EU News
Monthly Journal

Number 109,
October 2012

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Dear readers,

The innovative mood supported by positive feedback from you (thank you for it!) remained with us in September, when we prepared two new features for you.

The first is the promised transformation of the Statistical Window section, for which Tomáš Kozelský has assumed responsibility. While we previously focused purely on macroeconomic indicators, now we also would like to monitor microeconomic statistics. Therefore, a new feature in the EU Monthly allows you to compare, for example, reasonable wages in all EU member states, average interest rates of mortgage loans and average electricity prices. Take a look at page 18. In the next Monthly we will take another look at GDP, public finances and similar topics. We have created two sets of monitored statistics, which will be regularly rotated.

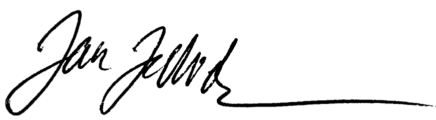
We expect the second new feature to make our bulletin more attractive. In the October issue we have begun cooperation directly with the European Commission, and therefore in each issue you will find the chapter "Commission's Column", which will be completed by the European Commission's representation in the Czech Republic. To start with, they have sent us some of the most interesting topics. The column focuses on significant lifetime advantages, which even staunch critics of European integration consider to be benefits. You can read more about this on page 6. Help: celebrates 20 years of its functioning.

Otherwise, September has brought back to their everyday responsibilities not only schoolchildren, but also European institutions, who in August usually enjoy vacation. And they began immediately with a bang. The European Commission through its Chairman José Barroso presented a proposal for introducing a Banking Union, which among other things would establish joint supervision over banks as well as a joint system of deposit insurance. The proposal is such an upheaval (and so controversial) that we have devoted a special commentary to it in the Microscope section.

However, from the point of view of interest from the media and mainly from investors, Barroso's proposal was outdone by the chairman of the European Central Bank, Mario Draghi. He heard the call from financial markets and introduced a new mega weapon in the fight against the Eurozone's debt crisis. It is based on unlimited purchases of state bonds by the European Central Bank on the inter-bank market. Although the launch of the program for bonds of a selected country is accompanied by the condition that the particular country must carry out austerity and reforms, here alone the central bank is skating on thin ice.

However, the Czech Republic has been focused on the methanol scandal, which culminated with some countries banning the importation of hard alcohol from the Czech Republic. This topic even has a European dimension, and therefore the Monthly has not avoided it either. Dear Readers, Jan Jedlička wishes you pleasant reading of the October issue, whether with or without a glass of good defect-free alcohol.

Jan Jedlička



European Parliament to vote again in October over "Czech exception". European Commission introduces proposed Banking Union, European Central Bank expected to get right to perform random checks and revoke licenses of Eurozone banks. European Central Bank could also help resolve the debt crisis in the Eurozone. German Constitutional Court decides that Germany may ratify the ESM. China gets investigated by European Commission over dumping.

POLITICS

Klaus's exception strikes again, voting in the EP committee must be repeated

The European Parliament's committee for constitutional matters has narrowly approved (by 12 to 11 votes) the report about the so-called Czech exception to the EU Charter of Fundamental Rights. However, the result of the vote was later questioned, and therefore the process will be repeated at the beginning of October. Czech President Václav Klaus introduced the discussed exception at the end of 2009 as a condition for signing the Lisbon Treaty due to concerns over potential property claims from Sudeten Germans.

At the committee's session, the Socialists' proposal that the European Council not address the discussed exception at all in the future **was also rejected**. In such situation, the exception would not be able to become valid.

If Klaus's exception receives the green light in October, it head to the European Parliament. Although it only has a consultation role, a statement from MEPs is essential in order to ensure that voting regarding adoption of the document can be participated in by member states who already pledged to adopt it in 2009.

If the 27 EU states adopt the document, which was originally supposed to be part of the accession agreement with Croatia, the Czech Republic will join Poland and Great Britain, which have already discussed the proposed exception from the Charter in the past.

http://www.europarl.europa.eu/ep-live/en/committees/video?event=20120917-1500-COMMITTEE-AFCO

ECONOMY AND EURO

European Commission introduces proposed banking union

The European Commission **has proposed granting greater powers to the European Central Bank**. As a result, the European Central Bank could gain the right to carry out random checks and revoke licenses in all banks of the Eurozone. Such authority is currently enjoyed only by national central banks. Its powers could also affect states that do not use the single currency.

The ECB is expected to assume its new role as of next June and should gradually obtain full authority by the beginning of 2014.

In any case, the proposal will have to undergo discussions between the governments of member states and the European Parliament. In order for the European Commission's idea to be implemented in practice, it **must be approved by all 27 EU member states** and the European Parliament. A problem could arise particularly in relation to two points.

The ECB is expected **to acquire the right to supervise all banks in the Eurozone.** However, Germany rejects this idea. Last week Finance Minister Wolfgang Schäuble criticized the idea and argued that only banking institutions that are important for the system should be under supervision. A large percentage of the European banking system is comprised of small banks. More than 90% of assets are in the hands of the 200 largest institutions.

Another issue that needs to be addressed is the proposal that the ECB also have the ability to supervise banks in states outside of the Eurozone. Those states would enter into **a formal agreement on "close cooperation"** with the European Central Bank. On its basis, random checks would also be performed. Some states naturally are not in favor of this idea. Its main opponent is Great Britain. Although the Czech Republic is not part of the Eurozone, according to European Commissioner Štefan Füle banking supervision will also be important for the Czech Republic.

If you are interested in our opinion, have a look at the Microscope section.

http://ec.europa.eu/internal_market/finances/docs/committees/reform/20120912-com-2012-511_en.pdf

ECB decides to help resolve the debt crisis in the Eurozone

The European Central Bank resorted to an extraordinary step when its president, Mario Draghi, announced following a session of the ECB board that **the bank would newly purchase bonds from the most indebted states in the Eurozone**. He would like for these states to be able to borrow less expensively and would like to gain time for European politicians to resolve the debt crisis in the Eurozone.

The European Central bank intends in the future **to buy bonds of the countries most affected by the debt crisis**. Therefore, the ECB basically intends to carry out unlimited purchasing of bonds with maturity of from one to three years from the most indebted states, which as a result will be able to borrow less expensively.

However, this assistance will not be intended for everyone. The bank will set strict conditions regarding who will receive it. It will involve states that request financial assistance from Eurozone rescue funds and that do not object to its terms.

The ECB already stated its willingness to purchase bonds several times in the past, such as in the spring of 2010, when **it bought state bonds worth approximately 210 billion euros** (about CZK 5.3 billion). However, since they did not achieve the desired results, they abandoned the practice.

According to ECB President Draghi, the current practice will be different. **The bank will be able to withdraw from purchases** if it becomes apparent that the particular state is not fulfilling the agreed conditions for assistance. The ECB also plans to issue regular reports about purchases of bonds, so the entire process can be recognizably more transparent than in the past. Another change is the mentioned three-year maturity of the obligations.

Western European exchanges reacted to the ECB's announcement of its plan to purchase bonds of problematic states with growth, which, however, according to the most recent reports has slowed.

http://www.ecb.int/press/pressconf/2012/html/is120906.en.html

Germany may ratify ESM, Karlsruhe court decides

After lengthy expectations, the German Constitutional Court has decided that **Germany may ratify the European Stabilization Mechanism**, the Eurozone's so-called permanent rescue fund. Without the participation of the largest European economy, the ESM could not even begin to function. The judges also gave the green light to ratification of the fiscal pact.

The German Constitutional Court decided that Germany may ratify the establishment of the Eurozone's permanent rescue mechanism, the European Stability Mechanism (ESM), which was agreed upon a year ago at the EU summit and which is intended to **replace the existing European Financial Stability Fund** (EFSF).

Germany was the last state that still had not approved the creation of the fund. It had been expected t**o become valid already as of July**. The German Constitutional Court's examination of the issue attracted a large amount of attention. One reason for this in particular was that Germany would contribute the largest amount to the rescue mechanism out of all the Eurozone countries. **The ESM began functioning as of October.**

http://www.bverfg.de/entscheidungen/rs20120912_2bvr139012.html

FOREIGN TRADE

Commission investigates Chinese solar importers over dumping

A group of European solar panel producers (from Germany, Italy, Spain and other member states) has complained that Chinese competitors are selling their products in Europe for prices below market value. Therefore, the European Commission has launched an **investigation of Chinese producers of solar panels** and their parts. It intends to examine whether they are selling their products on the European market for dumping prices.

"As far as the price value of imports is concerned, this is the most significant complaint that the Commission has ever received. In 2011 **China exported 21 billion euros worth of solar panels** and their key components to the EU," the Commission noted.

China is the largest global producer of solar panels and **ensures about 65% of global production**. The EU is the largest market for China's exports. Approximately 80% of Chinese solar panels are sold in Europe.

The investigation could take more than a year, but within nine months the Commission is expected to issue a preliminary decision about whether to adopt any specific repressive measures.

http://trade.ec.europa.eu/doclib/press/index.cfm?id=829

ENERGY AND TRANSPORT

Small hydroelectric plants return to Czech streams, with EU support

The EU, as part of its Europe 2020 growth strategy, is pushing for **an increase in the share of renewable energy resources.** By 2020 a total of 20% of energy is supposed to originate from renewable resources. As part of this strategy, the Czech Republic has pledged that renewable resources will cover 13% of gross final consumption.

The potential resources that can be used to achieve this goal include besides solar panels and wind turbines also hydroelectric power plants. Their advantage is flexibility, thanks to which they can cover outages of other sources. Since they are spread throughout the entire country, it is also not necessary to transport energy long distances, which reduces the strain on the grid. They can include both large and small hydroelectric power plants. Based on the EU's definition, **they include facilities with an output of**

Czech Republic to use profits from emission permits to reconstruct buildings, Green Savings project to continue. European regions fear lower joint EU budget, Czech Republic among countries pushing for its reduction. Czech Republic threatens to halt drawing of EU money from the Education for Competitiveness Operational Program, funds to be shifted to other operational programs. Methanol scandal leads to ban on imports of Czech alcohol to EU countries.

up to 5 MW. However, in the Czech Republic, power plants with an output of up to 10 MW are also considered "small" power plants.

Currently they **ensure just under 3% of energy production**. Half of that comes from small power plants. According to the newly prepared State Energy Concept, the opportunities for development of large hydroelectric sources have been significantly exhausted. However, there is still certain potential in smaller power plants, which the Ministry of Industry and Trade would like to make use of gradually.

The development of new small hydroelectric power plants is financially demanding, and the capacity of suitable water streams is limited. Therefore, it makes sense to take advantage of the tradition that small water sources in the Czech Republic have. In the 1930s there were about 15,000 small water cannons in Czechoslovakia. Water cannons that functioned in the past on Czech rivers are often restored.

EU funds are a major source of financing for the development of small hydroelectric power plants. Development subsidies are provided to private entrepreneurs by the Effective Energy program, which is part of the Business and Innovation Operational Program.

http://www.strukturalni-fondy.cz/getdoc/665a13aa-e1ff-484dab28-84e90b454c89/OP-Podnikani-a-inovace

ENVIRONMENT

Czech Republic considers what to do with profit from emission permits

The Czech Chamber of Deputies has approved a bill on trading with emission permits within the ETS system, which is to be governed by new rules as of next year. Beginning next year, **the permits will be sold in auctions**, and businesses will continue to be able to get some of them from the state for free. Now the bill needs to be approved by the Senate and signed by the president before it can become law.

Member states are now considering how to use the profits that they will earn from the sale of permits. According to the rules, member states are supposed **to use a minimum of 50% of the revenues** from emissions trading through auctions to fund projects focused on reducing the amount of emissions. European leaders agreed on that already in December 2008.

The Czech Republic envisions that some of the money **could help finance the reconstruction of public buildings**, such as schools and social and cultural facilities. Another group will be reconstruction of private buildings. The Green Savings program will remain a tool for financial aid. In 2013 a total of 50% of the profits from emission permits is expected to be used for these projects. However, **as of 2014, 36% of the revenues will be used for energy savings** in heat distribution systems and to support savings in industry. Industry and Trade Minister Martin Kuba has insisted on this. The second half of ETS revenues will flow directly to the state budget. The government parties agreed on this in April.

The Environment Ministry predicts revenues from auctions in two scenarios. If there is **a price of 26 euros per ton of CO_2**, the Czech Republic could earn 7.5 billion euros over seven years. If the price of permits rises from the current 7 euros to 14 euros per ton, total revenues could hover at around 3.7 billion. However, individual national plans for the use of revenues from permits as of 2013 are emerging slowly and according to experts are often not specific enough.

http://www.psp.cz/sqw/text/orig2.sqw?idd=123295
http://www.psp.cz/sqw/phlasa.sqw?o=6&s=46&pg=3

REGIONAL POLICY

Regions fear lower EU budget, view economic growth as at stake

If the volume of **the next seven-year EU budget is reduced**, as is being demanded by some member states, European regions are likely to pay the price. This was agreed upon in Brussels by Ramón Luis Valcárel Siso, Chairman of the Committee of Regions, who represents regional and local

governments at the European level, and **European Commissioner for Regional Policy Johannes Hahn**.

If the **next seven-year budget of the EU for 2014-2020**, from which individual EU policies are financed, is significantly reduced, the EU can expect further slowing of the economy. Of all of its policies, regional policy (and cohesion policy) will then be most at risk. Its aim is to eliminate economic and social differences between rich and poor regions of the EU.

The proposed EU budget for after 2014 was introduced by the European Commission in June, and its volume is **expected to be 1.025 billion euros**. However, what form the budget will actually take will depend on an agreement between the European Commission, the European Parliament and member states.

Between member states **there remains a series of disagreements**, such as regarding the amount of the entire multi-year budget, with older member states arguing that during an economic crisis Europe should not spend too much.

The Czech Republic, which is a net recipient of money from the joint European budget, unexpectedly changed its **negotiation strategy at the beginning of this year**. The Czechs, who so far had belonged to the informal negotiating group of "cohesion states", whose members are other net recipients of money from the European budget (Poland, Slovakia, etc.), this year joined a like-minded group of states pushing for reduction of the total volume of the European budget to below 1% of GDP.

Other disputes are related for example to **the issue of financial transaction taxes** (FTT), which could represent additional revenues for the European budget, cohesion policy, common agricultural policy and **the new Connecting Europe Facility** (infrastructure fund; CEF).

http://europa.eu/rapid/pressReleasesAction.do?reference=COR/12/53

Education Ministry: Czech Republic obviously not tapping all money for education

Badly prepared projects and unnecessary delays could deprive the Czech Republic of four to five billion Czech crowns from **European funds intended to finance education during the 2007-2014 program period**. Education Minister Petr Fiala has admitted this.

The Education for Competitiveness Operational Program supports projects focused on improving the quality of and modernizing education and on improving conditions for research and development. **Through it the Czech Republic can draw up to 1.83 billion euros**, which is equivalent to over CZK 45 billion.

Since the program has been accompanied for a long time by substantial complications, it is almost certain that all of the resources from it will not be exhausted by the end of the seven-year period.

Already at the beginning of the year, the European Commission **suspended payment of CZK 1.2 billion to the Education Ministry**, which at the time was headed by then minister Josef Dobeš. The reason was the outcome of an audit, which uncovered serious mistakes in certain program projects.

"**The year 2013 will be critical for this program**," explained Minister Fiala. He says the mistakes date back to 2011.

However, he adds that as of next January drawing should become easier. There is a plan to simplify the administration of projects, and the ministry is reportedly also preparing for negotiations about **a potential shift of funds to other programs** to prevent them from being used up.

The government decided at the beginning of July on a **similar shift of CZK 1 billion to the HR and Employment OP**. Prime Minister Petr Nečas at the time did not rule out another potential shift, which would affect amounts reaching as high as CZK 1.5 billion. According to the prime minister, such step could be taken during the autumn.

Industry and Trade Minister Martin Kuba has asked Petr Nečas's government to shift untapped resources from European funds, which are located in the Education for Competitiveness OP, **to support for technical education in the Czech Republic**.

http://www.martinkuba.cz/media/clanky/ministr-martin-kubareaguje-na-hrozici-nedostatek-kvalifikovanych-techniku-vceskem-prumyslu.html

HEALTH AND CONSUMER PROTECTION

EU also addresses methanol scandal

The Czech Republic was rocked in September by the closely watched methanol scandal. What was initially a local problem grew **into the spread of lethal alcohol through distribution channels** and even became an international problem, which the European Commission even had to address. Some states resorted to banning importation of alcohol from the Czech Republic. An overview of the most important events surrounding the current wave of methyl alcohol poisoning is presented in the following reports from the Czech News Agency (ČTK).

Sep 3	Alcohol poisoning claims its first victim.
Sep 6	The first information about poisoning cases is published.
Sep 12	The government bans the sale of hard alcohol in stands. The ban applies to distilled liquor and rum-flavored liquor with alcohol content of 30% or more.
Sep 14	The Health Ministry completely bans the sale of liquor with alcohol content of 20% or more throughout the Czech Republic. The ban applies to all shops, restaurants, hotels and internet sale; up to then a ban had only applied to stands. The new ban is also stricter with regard to alcohol content; up to then the ban had applied only for liquor with 30% or more alcohol.
Sep 16	Poland bans the purchase and sale of alcoholic beverages from the Czech Republic with more than 20% alcohol.
Sep 18	Slovakia bans the sale of Czech liquor.
Sep 19	The European Commission asks the Czech Republic to ban the export of hard alcohol due to lethal poisoning. The request was announced by a Commission official at a meeting of the European Parliament's Committee for the Environment, Public Health and Food Safety. The Commission due to the risk of threats to public health has the power to disregard the principles of the internal market and theoretically can ban exports on its own.
Sep 20	Finance Minister Miroslav Kalousek signs a decree regarding new revenue stamps, which are intended to help distinguish newly produced alcohol from older alcohol. Health Minister Leoš Heger the day before banned the export of alcoholic beverages containing 20% or more alcohol from the Czech Republic, effective immediately. According to Prime Minister Petr Nečas, the EU wanted to ban exports of alcohol from the Czech Republic for up to two months, which was the reason for the government's decision. The prime minister announces at a news conference that the Czech Republic will be able to eliminate barriers on its own. Liquor producers do not protest against the decision.
Sep 21	Russia bans alcohol imports from the Czech Republic.
Sep 23	Police President Martin Červíček announces that investigators have uncovered the top of the pyramid of producers of liquor spiked with methanol.
Sep 24	Police announce that they have charged two people from the Moravia-Silesia region with endangering public safety.
Sep 26	The government eases prohibition and resumes permission to sell and consume hard liquor manufactured before January 1, 2012, and alcohol produced this year with a proven origin labeled with a "birth certificate", and liquor products begin being given new revenue stamps.
Sep 27	Health Minister Leoš Heger's statement makes the easing of prohibition valid. The export of older liquors and those with a proven origin also becomes permitted. Alcohol produced last year and earlier and bottles of liquor with a proven origin, a "birth certificate", can return to store shelves. The export of older liquors and those with a proven origin also becomes permitted.

The European Commission has been closely monitoring the situation since the notification in the RASFF system and has been in continuous contact with relevant authorities in the Czech Republic and other countries, particularly in Poland and Slovakia.

Only time will tell to what extent individual measures have been successful and how much tainted alcohol will still appear. This scandal may **bring about more control not only over the quality of alcohol**, but also over the black market with it, so that this "failure by inspection bodies" is not repeated.

http://ec.europa.eu/ceskarepublika/press/press_releases/120921_cs.htm

Section "Commission's Column" enhances EU Monthly with articles from European Commission's representative office in Czech Republic. In this issue we have focused on the 20th anniversary of the single internal market in the EU. United Europe has enjoyed free movement of persons, goods, services and capital since 1992 and with more than 500 million citizens amounts to the largest such grouping in the world. This jubilee is accompanied by a series of events, you can read more here.

20 YEARS OF THE SINGLE MARKET

This year we commemorate an important milestone in the history of European integration, 20 years since the creation of the single market. As in the case of each important anniversary, it is appropriate and fitting to remember the successes of those celebrating and to wish them much success and good health in the future.

At the time of its establishment in 1992, the single market of the European Union was available to 345 million people in 12 EU states. Today it includes more than half a billion people in 27 member states. During its existence it has brought about besides strengthening of four basic freedoms - free movement of persons, goods, capital and services - also undisputed advantages to citizens and businesses alike. In many sectors the volume of trade and exports has grown, and consumers have been rewarded with more freedom of choice, better protection and lower prices.

And since most of us get used to advantages very quickly, we now take for granted that today, for example, we can easily switch our mobile phone company or energy provider, shop via online stores abroad from the comfort of our homes or travel inexpensively around Europe thanks to competition among airlines. We can even study, work, invest and live in any other EU member state we wish.

Multinational companies can also enjoy savings as a result of the single market, and the doors to new markets and access to 500 million potential customers have been opened up for smaller companies. It is easier to begin doing business in other EU states or to move some business activities to them. And thanks to the rules for assigning public contracts, our companies can participate in tenders in any EU member states.

Although it was easy to get used to these advantages quickly, it was more complicated to actually implement those four freedoms. Although this has been an ambition of the continuously expanding European Community since the very beginning of European integration in the 1950s, this goal cannot be considered fulfilled even today. In many sectors the single market functions only to a limited extent, such as in the sectors of energy and transport networks, digital services, intellectual property protection and some service sectors.

The European Commission is striving for better functioning of the market and elimination of additional barriers, which is documented by the proposals that the Commission has presented corresponding to the Monti report. The CR has also played a role in the elimination of obstacles, and "Europe without barriers" was the official slogan of the 2009 Czech EU presidency, which considered the single market to be a key tool for economic recovery.

Therefore, on the occasion of this year's anniversary, the words uttered at the end of 1986 in the European Parliament by then British Prime Minister Margaret Thatcher in which she called for the creation of a single market remain relevant today. "We can be proud of how far we have come. But we also must not forget the long path that still awaits us."

In the Czech Republic, the 20th anniversary will mainly be an opportunity for discussion about the further development of the single market. You have the opportunity to get involved in this discussion as part of an event being hosted by the European Commission in the Czech Republic with its partners.

On October 16 and 17 in cooperation with the Office of the Government of the Czech Republic and the Industry and Trade Ministry, a conference will be held in Prague entitled "The European single market: a tool for development and a source of opportunity" which will be attended by Prime Minister Petr Nečas and Industry and Trade Minister Martin Kuba.

European information network fairs will take place in Prague, Liberec, Olomouc and Ústí nad Labem during October, topical debates and seminars will take place in other regional cities. An event with the motto "Europe is in your reach" will present visitors to the fairs with employment opportunities in EU states, study opportunities in European universities, information about conditions for doing business and details regarding consumer rights throughout the EU.

Information about these and other events hosted by the European Commission's mission in the Czech Republic can be found at www.evropska-unie.cz and on the Czech government office's website www.euroskop.cz.

Many other events to mark the 20th anniversary of the single market are being held elsewhere in Europe. You can find an entire pan-European overview at the address www.singlemarket20.eu.

Information service

In the Information Service section we focus on the upcoming meeting of the EU's key decision bodies, which will be complemented by other important events, including international summits with world powers, etc. The agenda of these key bodies' negotiations is often prepared only a few days before the meeting takes place, due to its maximum need to be up to date, and can be searched for at this link: http://europa.eu/newsroom/calendar/.

Meeting of the key EU institutions

4 October 2012	**Luxembourg, Luxembourg**	- Employment, Social Policy, Health and Consumer Affairs Council
4 – 5 October 2012	**Nicosia, Cyprus**	- Informal Meeting of Education Ministers
7 – 8 October 2012	**Luxembourg, Luxembourg**	- Eurogroup
8 October 2012	**Luxembourg, Luxembourg**	- Economic and Financial Affairs Council
9 October 2012	**Luxembourg, Luxembourg**	- Economic and Financial Affairs Council
15 October 2012	**Luxembourg, Luxembourg**	- Foreign Affairs Council
16 October 2012	**Luxembourg, Luxemburg**	- General Affairs Council
17 October 2012	**Nicosia, Cyprus**	- Informal Meeting of Social Protection Committee
18 – 19 October 2012	**Brussels, Belgium**	- European Council
22 – 23 October 2012	**Strasbourg, France**	- European Parliament plenary session
22 – 23 October 2012	**Luxembourg, Luxembourg**	- Agriculture and Fisheries Council
25 – 26 October 2012	**Strasbourg, France**	- European Parliament plenary session
25 October 2012	**Luxembourg, Luxembourg**	- Environment Council
25 – 26 October 2012	**Luxembourg, Luxembourg**	- Justice and Home Affairs Council

Access as of 1st October 2012

The purpose of the section Microscope is to take a look in a more detailed and commented form at current topics affecting European policy. In the October issue, we have focused on a topic that has caused some uproar in financial and political circles, specifically the proposal for creating a Banking Union. The European Commission presented that proposal in the middle of September and has prompted multiple questions to be asked.

BANKING UNION? YES, BUT...

One of the main September topics was the Commission's proposal to introduce a Banking Union. Let's try to explain it based on available information and describe its four possible pillars.

1. Joint bank supervision

The idea of joint bank supervision over pan-European banking groups is natural and logical. Since banking groups are multinational, supervision over them should function based on the same principle.

Therefore, Barroso's plan calls for creation of joint bank supervision over all banks in the Eurozone, which would be performed by the European Central Bank. The difficulty with this is that there are 6,000 such banks, and the ECB definitely lacks sufficient capacity to monitor all of them. The extent of supervised banks has already been criticized by the main European decision maker, Germany. That country has called for a more narrow scope of supervision by the ECB, which the German government argues should focus only on large European banks that are important to the system.

Another main concern is a potential conflict of interests between supervisors of subsidiaries and the parent bank. For example, thanks in part to the influence of the Bundesbank, the problematic Italian bank UniCredit cannot pull enough liquidity from its rich German subsidiary HVB. What will happen when the Bundesbank loses its authority to the ECB?

2. Joint rules for functioning of banks

The least opposition has been expressed against these rules. The reason is simple. Most of them have already been introduced as part of the implementation of the internal market for the financial services sector. Harmonization directives already exist.

3. Single deposit insurance system

From my point of view, this is obviously the most controversial part of the Banking Union idea, since so far the system has functioned purely on a national basis.

In the Banking Union under cloak of solidarity a joint deposit insurance fund would emerge, which would be contributed to by all banks in the countries participating in the Banking Union, but the fund would be tapped only by problematic banks. If there is not enough money in the joint fund, for example as a result of the mortgage collapse affecting larger Spanish banks, national states or their taxpayers would have to add money to the fund. And this would be a back door to a fiscal union.

I just don't know if this is such a good idea. Even if the joint did not need to be added to from national budgets, try to explain to a Finnish small client that through his/her Finnish bank and the pan-European fund he/she is supposed to cover the losses of a Greek colleague...

4. Joint system for crisis management

This pillar calls for joint rules regarding recapitalization, other forms of rescue or shutting down insolvent banks. The main role here would be played by the European Stabilization Mechanism (ESM), which could directly recapitalize problematic banks.

The details have not yet been made public, but in order for the mechanism to function and to reduce the risk of moral hazard the rescue of banks must be painful for the culprits: current investors will lose shareholding interests (or they will be strongly diluted), and management will lose work. The ESM is not supposed to be the permanent owner, but after the stabilization of the situation, the ownership interests in banks would be privatized.

The Banking Union is a natural step in the right direction. The problems of certain banking groups are growing so much that national states are now under water, and a pan-European institution can provide the only solution. On the other hand, if they help insolvent banks, either through direct capital injections from the ESM or through the purchase of "shoddy" state bonds from their portfolios by the European Central Bank, it is logical that these would strengthen its supervisory role over them.

A joint system of insuring deposits seems to me personally as an excessive tool, which would only lead to centrifugal tendencies in wealthy Eurozone states. A more transparent solution would be to provide money through the ESM directly to the governments.

The Czech Republic is not a member of the Eurozone, and the Czech National Bank functions here as a creditor of the last instance. The level of indebtedness of the public and private sectors is significantly lower than to the west of our borders and domestic banks have order in their portfolios. The CR with its dominant export focus on the Eurozone certainly has a perspective related to the euro, but let's wait and see how the situation in the Eurozone plays out, including in relation to the Banking Union.

Jan Jedlička, EU Office ČS

The main topic for the October issue of the EU Monthly is analysis of labor costs in the EU. We have examined in detail the structure and development of labor costs before the economic crisis and during it and what changes have occurred. The following contribution offers comparable data for the EU and takes a closer look at the Czech Republic's position in relation to the competitive advantage resulting from lower labor costs compared to other developed member states.

LABOR COSTS IN THE EUROPEAN UNION

INTRODUCTION

Labor costs are monitored both at the national and international levels, since their level fundamentally influences market and revenue positions as well as decisions of business entities, business activities, the business climate and possibilities for substitution of capital and labor. Labor costs in individual states are a basis for production and total reproduction costs. Their amount and structure are deciding factors regarding positions in the competitive environment on local and world markets and can significantly influence investors' activities. The structure of labor costs, meaning the ratio between wages and social and HR cost items, reflects the basic mechanisms of labor distribution and redistribution processes and affects relationships between employers, employees and the state.

Labor costs represent a link between the economic and social spheres. Their level and dynamics are mutually related to the levels and dynamics of work productivity and the relative level of production costs and consumer prices. Labor costs are also a crucial factor in competition. They include wages and salaries, earnings of the largest social group - employees. Their architecture together with other sources ensures the creation of financial resources for social protection funds, from which retirement, disability and hospital benefits are paid and which cover the costs of healthcare and/or employees' other social needs. They also include HR costs for acquiring and maintaining a labor force, improving their qualifications, etc.

DEFINITION AND STRUCTURE OF COMPLETE LABOR COSTS

Labor costs (monthly) are defined by the Czech Statistical office as: "an employer's costs for employees. They are the sum of direct costs (wages and compensation), social benefits, social costs/expenditures, HR costs/expenditures and taxes. Received subsidies from labor offices for publicly beneficial work or workplaces with a community purpose are deducted. This is a value on average for 1 employee per month."

The basic source of data about the structure and movement of labor costs in the Czech Republic is the regular yearly examination carried out by the Czech Statistical Office since 1994. The office publishes the results in December of the subsequent year the Complete Labor Costs series of publications.

The definition of complete labor costs and their structure, examined by the Czech Statistical Office, is derived from the Eurostat method, which is defined as: "the employer's expenditures related to employing workers. These include compensation for employees (including wages, pay in monetary form and in kind, employees' contributions to social security); costs for professional education and other expenditures (such as costs for hiring workers, expenses for work clothing and taxes from wages considered labor costs minus any received aid). These labor cost items and their parts are defined in Regulation No. 1737/2005 of 21 October 2005. These data relate to three main indicators:

- average monthly labor costs, defined as total labor costs for the month earned by a corresponding number of employees, expressed as the recalculated number of employees;
- the average hourly labor costs, defined as the complete labor costs earned by a corresponding number of hours worked;
- structures of labor costs (wages and salaries; employers' contributions to social security; other labor costs), expressed as a percentage of total labor costs."

The Czech Statistical Office determines total labor costs and their detailed structure each year. Eurostat examines the volume and detailed structure of labor costs in EU member states in quarterly intervals in the Labor Cost Survey (LCS). The latest available data are for 2008 and relate to organizations in the industry and service sectors. The data are collected by national statistical services based on a stratified random selection of businesses and local units with more than 10 employees. Data can be compared from the point of view of methodology following conversion to EUR and/or to PPS. Updating of data among individual 4-year surveys occurs with the help of the LCI (Labor Cost Index) method, which is continuous indexing in the structure of direct and peripheral labor costs based on output from the LCS. For indexing, data regarding growth of average earnings for calculated persons are used, which are reflected in the growth of direct costs and mandatory social contributions fixed to wage amounts.

The structure of labor costs influences business activities, motivates employees and affects relationships

between the state, employers, employees and other social groups of the population. Direct costs, meaning wages and salaries, represent a decisive labor cost item. According to Czech legal standards, wages and salaries are remuneration for work. Unlike in most European countries, the social situations of employees and their households are not part of labor costs and are handled by the state budget. Labor costs are divided into direct costs, meaning for wages and salaries (tariff wage, remuneration and bonuses, extra payments, etc.), and wage substitutions paid by the employer. In the Czech Republic, direct costs make up more than 70% of total labor costs.

Another item is represented by indirect costs, which include social benefits (company products with a discount, contributions to housing, meals, savings, etc.), social costs/expenditures (payments of legally required insurance premiums, severance pay, other social benefits, etc.), HR costs/expenditures (costs for hiring employees, for training apprentices, costs for training, etc.), taxes and subsidies (taxes and sanctions bound to employing people, subsidies for the labor force). Specific costs per person are basically the costs for which the employer purchases labor on the market. Their level and development oscillates around the balance between supply and demand on the labor market. Unlike the prices of goods and services, their creation is influenced by economic and political conditions and within them the strengths and positions of social partners during negotiation of wage and labor conditions. As a result of minimum yearly arrangements (collective agreements), the movement of labor costs reports approximately yearly rigidity behind the development of economic performance in macro and micro proportions.

Direct labor costs in the Czech Republic are among the lowest in the EU. The difference between the highest and lowest direct labor costs in the EU is approximately 25%. The change in the relationship between direct and indirect costs in EU states is not high in time (the trend of moderate growth of the share of direct costs in labor costs) and has ranged in recent years at around 1%. (An exception is Bulgaria, where direct costs have risen since 2005 by about 9%.)

Labor Cost structure in % (2010)

	Direct cost	Indirect cost
France	66.6	33.4
Sweden	67.1	32.9
Belgium	72.0	28.0
Italy **	72.2	27.8
Lithuania	72.2	27.8
ČR	**73.1**	**26.9**
Estonia **	73.4	26.6
Spain	73.7	26.3
Austria	73.8	26.2
Hungary	74.4	25.6
Slovakia	74.5	25.5
Romania	76.8	23.2
Netherlands **	76.9	23.1
Poland **	77.3	22.7
Germany	77.7	22.3
Finland	77.9	22.1
Latvia	79.1	20.9
Greece *	79.4	20.6
Portugal	80.9	19.1
Bulgaria	83.9	16.1
United Kingdom	84.3	15.7
Slovenia	85.7	14.3
Cyprus **	85.9	14.1
Luxembourg	86.0	14.0
Denmark	86.5	13.5
Ireland	86.6	13.4
Malta *	91.1	8.9

*Source: Eurostat; * - data for 2009, ** - data for 2008*

DEVELOPMENT OF LABOR COSTS IN THE EU SINCE 2005

Labor costs have undergone changes since 2005 and up to today, in which the economic crisis has played a major role. The most recent data available are for 2010. Eurostat publishes preliminary data with an international focus and comparable with a two-year delay and in subsequent years further clarifies them. The evaluated period of 2005 to 2010 is not qualitatively monolithic. Between 2005 and 2007, the economy stood at a conjuncture. In the second half of 2008, it was not only the global economic crisis that began in the United States in early 2007 that had an effect on the Czech economy.

Between 2005 and 2007, monthly labor costs in euros in the Czech Republic ranged in the bottom third. Still in 2005, Hungary was above the Czech Republic, but through greater dynamics of growth in labor costs the Czech

Republic "caught up" with Hungary. "The most expensive labor force in the EU is in Luxembourg (4,517 euros in 2005). Also above the 4,000 euro limit are labor costs in Denmark and Sweden. Contrastingly the lowest labor costs were in Bulgaria, where they reached approximately 5% of the labor costs in Luxembourg.

Monthly Labor Cost (EUR, 2005-2007)

	2005	2006	2007
Bulgaria	235	249	287
Romania	365	434	549
Latvia	449	552	719
Lithuania	545	637	760
Slovakia	620	711	842
Estonia	712	827	995
Poland	808	878	983
CR	**949**	**1 031**	**1 126**
Hungary	969	995	1 104
Malta	1 298	1 341	1 371
Portugal	1 669	1 735	1 788
Slovenia	1 699	1 773	1 871
Spain	2 125	2 197	2 284
Cyprus	2 190	2 277	2 368
United Kingdom	3 368	3 499	3 585
Finland	3 531	3 598	3 687
Belgium	3 706	3 814	3 966
Austria	3 717	3 782	3 847
Germany	3 768	3 819	3 853
Denmark	4 060	4 222	4 381
Sweden	4 134	4 242	4 338
Luxembourg	4 517	4 658	4 817

Source: Eurostat; NACE C - O (industry and services, without agriculture and fishery); data are not available for Italy, Ireland, Greece, France, Netherlands

During the second half of 2008, the crisis signs of the worldwide economic crisis became visible in the Czech economy and culminated in 2009. Moreover, their impact on labor was intensified by the rigidity of the movement of labor costs via profiled wages.

The process of laying off employees has lasted several weeks and has been associated with financial costs (severance pay, administrative costs, etc.).

During the first wave of the examination of labor costs in 2008, the cost of helping labor was reduced, or helping work positions for unqualified employees with low wages were eliminated, and only afterwards did companies resort to laying off higher paid qualified employees. The end effect was that even despite the decrease in the employment level in the Czech Republic, average wages and average nominal total labor costs grew in 2009 in the nominal (for the entire Czech Republic by 3.3%, for the business sphere by 3.0% and for the non-business sphere by 4.6%) and in real (for the entire Czech Republic by 2.3%, for the business sphere by 2.0% and for the non-business sphere by 3.6%) expressed figures.

During the crisis, Denmark wound up with the highest monthly labor costs, exceeding Luxembourg. The situation on the opposite end remained the same, and Bulgaria, Romania and the Baltic states maintained their position as the states with the lowest monthly labor costs in euros.

Monthly Labor Cost (EUR, 2008-2010)

	2008	2009	2010
Bulgaria	375	416	441
Romania	n/a	618	633
Latvia	885	861	816
Lithuania	848	847	818
Hungary	1 164	1 040	1 028
Poland	1 116	965	1 083
Slovakia	n/a	1 096	1 135
CR	**1 323**	**1 297**	**1 387**
Malta	1 452	1 429	n/a
Portugal	n/a	1 790	1 832
Slovenia	1 962	2 000	2 087
Greece	n/a	2 516	n/a
United Kingdom	n/a	2 870	2 917
Spain	2 808	2 932	2 974
Finland	3 716	3 869	3 934
Germany	3 838	3 938	3 954
Austria	3 847	3 951	4 008
Ireland	n/a	4 097	4 021
France	n/a	4 149	4 256
Belgium	4 195	4 305	4 426
Netherlands	4 203	n/a	n/a
Sweden	4 428	4 136	4 688
Luxembourg	4 563	4 650	4 763
Denmark	4 564	4 637	4 908

Source: Eurostat; Nace Rev. 2 B-S_X_O; data are not available for Itály, Estonia, Cyprus

The crisis years of 2008 and 2009 brought with them substantial disruption of the exchange rates of the national currencies of EU states outside of the Eurozone. Therefore, any evaluation of labor costs within the EU needs to take into consideration short-term currency exchange rate fluctuations.

During the crisis period of 2008-2009, the national currencies of EU states (outside of the ERM II regime) weakened against the euro. (In Bulgaria, the exchange rate of the national currency (the Bulgarian lev) is firmly fixed to the euro and converted by a coefficient of 1.956.

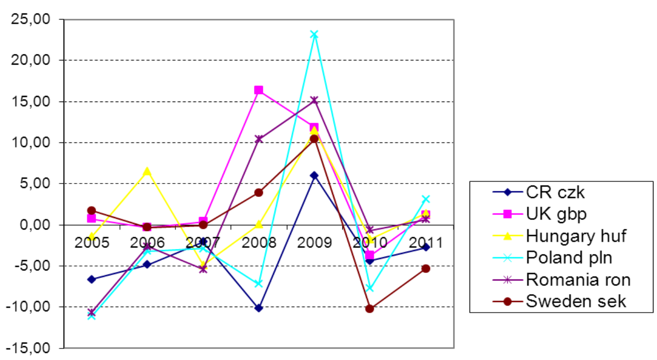
Another three EU member states (Denmark, Lithuania, and Latvia) tied to the European Exchange Rate Mechanism II (ERM II) at present have their currencies tied to the euro, and they can hover in a range of 15% (even though they do not use this and have set different fluctuation ranges) from the set medium exchange rate to the euro. Denmark has set a fluctuation range of ± 2.25%. Lithuania voluntarily maintains a fixed exchange rate of its currency to the euro, and in Latvia the fluctuation range is maintained at a level of ± 1%.) Later reactions, but not until 2009, have been observable in the Czech Republic and Poland.

The development on the financial markets has in the short term helped the "new states" of the EU to maintain and strengthen the advantages of inexpensive labor at a time of reduced work productivity.

States whose currencies weakened in value against the euro in 2009 reported the sharpest decline in labor costs compared to the Eurozone states.

However, the situation changed in 2010, and the monetary development returned to the trend of more realistic exchange rates of currencies in post-Communist states.

Yearly change of national currency exchange rates



Source: Eurostat

The high tempo of growth in Czech labor costs on the euro market was caused by the rapid appreciation of the Czech crown against the euro. After the Czech Republic's accession to the EU, which occurred prior to the crisis, year-to-year growth reached approximately 2x greater growth of labor costs following conversion to euros than in Czech crowns, but the same proportions also applied for work productivity. The weakening of national currencies in European countries outside of the Eurozone during the crisis year of 2009, including the Czech crown, enabled businesses to compete on the euro market with lower labor costs. The return of the crown to appreciation against the euro in 2010 eliminated that advantage.

Monthly labor cost in selected sectors (EUR, 2010)

	C	F	H	I	J	K
Belgium	5 077	3 711	4 433	n/a	n/a	7 304
Bulgaria	359	381	509	265	895	844
CR	**1 303**	**1 350**	**1 346**	**835**	**2 616**	**2 605**
Denmark	5 215	4 675	4 996	3 683	6 430	7 250
Germany	4 427	3 341	3 413	2 047	5 459	5 849
Ireland	4 326	4 158	4 091	2 161	5 425	5 984
Spain	3 093	2 880	3 061	2 053	3 920	5 217
France	4 485	3 911	4 027	3 049	6 178	6 772
Latvia	741	773	942	538	1 521	1 730
Lithuania	794	775	940	472	1 302	1 562
Luxemb.	4 296	3 246	4 396	2 520	6 014	8 068
Hungary	1 035	868	1 075	625	1 953	2 240
Austria	4 369	3 924	4 087	2 172	5 939	6 328
Poland	962	1 023	1 057	699	2 001	1 735
Portugal	1 487	1 487	2 312	1 276	3 152	4 309
Romania	538	516	699	359	1 193	1 443
Slovenia	1 872	1 715	2 076	1 563	3 193	3 130
Slovakia	1 107	1 098	1 048	662	2 125	2 087
Finland	4 477	4 356	3 647	3 061	5 246	5 416
Sweden	5 138	4 549	4 405	3 207	6 479	8 163
UK	3 341	3 276	3 280	1 366	4 247	5 177

Source: Eurostat; C – Manufacturing, F – Construction, H – Transport and storage, I – Accomodation, food services and activities, J – Informations and communication, K – Finance and insurance; data is not available for Estonia, Greece, Italy, Cyprus, Malta and Netherlands

If we examine monthly labor costs in individual EU states more closely, we can also find differences even between individual sectors. Since Eurostat does not monitor data for "Agriculture, forestry and fisheries", the amount of monthly costs in sectors can only be compared for "Industry and services". There have traditionally long been lower labor costs in the sector of "Accommodation, dining and

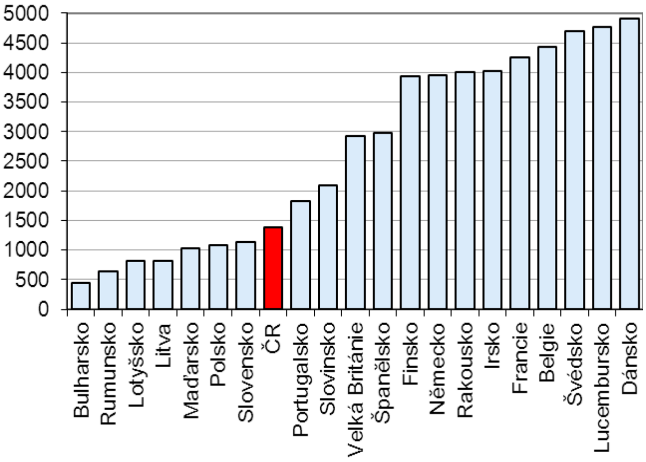
hospitality", with costs reaching approximately 50% to 75% of the labor costs for "Industry and services".

The costs are nominally the highest in Denmark (3,683 euros) and the lowest in Bulgaria (265 euros) for 2010. Under the average for "Industry and services" there are still monthly labor costs in "Construction" The most expensive labor force is in the sector of "Financial services and insurance (only "IT an communication" is more expensive in certain states). Labor costs there reached between 844 euros in Bulgaria and 8,163 euros in Sweden, which represents triple to quadruple the costs in the sector "Accommodation, dining and hospitality".

CONCLUSION

Companies doing business in the Czech Republic still enjoy the opportunity as a result of lower earnings to take advantage of lower total labor costs compared to other developed EU member states. The difference in labor costs between the Czech Republic and other developed EU states is so sharp that competitive advantages from their low level in the Czech Republic will continue to exist for some time. The process of shifting price (currently over 70%) and earnings ceilings to the standard proportions of the single European market and appreciation of the Czech crown against the euro, which is reflected by quicker growth in labor costs, will be long-term, and business entities have enough room for elimination of the unfavorable impacts of increased work productivity.

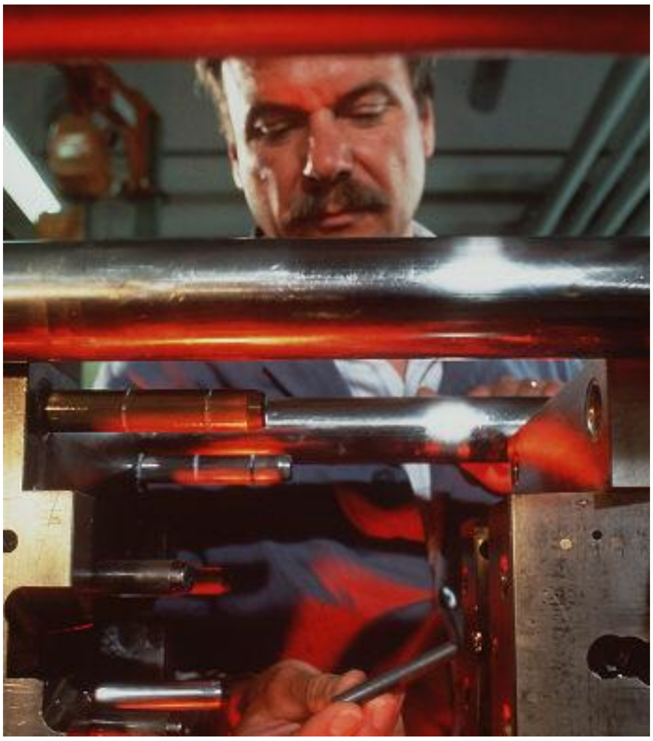
Monthly Labour Cost, 2010, EUR



Source: Eurostat, other countries are not available

After joining the EU, the Czech Republic has managed to maintain the concept of a cheaper labor force compared to other EU states. On the other hand, the income gap between the Czech Republic and other post-Communist countries has been increasing. This development represents for Czech companies and foreign investors a problem amounting to a shift away from using cheap but easy labor and/or moving of jobs to cheaper countries and its replacement with more expensive labor performed by qualified workers, i.e. a shift to sophisticated work activities with higher added value. In view of the so far lower Czech wage appreciation of labor in Europe, this is not an instant or quick process. Businesses in the Czech Republic will still have a cheap labor force for a long time to come.

The significantly lower labor cost ceiling compared to the most developed EU states will enable Czech exporters to make use of price competition or achieve higher profit levels. Low labor costs continue to motivate the influx of foreign capital. However, the concept of low labor costs in the Czech Republic, meaning maintaining of low labor costs, does not stimulate substitution of work with capital and could lead to gradual de-qualification of the labor force, and as a result we could become "Europe's workshop".



The "Guide to Doing Business" section is a taste of the advisory program "Guide to Doing Business (not only) in the EU", which the EU Office launched at the beginning of the year. Within the program we advise our clients from among SMEs regarding how to expand their activities abroad successfully and what kind of business environment awaits them in different countries. More information can be found here: www.csas.cz/eu. First, we have focused on Bulgaria.

BULGARIA

Official name	*Bulgarian republic (Republika Bulgariya)*
Population	7 504 868 (2011)
Area	110 879 km^2
Currency	Leva (BGN)
Ethnic groups	Bulgars 83.9%; Turks 9.4%; Rumuns 4.7%

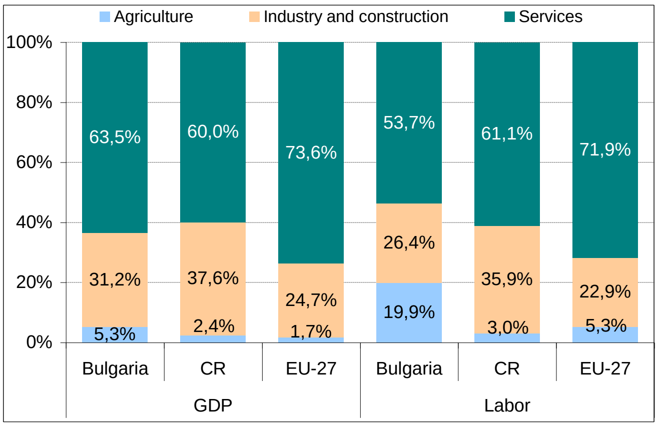
Source: CIA World Factbook

Bulgaria declared its independence from the Ottoman Empire in 1908. After World War II it fell into the sphere of Soviet influence, where it remained until 1989. In 2004 it became a member of NATO and joined the EU in 2007.

Bulgaria is a parliamentary democracy. Its government is headed by a president elected for a 5-year term by a direct vote with the possibility of being re-elected once. Legislative power is held by a unicameral parliament, the National Assembly (Narodno Sabranie), which contains 240 lawmakers elected for 4-year terms.

Structure of economy and foreign trade

National Economy – Bulgaria (CR and EU)



Source: Eurostat, data for 2010 (GDP) and 2011 (Labor)

At first glimpse, a much greater role of agriculture is apparent in Bulgaria, mainly involving fruit and vegetable growing.

Industry, the importance of which is lower than in the Czech Republic, is focused on production of electricity and natural gas, food products, beverages and engineering. Tourism is represented to an above-average extent in the service sector.

Bulgaria mainly exports textile products, iron and steel, fuel and engineering products. It mostly exports to Germany (10.9%), followed by Italy (9.9%) and Romania (8.1%). Bulgarian companies in turn buy engineering products abroad, along with metals and the country's most important import partner is Russia (16.3%), followed by Germany (11.8%) and Italy (7.5%).

Macroeconomic outlook

Basic indicators	2010	2011	2012^e	2013^e
GDP Growth (%)	0.4	1.7	0.5	1.9
Unempoyment level(%)	10.2	11.2	12.0	11.9
Inflation(%)	3.0	3.4	2.6	2.7
Budget deficit (% GDP)	-3.1	-2.1	-1.9	-1.7
Public debt(% HDP)	16.3	16.3	17.6	18.5

Source: European Commision; ^{e} - estimate

Following a more than 5% decline of the economy in 2009 and slight growth of 0.4% a year later, the Bulgarian economy achieved growth of 1.7% in 2011. A major role was played in the performance of the Bulgarian economy by industrial production, pulled mainly by the country's rising exports.

In the years to come, a slow pace of economic growth is anticipated, which in 2013 is expected to range below the 2% level of GDP growth. Stronger acceleration of the Balkan economy will be prevented by the continuously weak labor market (unemployment remains in double digits), the continued reduction of credit available to businesses and continuously reduced construction activity.

The balance of public finances in the years as well will represent the face of the Bulgarian economy. The deficit of public finances remains safely below the "Maastricht" ceiling of 3%, and public debt will not reach more than 20% in relation to GDP.

Labor market

The unemployment level in Bulgaria has long been higher than in the Czech Republic, and in 2011 this difference was 4.5%. However, work productivity is 1/3 lower than in the Czech Republic. The minimum monthly salary in Bulgaria is the equivalent of 138.10 euros.

In all major Bulgarian business sectors, labor costs have represented one third of labor costs in the Czech Republic.

Labor law basics

The employment contract must be in writing. It can be entered into for a definite period, an indefinite period or a

probationary period. An employment contract for a definite period may be entered into for a maximum of 3 years. An employment contract for a probationary period may be entered into for a maximum of 6 months, and for the duration of that period it can be terminated at any time without specifying a reason.

The termination notice period for termination from an employee must last a minimum of 1 month and may last a maximum of 3 months, depending on the terms of the contract. In the event of termination by the employer, the employee shall be entitled to severance pay equal to at least 4 months of wages.

Basic indicators of labor market		
Unemployment level (2011)	11.2 %	
Labor productivity (% to Ø EU; 2010)	41.4 %	
Minimum monthly wage (1H/2012)	138.1 EUR	
Ø monthly labor cost in sectors (EUR) 2011	**Bulgaria**	**ČR**
Manufacturing	359	1 303
Wholesale and retail trade	395	1 350
Transport and storage	509	1 346
Accomodation and food	265	835
Information and communication	895	2 616

Source: Eurostat

Business law basics

A limited liability company (OOD) is the most common form of foreign persons' entry onto the Bulgarian market, mainly thanks to the limited liability of partners in an OOD only up to the amounts of their unpaid investments. The minimum required capital is BGN 2 (CZK 25). For larger business projects, a joint-stock company (AD) is used more, and its registered capital must be a minimum of BGN 50,000 (CZK 630,000).

Form of Company	Minimum Capital
European Company	120 000 EUR
Special limited partnership	not required
Limited Liability Company	2 BGN
Special limited partnership with shares	50 000 BGN
Joint Stock-Company	50 000 BGN
Collective company	Not required

Source: Invest Bulgaria Agency

The costs for establishing an average OOD in Bulgaria are not high and currently range up to BGN 150 (CZK 1,900). Administrative matters are ready in approximately a week, and waiting for the final verdict takes another 2 weeks.

Main taxes and peripheral labor costs

Tax/payment	Rate
Corporate Tax	10 %
Dividend tax for non-residents	5 %
Individual Income Tax (flat)	10 %
VAT (basic / lower / zero rate)	20 % / 9 %
Social insurance – employee	12,9 %
Social insurance – employer	17.8 % – 18.5 %

Source: Social Insurance Code

The corporate income tax rate is a flat rate of only 10%, one of the lowest rates in Europe. Withholding tax at the rate of 5% applies to dividends paid to non-residents of Bulgaria and is 0% for residents. The individual income tax rate is the same as the corporate rate, 10%.

The basic VAT rate is 20%, and the reduced rate of 9% applies to hotel services. Some types of goods are relieved of VAT, such as goods in the sectors of healthcare, education and sports, culture and religion services, etc.

Total contributions to social security in Bulgaria amount to between 30.7 and 31.4% of the monthly wages (the employee contributes 12.9% and the employer contributes between 17.8% and 18.5%), and these contributions are deducted from wages only up to the amount of BGN 2,000 (CZK 25,000).

Energy

Ø of wholesale price in 2H/2011	Bulgaria	CR
Electric Energy (EUR/kWh)	0.0657	0.1071
Natural Gas (EUR/GJ)	8.85	9.24

Source: Eurostat

Bulgaria, like the rest of the Balkan region, suffers from a lack of energy resources. According to data from the World Bank, more than 40% of consumed energy in Bulgaria came from abroad in 2009 (compared to 25% in the Czech Republic).

Electricity prices are generally lower than in the Czech Republic (during the period between the second half of 2007 and 2011 they were more than 40% lower).

Investment incentives

Bulgaria offers foreign investors 3 basic types of investment incentives: tax, employment and incentives based on the Act on Supporting Investments. The tax incentives include relieving of investors from corporate taxes in selected regions, excusing of VAT for imports of technology and increasing write-offs for ICT and costs for R&D.

The section Journey into History in each issue of the EU Monthly focuses on the development of the EU. In the first phase, it takes us to the very beginning of the establishment of European integration. First we examine the founding agreements that have basically influenced the development of European economic integration. In this issue we also focus on the Rome agreements, which established the European Economic Community (EEC) and the European Atomic Energy Community (Euratom).

ALONG THE FOOTSTEPS OF THE FOUNDING TREATIES, OR HOW IT ALL BEGAN II

In 1956 in Messina, Italy, a conference was held by member states of the European Coal and Steel Community (the "Group of Six"), based on which the states decided to strengthen cooperation in other areas as well by creating two new communities. On March 25, 1957, representatives of the European Coal and Steel Community meeting in Rome signed the Agreement on the Establishment of the European Economic Community (EEC) and the Agreement on establishment of the European Atomic Energy Community (Euratom). These agreements became valid on January 1, 1958.

European Economic Community

The purpose of the European Economic Community was to create a single market with free movement of persons, goods, services and capital and gradually to eliminate differences between the economic policies of member states, improve living standards and establish closer contacts between member states.

The most important tasks of the EEC:

- eliminating customs and quantity restrictions on the import and export of goods between member states (and measures with an equal effect),
- creation of common customs rates and joint business policies towards third countries,
- elimination of obstacles to free movement of persons, services and capital between member states,
- implementation of joint agricultural policy,
- implementation of joint transport policy,
- protection of economic competition on the internal market,
- coordination of member states' economic policies and elimination of inequalities in their payment balances,
- harmonizing internal legal regulations to the extent necessary for functioning of the single market,
- creation of the European social fund,
- establishment of the European investment bank,
- associating overseas countries and territories with the Community for the purpose of increasing mutual trade and joint support of economic and social development.

The single market should be created during a transitional period of twelve years. In 1968 the EEC began functioning as a customs union.

Euratom

The main objective of Euratom was to deepen cooperation related to the peaceful use of nuclear energy with the aim of building and growing the nuclear industry.

Main responsibilities of Euratom:

- developing research and ensuring the spread of technical knowledge, processing single safety standards for protecting the health of inhabitants and employers and ensuring their compliance,
- facilitating investments and ensuring them, especially by supporting business activities, building basic equipment essential for the development of nuclear energy in the Community, regular and equal equipping of all users in the Community with ore and nuclear fuel,
- ensuring appropriate supervision, so that nuclear materials could not be used for purposes other than those for which they were intended,
- exercising ownership rights recognized for special fission materials,
- ensuring wide ranging sale of and access to the best technical resources created by the joint market of special materials and equipment, the free movement of capital for investments into nuclear energy and free employing of experts within the Community and establishing relationships with other countries and international organizations, which could contribute to progress in the peaceful use of nuclear energy.

Changes in institutions

After the creation of the EEC and Euratom, three communities existed with their own executive bodies. In 1965, the Merger Treaty (Treaty establishing a Single Council and a Single Commission of the European Communities) was signed, which introduced joint institutions for all three communities. That agreement became valid on July 1, 1967.

The special council of ministers of the European Coal and Steel Community, the Council of the EEC and the Council of the European Atomic Energy Community merged and became the Council of the European Communities. The high office of the European Coal and Steel Community, the Commission of the EEC and the Commission of the European Atomic Energy Community merged to become the Commission of the European Communities.

Statistical Window

The statistical window in a tabular form shows important macroeconomic indicators from all member states and the EU as a whole. It includes labour market indicators (unemployment rate, average wages to the EU average, productivity to the CR average), or pricing indicators (inflation, average interest rate on mortgages, and price electricity to EU average 1000–2500 kWh).

Key macroeconomic indicators

	Inflation (YoY)				Unemployment rate				Average wages to Ø EU			
	V-12	VI-12	VII-12	VIII-12	Q3-11	Q4-11	Q1-12	Q2-12	2007	2008	2009	2010
Belgium	2.6	2.2	2.0	2.6	7.3	7.2	7.1	7.1	128.5	135.1	138.1	134.3
Bulgaria	1.8	1.6	2.4	3.1	11.1	11.6	12.0	12.2	8.6	11.1	12.7	12.6
CR	3.5	3.8	3.3	3.4	6.6	6.6	6.8	6.7	30.0	36.3	35.9	36.8
Denmark	2.1	2.2	2.1	2.6	7.5	7.8	7.5	8.0	154.5	160.0	166.1	163.5
Germany	2.2	2.0	1.9	2.2	5.8	5.7	5.6	5.5	133.9	137.5	138.5	137.3
Estonia	4.1	4.4	4.1	4.2	11.4	11.5	10.9	10.1	29.7	33.4	32.0	31.0
Ireland	1.9	1.9	2.0	2.6	14.7	14.6	14.7	14.8	103.7	108.1	107.1	104.6
Greece	0.9	1.0	0.9	1.2	18.4	20.5	21.7	23.5	55.0	55.5	62.5	66.2
Spain	1.9	1.8	2.2	2.7	22.1	23.0	23.8	24.7	73.1	77.2	81.4	80.2
France	2.3	2.3	2.2	2.4	9.6	9.8	10.0	10.1	107.7	111.5	115.0	112.8
Italy	3.5	3.6	3.6	3.3	8.5	9.2	10.1	n/a	85.8	89.1	92.4	91.4
Cyprus	3.7	2.9	3.8	4.5	8.1	9.4	10.1	10.6	74.2	n/a	n/a	n/a
Latvia	2.3	2.1	1.9	1.9	15.7	15.4	15.4	15.9	22.2	26.9	27.9	26.6
Lithuania	2.6	2.6	2.9	3.4	15.0	14.1	13.6	13.3	21.0	24.6	23.2	21.9
Luxembourg	2.7	2.6	2.7	2.8	5.0	5.0	5.2	5.3	150.4	156.2	162.3	159.7
Hungary	5.4	5.6	5.7	6.0	11.0	10.9	11.1	10.9	28.5	30.8	29.3	29.5
Malta	3.7	4.4	4.2	3.2	6.3	6.5	6.0	6.1	51.6	55.7	57.7	58.1
Netherlands	2.5	2.5	2.6	2.5	4.4	4.9	5.0	5.1	139.6	143.3	149.6	146.4
Austria	2.2	2.2	2.1	2.3	3.8	4.2	4.1	n/a	120.4	123.7	127.5	124.6
Poland	3.6	4.2	4.0	3.8	9.7	10.0	10.0	10.0	28.4	31.9	27.2	29.3
Portugal	2.7	2.7	2.8	3.2	12.8	14.1	14.8	15.5	53.5	55.4	57.7	56.2
Romania	2.0	2.2	3.1	4.0	7.5	7.5	7.2	7.2	16.0	18.1	16.8	18.0
Slovenia	2.4	2.4	2.6	3.1	8.2	8.6	8.2	8.2	48.6	52.4	54.2	54.8
Slovakia	3.4	3.7	3.8	3.8	13.5	13.9	13.7	13.7	23.7	28.2	30.5	30.2
Finland	3.1	2.9	3.1	3.3	7.7	7.6	7.5	7.6	118.2	124.1	129.5	129.4
Sweden	0.9	0.9	0.7	0.9	7.3	7.5	7.5	7.6	121.0	121.7	114.9	125.0
UK	2.8	2.4	2.6	n/a	8.3	8.3	8.2	8.1	161.3	139.2	126.3	129.4
EU	2.6	2.5	2.5	2.7	9.7	10.0	10.2	10.4	100.0	100.0	100.0	100.0

	Productivity to Ø CR				Average interest rate on mortgages				Price electricity to Ø EU			
	2008	2009	2010	2011	2009	2010	2011	1H-12	2008	2009	2010	2011
Belgium	251.3	267.5	260.7	261.0	n/a	n/a	n/a	n/a	133.5	121.2	120.5	122.0
Bulgaria	30.4	n/a	n/a	n/a	10.9	9.7	8.8	8.5	44.3	47.0	45.0	43.5
CR	100.0	100.0	100.0	100.0	5.8	5.2	4.5	4.1	116.0	119.5	118.4	118.8
Denmark	267.2	280.9	283.3	282.3	4.4	3.7	4.0	3.5	172.3	166.6	163.8	167.4
Germany	202.2	209.5	205.5	205.7	4.3	3.8	4.0	3.4	138.9	144.5	145.6	143.0
Estonia	81.2	81.9	83.5	85.1	4.3	3.9	3.7	3.3	48.8	53.6	55.0	52.9
Ireland	282.2	296.1	281.9	281.9	3.1	3.1	3.5	3.2	128.2	128.0	117.7	125.1
Greece	158.3	170.4	160.1	158.6	4.1	3.8	4.7	4.0	53.0	54.0	56.9	56.4
Spain	173.3	192.9	185.9	187.0	3.4	2.6	3.5	3.6	97.3	105.5	111.2	116.2
France	232.3	249.1	238.0	238.5	5.0	4.3	4.4	4.6	81.1	80.2	82.3	81.6
Italy	207.1	219.6	212.1	210.2	3.8	2.8	3.6	4.4	96.5	96.6	88.9	86.7
Cyprus	142.8	152.3	147.0	146.5	5.9	4.6	5.3	5.6	105.4	80.6	105.7	114.7
Latvia	66.7	66.8	63.9	76.3	22.0	21.3	22.2	22.2	53.3	60.1	57.4	61.0
Lithuania	70.2	66.8	68.4	73.1	9.9	6.0	4.2	3.7	51.4	55.3	66.3	65.1
Luxembourg	607.4	615.0	611.6	620.8	n/a	n/a	n/a	n/a	106.7	117.2	105.0	95.6
Hungary	89.6	86.0	85.8	86.0	14.6	10.5	10.5	12.2	91.9	93.5	93.9	87.3
Malta	117.9	127.7	124.6	123.8	3.8	3.7	3.6	3.6	55.9	103.3	109.5	103.0
Netherlands	227.8	238.7	231.1	229.4	4.9	4.6	4.6	4.4	80.0	65.1	53.9	55.6
Austria	n/a	n/a	n/a	n/a	4.0	3.1	3.4	3.4	116.2	119.6	117.4	113.6
Poland	75.7	69.6	74.2	74.8	8.0	7.1	7.0	8.9	78.7	71.8	80.0	78.1
Portugal	109.0	118.6	115.8	114.2	3.4	3.4	4.8	5.1	98.9	100.5	100.3	102.4
Romania	47.6	44.2	43.7	47.5	12.6	11.7	9.5	7.7	62.0	55.9	57.4	56.7
Slovenia	123.0	128.6	123.2	124.0	4.4	3.5	4.0	3.9	75.1	90.9	92.3	86.9
Slovakia	87.2	94.4	94.7	95.8	6.2	5.6	5.2	5.4	99.4	98.4	97.3	98.0
Finland	239.6	246.6	240.5	246.0	2.6	2.1	2.6	2.3	86.4	93.6	93.8	100.6
Sweden	240.4	232.6	259.2	274.5	2.1	2.4	3.9	3.7	110.0	103.2	112.5	116.1
UK	202.4	193.3	196.7	195.3	n/a	n/a	n/a	n/a	91.7	87.8	83.5	84.0
EU	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100.0	100.0	100.0	100.0

Source: Eurostat