headlines/news/article_11_11_23_en.html

24 NOVEMBER

Climate change: Enhancing EU rules for monitoring greenhouse gas emissions: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1391

Need for action on aviation emissions clearer than ever: http://www.europarl.europa.eu/news/en/headlines/content/20111118STO31852/html/Need-for-action-on-aviation-emissions-clearer-than-ever-Liese

25 NOVEMBER

Nuclear safety: stress tests well on track: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1450

28 NOVEMBER

Internal Security: The EU needs better tools to fight crime, terrorism and extremism: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1453

29 NOVEMBER

Food: Commission launches final discussions with Member States on list of health claims: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1460

30 NOVEMBER

European Toy Safety Campaign: Ensuring safety for our children: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1467

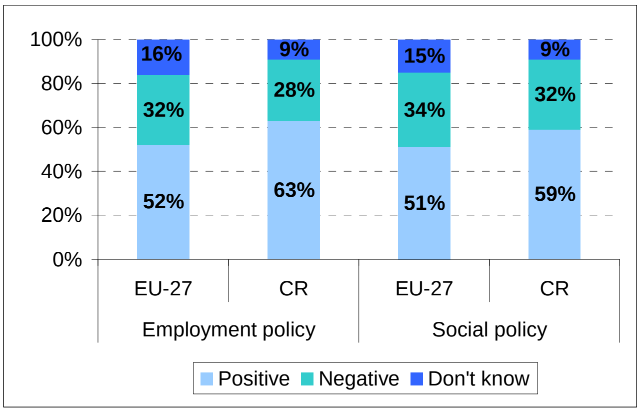
Schengen: stricter EU rules to prevent illegal border checks, says Parliament: http://www.europarl.europa.eu/news/cs/pressroom/content/20111129IPR32707/html/Schengen-stricter-EU-rules-to-prevent-illegal-border-checks

Pooling excess Eurozone debt could be the Euro's survival route: http://www.europarl.europa.eu/news/cs/pressroom/content/20111130IPR32785/html/Pooling-excess-Eurozone-debt-could-be-the-Euro's-survival-route

Commission puts forward proposals for faster, easier and cheaper solutions to disputes with traders: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1461

Social survey: doubt on end of crisis continues, but trust in EU's ability to make positive impact remains: http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1115

Do you think the EU has a positive or negative impact in the following two areas?



Source: Eurobarometer 2011

The dominant event in December will undoubtedly be the regular meeting of the European Council. Although it is an annual event, it will be a historic summit this time. Its main theme will be tackling the debt crisis of the eurozone. The situation on the financial markets has already reached the limit of sustainability and the summit must adopt a credible solution to the current critical situation, failing which there is danger of EMU disintegration.

Meeting of the key EU institutions

30 Nov – 1 Dec 2011	**Brussels, Belgium**	- EP Plenary Session
30 Nov – 1 Dec 2011	**Brussels, Belgium**	- Foreign Affairs Council
1 – 2 Dec 2011	**Brussels, Belgium**	- Employment, Social, Health & Consumer Affairs Council
5 Dec 2011	**Brussels, Belgium**	- General Affairs Council
5 – 6 Dec 2011	**Brussels, Belgium**	- Competitiveness Council
8 – 9 Dec 2011	**Brussels, Belgium**	- European Council
12 – 13 Dec 2011	**Brussels, Belgium**	- Transport, Telecommunications & Energy Council (Transport/Telecom)
12 – 15 Dec 2011	**Strasbourg, France**	- EP Plenary Session
13 – 14 Dec 2011	**Brussels, Belgium**	- Justice and Home Affairs Council
15 – 16 Dec 2011	**Brussels, Belgium**	- Agriculture and Fisheries Council
16 Dec 2011	**Brussels, Belgium**	- Formal Meeting of Minister Responsible for Cohesion Policy within General Affairs Council
19 Dec 2011	**Brussels, Belgium**	- Environment Council
16 – 19 Jan 2012	**Strasbourg, France**	- EP Plenary Session

Source: www.europa.eu – 8 December 2011

This year's 6th October brought an essential contribution of the European Commission's Directorate General for Regional Policy to the discussion on the future shape of cohesion policy for the programming period 2014-2020. This step gave an official stamp to the debate, which has started at a slower pace almost two years ago. For more information read the following pages.

EU FUNDS: PROPOSAL FOR A REGULATION OF THE EUROPEAN COMMISSION FOR THE PERIOD 2014-2020

INTRODUCTION

For a number of fast-growing countries cohesion policy represented during the just completed decade a significant stimulating factor, which in the case of economies of our type contributed to the GDP growth rate with approximately one percentage point per year.

In this way, it has become a factor contributing significantly to the real convergence process, especially in Central and Eastern European countries, in which it significantly accelerated their growth potential. Direct effects of cohesion policy in the past decade also lie in the creation of more than one million jobs, improved skills and employability for more than ten million people, support for the establishment of more than 800 thousand small and medium-sized enterprises and the construction of more than 2,000 km of motorways and 4,000 km of rail.

The proposal for a regulation for the next period embodies in itself the European Commission's vision of cohesion policy, which should be in the next period even more closely focused on the European economic priorities to demonstrate its success also in the future. It is also for this reason that the content of the regulation proposal is focused on the support of measures toward growth and job creation in accordance with the Europe 2020 strategy.

The subsequent step will be the adoption of the final versions of the regulation proposal following discussions at the level of the member states and the European Parliament and then based on the knowledge of the final rules and conditions, the process of negotiating partnership agreements will be started, pursuant to which the interventions within cohesion policy will be targeted on several priority areas defined in accordance with the above described purpose. In this way, the EU member states will define clearly formulated and measurable objectives.

At the same time, the proposal foresees a requirement, which is controversial for many member states, for the creation of a reserve from which regions with the best results as regards the cohesion policy objectives are to be rewarded. Cohesion policy should be implemented under conditions in which the investments and interventions in favour of development and employment will not be degraded by poor and undisciplined macroeconomic policies or weak and inadequate administrative capacity. In the case of a demonstrable inappropriate environment, which is not responsibly addressed by a member state and remedied in the form of compelling action, it is proposed that the European Commission will be entitled to request a review of the programmes or to suspend the funding.

To ensure that the interventions and investments are made in a responsive and transparent environment, the proposal is aimed at simplifying and harmonising the rules of the respective funds, including the rural development and the maritime and fisheries funds.

Five funds should be managed by a common set of rules. This integrated approach should ensure mutual interconnection and interdependence of interventions at the level of the regions to ensure that synergies are achieved between them and that the interventions do not constitute mutually isolated projects. It is only under these conditions that amplification of the impacts and effects of the supported projects can be achieved.

The next period should also put a strong emphasis on investments and interventions in the social field, also in the spirit of the Europe 2020 strategy, i.e., mainly through addressing social problems through active educational approach and employment ambitions on the labour market.

The European Social Fund should thus be complemented by the European Globalisation Adjustment Fund and a new programme initiative – Programme for Social Change and Innovation, whose purpose is to offer the EU citizens an acceleration tool to help them to cope better with new challenges in finding adequate positions and employment on the labour market.

Cohesion policy should be adapted to the needs of the first half of the 21st century and in addition to fulfilling its primary role – overcoming significant socio-economic and territorial disparities between member states and their regions – it should also implicitly contain a dynamic development element contributing to the growth of prosperity of the EU as a whole.

In the case that the elimination of disparities is directed towards the poorest and least developed member countries and regions, there would be approximation, but

in an entirely undesirable direction. It is therefore necessary to accelerate through the cohesion policy the economic ability of the less developed EU regions, so that they could evenly benefit from the environment of the Single Internal Market in the broadest imaginable economic relations with the most advanced regions.

It is also for this reason that strong emphasis should be given among the supported areas on ensuring that cohesion policy would represent a significant accelerator of growth and competitiveness (which in terms of volume can never be measured against the relevance of the investments coming from private sources, not even the investments from national public sources, which, however, in the coming period of weak economic growth and radical national fiscal consolidation in many member states will find themselves under considerable pressure, but which may become the proverbial accelerator that can trigger the private or national public funds in a sufficient degree).

Even in this orientation on growth and competitiveness, the future beneficial usefulness of EU funds should assert itself more strongly. Their impact should be amplified by the orientation of the instruments of cohesion policy, which comply with its purpose and, at the same time, have a strong effect on economic development – on small and medium-sized enterprises, innovation and energy efficiency.

Also in this respect, accentuating not only the socio-economic but – where possible – also the financial return, we can see simplification and modernisation of cohesion policy and creation of conditions for better measurement of its performance and results as well as stimulating incentives for those who successfully handle its management.

The social dimension of cohesion policy has been expanded: the proposal sets the minimum share of the European Social Fund and increases the share of the European Globalisation Adjustment Fund. In an effort to overcome the longer-term crisis manifestations, strong emphasis is placed on the human factor.

The approach is based on the assumption that in the spirit of this strategy the invested funds are transferred into real life so that when economic recovery is achieved, a significant number of jobs would be created even in the territories now strongly affected by structural unemployment and job opportunities would be found for millions of citizens.

STRUCTURE

Individual components of the package of the proposal for a regulation of the European Commission for EU Cohesion policy for 2014-2020:

- **General regulation** setting out common rules for drawing money from the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). The common rules will allow their better combination, which will increase the effect of EU activities;
- **Three specific regulations** for the ERDF, the ESF and the Cohesion Fund;
- **Two regulations** dealing with the European Territorial Cooperation goal (ETC) and the European Grouping of Territorial Cooperation (EGTC);
- **Two regulations** on the European Globalisation Adjustment Fund (EGAF) and the EU Programme for Social Change and Innovation (EUPSCI);
- **Communication** on the European Union Solidarity Fund (EUSF).

The proposals will now be discussed by the EU Council and the European Parliament. The aim is to adopt the whole set of measures for the proposals for regulations by the end of 2012, so as to enable negotiations in 2013 on the shape of the architecture of the EU cohesion policy between the member states and the European Commission and subsequently to initiate a new generation of its programmes in 2014.

At the same time, the negotiations on the final shape of the multiannual financial framework for the entire EU budget will continue. The European Commission has already proposed that in the period 2014-2020 EUR 336 billion will be allocated on cohesion policy.

The final distribution of the funds among member states and the list of eligible regions according to categories will be decided on after the adoption of the final shape of the proposed package of measures for the regulations.

DESCRIPTION AND ANALYSIS

The Cohesion policy is implemented by programmes which run for the duration of the EU seven-year cycle. The current 455 programmes are foreseen until the year 2013 (plus the period of the following two years). This is why it is necessary to define the architecture of cohesion policy for the new generation of programmes and allocations for the period 2014-2020.

This proposal for legislative measures for the regulations includes an overarching regulation setting out common rules for the ERDF, the ESF, the Cohesion Fund, the EAFRD and the EMFF – that is one set of rules with common structure and logic instead of five.

Since the EU has defined new long-term objectives for growth and jobs in the form of the Europe 2020 strategy, there is a need to align cohesion policy better to make it more streamlined and compatible for achieving the agreed targets of Europe 2020 in employment, education, poverty reduction, innovation, research and development and climate (renewable energy, energy efficiency and greenhouse gas emissions).

This is closely connected with the impacts of the global – or rather pan-Atlantic – economic crisis, unemployment and poverty, climate change, and other challenges that affect all regions of the European Union. Given their share of the overall expenditure of the budget of the European Union, cohesion policy instruments are the key factor in boosting Europe's economic competitiveness, fostering social cohesion, and creating more and better jobs.

The European Commission proposed a number of important changes relating to the form and mechanisms for the implementation of cohesion policy. Worth noticing are the following:

- Concentrating on Europe 2020 Strategy's priorities of smart, sustainable and inclusive growth;
- Improving coordination of various types of EU actions with cohesion policy;
- Rewarding performance within cohesion policy;
- Supporting integrated programming;
- Greater focusing on results in the form of delivering the agreed quality objectives and their systematic monitoring and evaluation;
- Sound macroeconomic and fiscal environment;
- Reinforcing territorial cooperation;
- Territorial cohesion;
- Further simplifying the processes associated with the implementation of cohesion policy.

The proposal for the general regulation is divided into two parts:

1. The first part contains a series of common provisions for the five Funds with defined structural aims covered by the Commission's Common Strategic Framework. It outlines the common elements on strategic planning and programming; the thematic objectives linked to Europe 2020, which will be the basis for the Funds; and provisions on the Common Strategic Framework and on the subsequent Partnership Contracts to be concluded with each member state. Common rules also cover eligibility, financial instruments, and the management and control principles.
2. The second part of the proposal sets out specific provisions for the ERDF, ESF, and Cohesion Fund. They focus on the mission and goals of cohesion policy, the financial framework, specific programming and reporting arrangements, major projects and joint action plans. The proposals also set out the detailed management and control requirements under cohesion policy and the specific arrangements for financial management.

The fund-specific regulations – or, more precisely, proposals for them – include provisions specific to each Fund (ERDF, ESF and the Cohesion Fund), including their scope, investment priorities and indicators.

General principles

The European Commission anticipates in the proposals the adoption of a series of common principles applicable to all Funds distributing resources within the EU cohesion policy. These include partnership and multi-level governance; compliance with applicable EU and national laws; promotion of equality between men and women; non-discrimination; and sustainable development.

Reinforced strategic programming and thematic concentration on Europe 2020

In order to maximise the consistency between the instruments and impacts of cohesion policy with the enforcement of the EU general development priorities, the Commission proposes to reinforce the strategic programming process.

This involves the creation and adoption of the Common Strategic Framework, Partnership Contracts between the European Commission and the member states, and a set of thematic objectives in line with the Europe 2020 strategy and its objectives.

The Common Strategic Framework, to be adopted by the European Commission, will set out key actions to address EU priorities, will provide guidance on programming applicable to all Funds, including EAFRD and EMFF, and will promote a better coordination of the various EU structural instruments.

Partnership Contracts to be agreed between the European Commission and member states will represent the basic platform for the management and implementation of cohesion policy at national level (in principle, similarly to the current National Strategic Reference Frameworks).

They will define the thematic objectives and the commitments of member states to concrete activities, which should correspond with the Europe 2020 content. The targets should be precisely defined and measurable and they will become part of the performance framework.

Minimum allocations should be set for a number of priority areas where the EU has defined its objectives. For example, in more developed and transition regions (see Box below).

New categorisation of regions for the period after 2014), at least 80% of ERDF resources at national level should be allocated to energy efficiency and renewables, innovation and improvement of the competitiveness of SMEs.

According to the European Commission's proposal, in less developed regions this share will be 50%, reflecting their broader range of investment needs in other areas.

Investments and interventions of the ESF should be fully linked with the EU's objectives and focus on employment, education and reduction of poverty.

At least 20% of the ESF's national allocation will have to be used for projects, eliminating social exclusion and poverty.

New categorisation of regions for the period after 2014

Support under the Cohesion policy should be differentiated based on the definition of three types (categories) of regions:

- **Less developed regions**; whose GDP per capita is below 75% of the EU average; these regions should remain a top priority for cohesion policy;
- **Transition regions**; whose GDP per capita is between 75% and 90% of the EU average;
- **More developed regions**; whose GDP per capita is above 90% of the EU average.

The second – newly introduced – category should cover 51 regions and more than 72 million people, including 20 regions in which it is assumed that by 2014 they will move from the current category of less developed regions to transition regions.

A significant part of the regions of the Czech Republic is significantly close to the border of 75%, while it is highly probable that by the year 2014 up to four regions of the Czech Republic will pass this border and only three regions will remain among the less developed regions. The remaining region of the Czech Republic – the Capital of Prague – is from the very beginning of this calculation in the category of more developed regions (with its value of GDP per capita of around 170% of the EU average it even belongs to the top ten richest regions across the European Union).

In addition, a safety net is created for the regions that are classified as convergence regions in the 2007-2013 period, but whose GDP per capita in the upcoming period will be above the 75% border. Within the transition or even the more developed region categories, they would receive an allocation equal to at least two-thirds of their 2007-2013 allocation.

Minimum shares for the European Social Fund (ESF) will be established according to the Commission's proposal for each category of region – 25% for less developed regions; 40% for transition regions; and 52% for more developed regions. Within the whole EU cohesion policy, the proposed minimum overall share for the ESF is 25% of the budget allocated to cohesion policy, i.e. EUR 84 billion.

The Cohesion Fund will continue to support member states with Gross National Income (GNI) per capita of less than 90% of the EU-27 average. Its thematic focus remains in the field of large transport projects (mainly the Trans-European transport networks – TEN-T) and projects in the field of the environment. Part of the Cohesion Fund allocation (EUR 10 billion) is designed for the exclusive financing of the core transport networks under the newly established Connecting Europe Facility (CEF).

Since the experience with the current financial framework shows that many member states have difficulties in absorbing large volumes of European funds over the limited seven-year period and in view of the fact that the fiscal situation in some member states has made it more

difficult to release funds to provide national co-financing and in order to ease the absorption of funding, the European Commission is proposing a number of steps:

- to fix at 2.5% of GDP of each EU member state the capping rates for cohesion allocations;
- capping co-financing rates at the level of each priority axis within the operational programmes at 75-85% of the cohesion policy resources in less developed regions and outermost regions; 75% for European Territorial Cooperation programmes; 60% in transition regions; and 50% in more developed regions;
- to include certain conditions in the Partnership Contracts regarding the improvement of administrative capacity.

Breakdown of EU cohesion policy funds for the period 2014-2020 as defined in the proposal from the EC

Proposed budget 2014-2020	EUR billion
Less developed regions	162.6
Transition regions	38.9
More developed regions	53.1
European Territorial Cooperation	11.7
Cohesion Fund	68.7
Extra allocation for outermost and sparsely populated regions	0.926
Connecting Europe Facility *)	40.0 **)
European Social Fund	at least 84.0

*Source: European Commission, *) CEF (Connecting Europe Facility for Transport, Energy and Information and Communication Technologies) in Transport, Energy and ICT, **)with an additional EUR 10 billion ring fenced inside the Cohesion Fund*

Better coordination of various types of EU actions with cohesion policy

The Common Strategic Framework contains the top priorities of the European Union and it will apply to all funds, including rural development and fisheries. All Partnership Contracts tailored for and with each member state will find a single European reference frame in accordance with the Common Strategic Framework.

Member states will be allowed to combine the ERDF, European social fund and Cohesion Fund in “multi-fund” programmes to better suit their growth plans, improve coordination on the level of regions and achieve integrated development. The purpose is to allow the biggest impact of EU cohesion policy on the level of regions.

Conditionalities and greater emphasis on performance

Based on the proposals, performance of cohesion policy should be reinforced by the introduction of conditionality provisions, which should encourage the member states to focus the programmes on the fulfilment of Europe 2020 objectives and targets and to introduce greater economic and fiscal discipline.

EU funding should constitute strong incentives for member states to deliver these objectives. Certain ex ante conditionalities must be in place before the funds are disbursed (e.g., the introduction of properly working systems for the implementation of public procurement at member state level). Ex post conditionalities will make the release of additional funds contingent on performance as well.

Ex ante conditionalities – The rationale for the existence of ex ante conditionalities is to ensure that the conditions necessary for effective support from the EU funds are in place. Past and present experience suggests that the effectiveness of investments and interventions financed by the funds have been undermined in some instances by deficiencies in national rules and procedures and by insufficiently functioning institutional structures. The Commission therefore proposes a number of ex ante conditionalities, which are laid down together with the criteria for their fulfilment in the General Regulation. Some conditions are directly related to the thematic objectives of cohesion policy (e.g., appropriate regulatory framework for business support), while others apply horizontally (e.g., rules for public procurement).

Ex post conditionalities – The purpose of using ex-post conditionalities should be to strengthen the performance of cohesion policy and focus on the attainment of Europe 2020 goals. They will be based on the achievement of milestones related to targets linked to Europe 2020 specified in the Partnership Contracts.

A total of 5% of the national allocation of each fund will be set aside in the form of the so-called performance reserve and allocated, during a mid-term review, to the member states for the programmes that have fully met their milestones. On the other hand, failure to achieve milestones may lead to the suspension of funds and a serious underachievement in meeting the targets of a programme may lead to cancellation of the programme.

Sound macroeconomic and fiscal environment and macroeconomic conditionalities

Establishing a closer link between cohesion policy and the economic governance of the Union should lead or contribute to a situation where the effectiveness of expenditure under

the cohesion policy would be significantly higher and the expenditure would bring more benefit.

The purpose of this type of measure is to ensure that the effectiveness of the funds is not diluted by unhealthy development of macroeconomic and fiscal policy in individual member states. The closer link should be visible, for example, in the case of the introduction of the excessive deficit procedure (currently applies to 23 of the 27 EU member states), excessive macroeconomic imbalances procedure or the non-performance of the obligations under the European semester of economic policy coordination. It means that the programmes financed by the EU funds can be adapted to changes in economic conditions and circumstances. In certain situations, the Commission could request the review of the Strategic Partnership Contract to support the implementation of Council recommendations.

Refusing or failing to take remedial measures and actions may lead to suspension (in the form of postponement or suspension) of EU funding. It is obvious that the introduction of this procedure should be gradual, starting with amendments to the Partnership Contract and to the programmes in support of Council recommendations to make up fiscal deficit, address macroeconomic imbalances and social and economic difficulties.

Any decision on the suspension of EU funding by the European Commission should also be made in a proportional manner – on the one hand, the effectiveness of this instrument should be felt and, on the other hand, account should be taken of the consequences and implications of this step on the economic and social situation in each member country, depending on specific conditions.

When making these rather difficult decisions, equality of treatment between member states of the European union should be respected, taking into account the resulting impacts. The suspensions should be lifted and funds be made available again to the member state concerned as soon as the member state takes the necessary remedial action.

Common model for management mechanism

The proposal of the European Commission includes concepts of common principles for management and control, which should be identical for all member states. A system of national accreditation of the key control bodies should be put in place to emphasise the commitment of member states to sound financial management.

At the same time, the arrangements for providing assurance to the Commission on the regularity of expenditure should be harmonised and new common elements should be introduced (e.g., a management declaration of assurance and annual clearance of accounts).

Supporting integrated programming

The Commission proposes a key innovation of the future period – an integrated approach to EU interventions and investment within cohesion policy. A practical condition for its application is the identification of common eligibility and financial rules, and the introduction of multi-fund programmes for the ERDF, ESF and Cohesion Fund, as an option.

Increased use of financial instruments

The role of innovative financial instruments in the future period should be substantially enhanced by extending the scope and volume of funds allocated through them, rendering their implementation frameworks more flexible and effective, and enabling their smooth incorporation into the implementation systems. The aim of this aid is their use as a more efficient alternative, or in a complementary way with traditional grants. In accordance with the proposal, the combination of grants with new financial instruments should be possible.

Subject to the area and degree of feasibility, financial instruments can be applied to the full bandwidth of cohesion policy objectives reflected in future programmes, in order to deliver investments in projects that demonstrate appropriate repayment capacity.

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 %	2008	2009	2010	2008	2009	2010	VIII-11	IX-11	X-11	VIII-11	IX-11	X-11
Belgium	1.0	-2.8	2.2	-1.8	0.4	1.4	6.8	6.7	6.6	3.4	3.4	3.4
Bulgaria	6.2	-5.5	0.2	-23.0	-8.9	-1.0	11.7	11.9	12.1	3.1	2.9	3.0
CR	2.5	-4.1	2.3	-0.7	-3.2	-3.8	6.7	6.6	6.7	2.1	2.1	2.6
Denmark	-1.1	-5.2	2.1	2.7	3.6	5.5	7.5	7.6	7.7	2.4	2.4	2.7
Germany	1.0	-4.7	3.6	6.2	5.6	5.7	5.8	5.7	5.5	2.5	2.9	2.9
Estonia	-5.1	-13.9	3.1	-9.7	4.5	3.6	11.3	11.3	n/a	5.6	5.4	4.7
Ireland	-3.5	-7.6	-1.0	-5.6	-3.0	-0.7	14.5	14.3	14.3	1.0	1.3	1.5
Greece	1.0	-2.0	-4.5	-14.7	-11.0	-10.5	18.3	n/a	n/a	1.4	2.9	2.9
Spain	0.9	-3.7	-0.1	-9.6	-5.2	-4.5	22.1	22.5	22.8	2.7	3.0	3.0
France	-0.1	-2.7	1.5	-1.9	-1.9	-2.1	9.8	9.8	9.8	2.4	2.4	2.5
Italy	-1.3	-5.2	1.3	-2.9	-2.1	-3.3	8.0	8.3	8.5	2.3	3.6	3.8
Cyprus	3.6	-1.7	1.0	n/a	n/a	-7.7	7.6	7.9	8.2	2.7	2.5	3.2
Latvia	-4.2	-18.0	-0.3	-13.1	8.6	3.6	n/a	n/a	n/a	4.6	4.5	4.3
Lithuania	2.9	-14.7	1.3	-13.1	4.3	1.8	15.0	15.0	n/a	4.4	4.7	4.2
Luxembourg	1.4	-3.6	3.5	5.3	6.9	7.8	4.7	4.8	4.7	3.7	3.8	3.8
Hungary	0.8	-6.7	1.2	-7.3	0.4	2.1	10.3	9.9	9.8	3.5	3.7	3.8
Malta	5.3	-3.4	3.7	-7.3	-6.9	-4.1	6.6	6.6	6.7	2.3	2.7	2.4
Netherlands	1.9	-3.9	1.8	4.4	4.9	7.7	4.4	4.5	4.8	2.8	3.0	2.8
Austria	2.2	-3.9	2.0	4.9	3.1	2.7	3.7	3.9	4.1	3.7	3.9	3.8
Poland	5.1	1.7	3.8	-4.8	-2.2	-3.4	9.7	9.8	9.9	4.0	3.5	3.8
Portugal	0.0	-2.5	1.3	-12.6	-10.9	-9.9	12.6	12.8	12.9	2.8	3.5	4.0
Romania	7.3	-7.1	-1.3	-11.6	-4.2	-4.1	7.5	7.7	7.3	4.3	3.5	3.6
Slovenia	3.7	-8.1	1.2	-6.7	-1.5	-1.1	7.8	7.9	7.9	1.2	2.3	2.9
Slovakia	5.8	-4.8	4.0	-6.2	-3.2	-3.4	13.4	13.5	13.6	4.1	4.4	4.6
Finland	0.9	-8.2	3.1	2.9	2.3	3.1	7.8	7.8	7.8	3.5	3.5	3.2
Sweden	-0.6	-5.3	5.7	8.8	7.0	6.3	7.4	7.3	7.5	1.6	1.5	1.1
UK	-0.1	-4.9	1.3	-1.5	-1.7	-2.5	8.3	n/a	n/a	4.5	5.2	5.0
EU	0.5	-4.2	1.8	-2.0	-0.9	-0.8	9.7	9.7	9.8	2.9	3.3	3.4

	Public budget to GDP*			Public debt to GDP			GDP per capita to Ø EU			Price level to Ø EU		
in %	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Belgium	-1.3	-5.9	-4.1	89.6	96.2	96.8	115.0	117.0	119.0	110.4	113.4	111.6
Bulgaria	1.7	-4.7	-3.2	13.7	14.6	16.2	44.0	44.0	44.0	49.2	49.7	50.5
CR	-2.7	-5.9	-4.7	30.0	35.3	38.5	84.0	85.0	82.0	72.2	70.0	72.0
Denmark	3.2	-2.7	-2.7	34.5	41.8	43.6	124.0	122.0	126.0	139.7	144.9	142.5
Germany	0.1	-3.0	-3.3	66.3	73.5	83.2	116.0	115.0	118.0	103.5	105.8	104.2
Estonia	-2.8	-1.7	0.1	4.6	7.2	6.6	69.0	64.0	64.0	77.7	76.6	75.1
Ireland	-7.3	-14.3	-32.4	44.4	65.6	96.2	133.0	128.0	127.0	129.1	126.0	118.2
Greece	-9.8	-15.4	-10.5	110.7	127.1	142.8	92.0	93.0	88.0	91.0	96.5	95.5
Spain	-4.2	-11.1	-9.2	39.8	53.3	60.1	103.0	103.0	100.0	95.2	97.8	96.7
France	-3.3	-7.5	-7.0	67.7	78.3	81.7	106.0	107.0	107.0	111.9	114.2	111.8
Italy	-2.7	-5.4	-4.6	106.3	116.1	119.0	104.0	104.0	100.0	102.9	105.5	103.6
Cyprus	0.9	-6.0	-5.3	48.3	58.0	60.8	97.0	98.0	97.0	88.8	90.1	89.3
Latvia	-4.2	-9.7	-7.7	19.7	36.7	44.7	56.0	52.0	52.0	74.7	73.5	69.3
Lithuania	-3.3	-9.5	-7.1	15.6	29.5	38.2	61.0	55.0	58.0	65.9	66.2	63.5
Luxembourg	3.0	-0.9	-1.7	13.6	14.6	18.4	279.0	267.0	274.0	117.5	121.1	119.9
Hungary	-3.7	-4.5	-4.2	72.3	78.4	80.1	64.0	64.0	63.0	69.3	64.3	65.5
Malta	-4.5	-3.7	-3.6	61.5	67.6	68.0	78.0	81.0	83.0	77.3	79.8	78.9
Netherlands	0.6	-5.5	-5.4	58.2	60.8	62.7	133.0	131.0	133.0	104.8	109.0	106.1
Austria	-0.9	-4.1	-4.6	63.8	69.6	72.3	124.0	125.0	126.0	105.4	107.6	107.1
Poland	-3.7	-7.3	-7.9	47.1	50.9	55.0	56.0	61.0	62.0	69.1	57.9	62.6
Portugal	-3.5	-10.1	-9.1	71.6	83.0	93.0	78.0	80.0	81.0	88.0	88.7	87.6
Romania	-5.7	-8.5	-6.4	13.4	23.6	30.8	47.0	47.0	45.0	62.8	57.8	58.6
Slovenia	-1.8	-6.0	-5.6	21.9	35.2	38.0	91.0	88.0	86.0	82.3	84.4	84.0
Slovakia	-2.1	-8.0	-7.9	27.8	35.4	41.0	72.0	73.0	74.0	69.6	72.4	71.2
Finland	4.2	-2.6	-2.5	34.1	43.8	48.4	119.0	114.0	116.0	121.3	125.4	122.9
Sweden	2.2	-0.7	0.0	38.8	42.8	39.8	123.0	119.0	123.0	113.2	107.7	119.8
UK	-5.0	-11.4	-10.4	54.4	69.6	80.0	114.0	113.0	114.0	102.1	95.2	100.3
EU	-2.4	-6.8	-6.4	62.3	74.4	80.0	100.0	100.0	100.0	100.0	100.0	100.0

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