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ČESKÁ SPOŘITELNA

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Dear readers,

It was pretty happy on the European scene in November, and this issue of the EU Monthly is literally fully charged with information.

Our first piece of news has the ambition to change the hitherto form of European integration. EC's José Barroso has presented a plan for closer cooperation among states in the Eurozone - in Brussels "Eurospeak" this is a plan for creation of a deepened and truly economic and monetary union. The purpose is to rescue the Eurozone by adopting additional common rules after the Pact of Stability and Growth proved to be a toothless machine. Some of Barroso's highlighted parts of the plan (besides the banking union and the European semester) are already on the table, and others (such as the European cash vouchers or "complete economic and budget union" crowned by a joint budget of the Eurozone) have not sounded very loudly during EU debates at the highest levels.

And what should the Czech Republic do? Let's find inspiration among our northern neighbours. Poland is not in a hurry to join the current Eurozone, where the admission fee has the form of a billion euro contribution to the ESM rescue fund. Nonetheless, at every opportunity Polish officials have stressed that the Eurozone (the core of the European Union) is an inevitable future for Poland, both for security and for economic reasons. Perhaps the different approaches of Poland and the Czech Republic to European affairs are best illustrated, by Polish officials' attendance and Czech officials' non-attendance in the ceremony to award the Nobel Peace Prize to the EU.

The main topic of this issue of the Monthly is presentation of a new product from the EU Office: Česká spořitelna Business index. It is an analytical tool corresponding to the advisory tool Guide to Doing Business (not only) in the EU, in which we study the business environment in individual EU states. The index is comprised of seven monitored statistics, which represent various relevant topics for investing, from expected GDP growth to average costs of labour and effective tax rates. And how did the Czech Republic turn out? Not bad at all. Of the 27 monitored EU states, we ranked in 8th place.

The article penned by the European Commission's representative office in the Czech Republic is drawing attention particularly from students, among whom study stays abroad have become popular. It brings them two pieces of news, one negative and one positive: the popular Erasmus programme is ending, but it is being replaced by the YES Europe! programme.

Dear Readers, we wish you a joyous advent, a merry Christmas and enjoyable reading!

Jan Jedlička

European Commission President Barroso has introduced a plan to create a double-speed Europe. The European Commission has issued its autumn prognosis for the next two years, according to which gradual improvement of growth is expected in the EU, although the EU will continue to be affected by high unemployment. Eurozone finance ministers have agreed on a further release of aid for Greece, which is expected to receive 43.7 billion euros from a rescue package.

POLITICS

Barroso introduces a plan that can introduce a two-speed Europe

European Commission Chairman José Manuel Barroso believes that the **concept of a "two-speed" Europe is almost unavoidable**. If the Eurozone is to be strengthened, all seventeen of its member states sharing the single currency must have quicker integrity than the European Union as a whole during preservation of policy for all EU member states, particularly the single market.

The measures focused on the Eurozone, in situations when appropriate, **should also be open to participation by other EU members**, not just the states that have adopted the euro.

This vision of a new economic and monetary union was introduced at the end of November. Barroso also stated that: 'We need a deepened and genuine economic and monetary union, so that we can overcome the crisis of confidence that is harming our economies and citizens' everyday lives. He added that Europeans should show a **willingness to stand shoulder to shoulder in financial, budget, economic and political matters**, which he described as a basis for stability of the euro and the EU itself. This plan is the European Commission's contribution to the report about additional steps related to the economic and monetary union.

The Commission also introduced **measures related both to the short-term and long-term horizons** in order to show that it does not intend to adopt only extraordinary measures related to rescuing states currently affected by problems. The European Council will discuss the report at its next summit in mid December.

http://europa.eu/rapid/press-release_IP-12-1272_en.htm

ECONOMY AND EURO

European Commission issues autumn prognosis

Like every year, this year at the beginning of November the European Commission **issued its economic prognosis for the next two years**. According to Commission Vice-chairman Olli Rehn, responsible for economic and monetary affairs and the euro, the growth outlook for Europe will begin to gradually improve at the beginning of 2013. However, he sees a **weakness in the high unemployment level**, which

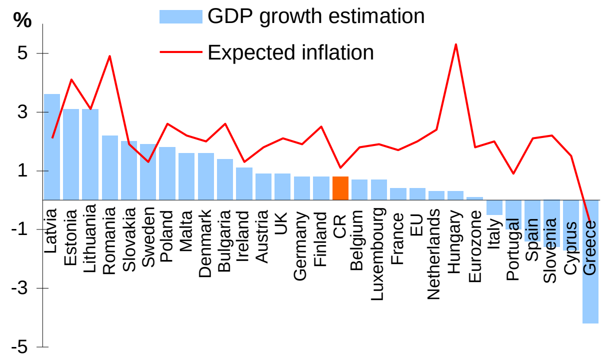
			A blueprint for a deep and genuine EMU Launching European debate	Secondary law	Treaty change
ALL ALONG THE PROCESS	**SHORT TERM**	within the next 18 months	1. Full implementation of **European Semester** and **six-pack** and quick agreement on implementation of **two-pack**	x	
			2. **Banking union**: Financial regulation and supervision: quick agreement on proposals for a **Single Rulebook** and **Single Supervisory mechanism**	x	
			3. Banking union: Single Resolution Mechanism	x	
			4. Quick decision on next **Multi-annual financial framework**	x	
			5. **Ex-Ante coordination of major reforms** and creation of a **Convergence and Competitiveness instrument (CCI)**	x	
			6. Promoting **investments** in the Euro area in line with **Stability and Growth Pact**	x	
			7. External representation of the **Euro area**	x	
	MEDIUM TERM	18 months to 5 years	**1. Further reinforcement of budgetary and economic integration**	x	x
			2. Proper fiscal capacity for the **Euro area** building on CCI	x	x
			3. Redemption fund		x
			4. Eurobills		x
	LONGER TERM	beyond 5 years	**1. Full banking union**		x
			2. Full fiscal and economic union		x
			Political union: Commensurate progress on democratic legitimacy and accountability	x	x

should be eased by maintenance of the right fiscal policy with structural reforms with the aim of creating conditions for sustainable growth.

Positive GDP growth estimate for the next two years

Before the end of this year, **GDP in the EU is expected to decline by a further 0.3%**, where in practically all EU member states (except Greece) estimated GDP has declined year-to-year. However, the year 2013 is expected to bring economic recovery, and the European Commission predicts that GDP in the EU will grow by 0.4%. **The Baltic states' economies are growing the fastest**, and their GDP growth is expected to exceed 3%. There is an even more positive expectation for 2014. **GDP in the EU is expected to grow by 1.6%**, and all EU member states except Cyprus are expected to be in "green numbers". **The competitiveness of individual states is expected to be restored gradually**, and so exports should move in the direction of gradual growth.

GDP growth estimation and expected inflation in 2013



Source: European Commision - Autumn 2012 forecast

Development of inflation

Like in previous years, in the last quarters energy prices were affected by inflation. Nonetheless, in the EU as a whole (except Sweden, Bulgaria and Romania**) the trend of reduction in inflation will be very obvious**. The European Commission expects its amount to be around **2% for the EU**. The highest inflation level, 5.3%, is predicted in Hungary. The trend of reduction in inflation is expected to continue in **2014**, and the inflation level **for the EU is expected to reach 1.8%.**

Problematic unemployment

However, we cannot talk about a favourable trend, like in the case of GDP growth or inflation, in the case of unemployment. **During the rest of 2012**, unemployment in the EU is expected to reach **10.5%** and in the Euro zone even 11.3%. However, among EU member states there are major differences in unemployment levels. The lowest unemployment is in Austria (4.5% in 2012), and the **highest is in Spain**, where the unemployment level has exceeded 25%. In 2013 within the EU, the level is expected to worsen **further to 10.9%**, and in 2014 it is expected to be 10.7%.

According to the prognosis for 2012, **the balance of public budgets is -3.5%** and is expected to drop in the years to come. Moreover, the indebtedness of the state will continue, and the **ratio of public debt to GDP will grow** from this year's figure of 86.6% to an estimated 88.6% in 2014.

Development of key macroeconomic variables

	Czech republic			EU - 27		
	2012	2013	2014	2012	2013	2014
GDP Growth	-1.3	0.8	2.0	-0.3	0.4	1.6
Unemploy. level	7.0	7.3	7.1	10.5	10.9	10.7
Inflation	3.6	1.1	1.1	2.7	2.0	1.8
Public budget bal.	-3.5	-3.4	-3.2	-3.6	-3.2	-2.9
Public debt	45.1	46.9	48.1	86.8	88.5	88.6

Source: European Commission - autumn 2012 macroeconomic forecast

Outlook for Czech economy

According to the European Commission, **revival of the Czech economy is expected as of 2013**, when the annual growth of GDP is expected to attack the one-percent limit, and for 2014 its growth is expected to be one percentage point higher. However, over the long term **inflation** is expected to **fall below the EU average to 1.1%**. However, what could ruin the joy from this good news is **the development of the unemployment level**, which although below the EU average will grow slightly even despite the mentioned economic recovery, **public debt in proportion to GDP**, which is at one of the lowest levels in the EU, is expected to grow 3 percentage points in the years to come.

http://ec.europa.eu/economy_finance/eu/forecasts/2012_autumn_forecast_en.htm

Euro Group approves billions for Greece

Athens can breathe a sigh of relief, since an **additional 43,7 billion euros from the rescue package** is on the way.

Ministers have positively assessed the political measures adopted by Greece and have approved a set of measures for ensuring the stability of Greek debt in the future. The **decision reflects the positive assessment** that Greece is implementing the agreed measures and agreements about the future conditions of the programme. **The programme was suspended as of spring,** since political uncertainty led to a delay with implementation of reform measures.

Negotiations regarding the budget for 2014-2020 have collapsed. The European Union wants to help the European automobile industry. It has issued an action plan, which is intended to increase the industry's competitiveness and sustainability. The Commission has presented a plan for increasing the prices of emissions permits, and it wants to withdraw 900 million permits from auctions temporarily.

New objectives for the debt level were set at the meeting. **In 2020 debt is expected to reach 124%** of GDP, and **in 2022 it is likely to fall below 110%.** More moderate measures were also set for supporting debt sustainability (e.g. reduction of interest rates on loans from other member states, extension of the period until maturity of loans from 10 to 15 years, etc.).

In view of the positive assessment, the Euro Group has given the political green light for payment of another portion of financial assistance from the EFSF, conditioned on completion of essential domestic procedures.

A total of 43**.7 billion euros** will be paid, **including 34.4 billion** in December. The rest will be paid in three instalments in **the first quarter of 2013**, and the payments will be **linked to the implementation of agreed "interim" measures for Greece.** The Euro Group is expected to receive formal confirmation of its decision on 13 December.

http://www.consilium.europa.eu/homepage/highlights/eurogroup-approves-next-disbursement-to-greece?lang=en

BUDGET

EU budget summit ends unsuccessfully, without deal

The European Council's summit, which was focused entirely on the next multi-year financial framework for 2014-2010, **ended without a deal, and leaders are returning home empty handed**. Negotiations will continue at the next summit, the date of which has yet to be set. EU leaders failed to agree on basic parameters for the the multi-year financial plan for 2014-2020.

Therefore, a new summit will be held to discuss the seven-year EU budget, mostly likely in January 2013.

The European Commission's original proposal from last June anticipated **a budget of 1.025 trillion euros**, which **would be 4.8% higher** than in the current seven-year period. At the beginning of November, Van Rompuy presented a new proposal, according to which the next financial framework **will likely be 75 billion less**. However, his proposal failed to impress EU leaders. Therefore, following preliminary negotiations with officials from the EU 27, he prepared a new proposal. It it, although the total sum remained the same, individual chapters were modified.

The single agricultural policy is expected to receive 8 billion euros more, and the cohesion policy will receive 10 billion more. However, 13 billion euros is expected to be deducted from the part of the budget focused on **supporting competitiveness**. Other cuts affect external policy, justice and security.

Van Rompuy's proposal has been **protested against** mainly by net contributor's to the EU budget, such as the UK, Germany, the Netherlands and Sweden. They say more cuts are necessary.

Czech Prime Minister Petr Nečas is not happy about the proposal either and has criticised mainly the amount of the budget for the cohesion policy, from which poorer EU regions are financed.

The Czech Republic has pushed for **the amount of co-financing for EU projects** (cohesion policy) to remain the same. So far national budgets have been required to contribute 15%, but Van Rompuy has proposed that this be raised to 25%.

http://www.consilium.europa.eu/homepage/highlights/eu-seven-year-budgetary-framework-work-will-continue?lang=en

INTERNAL MARKET

European car industry needs a boost, action plan to help

The EU intends **to support the growth of its automobile industry**. This sector as a whole **ensures 12 million direct and indirect jobs in Europe, 4% of GDP** and a surplus of **90 billion euros** (data for 2011). The automobile industry is also the largest private investor into research and innovation, to which it directs about 30 billion euros annually.

The European Commission wants to maintain the EU automobile industry worldwide and to support the production of energy efficient and safe vehicles, and **therefore it has introduced the Cars 2020 action plan**, which is focused on promoting the competitiveness and sustainability of this sector. The reason is the development of new world markets. It on one hand offers opportunities for EU car makers and on the other hand will probably bring about new competition.

The action plan is intended to **focus on the production of more environmentally friendly vehicles**. Therefore the EU is expected to adopt a package for reducing emissions of CO2 and other pollutants as well as traffic noise. **Infrastructure is expected to be constructed for alternative fuels.** For example, a single interface is expected to be created for charging electric vehicles. Emphasis will also be placed on intelligent traffic systems.

From Europe's point of view, **strengthening of the single market with automobiles** and improving supervision of compliance with economic competition rules are also

important. The industry should receive support to improve access to the global market. This can be aided for example by more intensive cooperation on harmonisation of international regulations related to vehicles.

The Commission is presenting its action plan at a time when the **European automobile industry is facing problems**. The second largest European car maker, Peugeot, has

announced plans to cut 8,000 jobs in France and close a plant near Paris. U.S. car maker Ford recently closed two plants in Western Europe. Italian Fiat and German Opel are also facing problems.

http://europa.eu/rapid/press-release_IP-12-1187_en.htm

Commission calls for greater vehicle safety

One of the European Commission's efforts has been to **reduce the number of traffic accidents**. Therefore, the Commission has set a goal to **reduce their number by 50% by 2020 compared to 2010**. Achievement of this goal is expected to be helped by a set of safety requirements, which took effect at the beginning of November.

New vehicles should be required to contain equipment that will remind passengers to wear seatbelts, better protect passengers from shifting luggage in the event of an accident and include a system for checking tyre pressure.

The standard will also be focused on **child seat safety** and protective mechanisms for electric vehicles. With the help of speed level indicators, it will also be easier for drivers to save fuel and thus reduce CO_2 emissions.

These above mentioned measures are mandatory for all new types of vehicles. **As of 2014** the requirements will need to be fulfilled by **all vehicles sold on the European market.**

http://europa.eu/rapid/press-release_IP-08-786_en.htm

ENVIRONMENT

Changes in CO2 emission trading become clearer

The European Commission has presented its plan to change the method of holding auctions for trading with emission permits. **From 2013 to 2015 it wants to defer 900 million permits from auctions**. These are not expected to be sent back into the system until the end of the third trading period of the European Emissions Trading System (EU ETS), which will last from 2013 to 2020.

The Commission expects this step to **increase the prices of emission permits**. They are currently considered too low and according to the Commission do not motivate companies to invest in reducing CO_2 emissions. The plan to withdraw permits temporarily has been talked about since the summer. So far though, it has not been clear how many permits will be withdrawn. There has been talk about 400 million, 900 million or even 1.2 billion.

The European Parliament's **committee for the environment has also discussed the future of the EU ETS**. MEPs have reacted to the Commission's plans with mixed feelings. Some are concerned about excessive intervention into the carbon market. Others argue that the proposed plan may not necessarily increase carbon prices sufficiently.

Member states are expected to vote about the Commission's plan in mid December. **The main opponent is Poland,** which due to its dependence on coal has sought to prevent any rise in carbon prices. The **Czech Republic is taking a cautious approach for the time** being. For example, in the past it along with other states called for evaluation of the impacts of changes to the auction system on the economy and competitiveness.

Nonetheless, several experts have pointed out that the mere withdrawal of permits for starting the EU ETS will not be enough. They say there must also be **structural changes in the system**. Certainty regarding the European emission goals for 2030 would also help.

http://ec.europa.eu/clima/news/articles/news_2012111203_en.htm

REGIONAL POLICY

Programme period 2014-2020

At the end of November the **cabinet approved a proposal submitted by the Ministry for Regional Development** representing a basic building block focused on the programme period of 2014-2020.

As part of the objective **"Investment for Growth and Employment"**, eight operational programmes are anticipated:

Operational programme	Managing authority
Business and innovation for competitiveness	Ministry of Industry and Trade
Research, development and education	Ministry of Education, Youth and Sport
Employment	Ministry of Labour and Social Affairs
Transport	Ministry of Transport
Environment	Ministry of Environment
Integrated Regional Operational Programme	Ministry for Regional Development
Prague – pole of growth in the Czech Republic	Prague City Hall
Technical Assistance	Ministry for Regional Development

The largest new factor is the existence of **a single operational programme for regions,** the Integrated Regional Operational Programme (IROP). This programme is intended to contribute to reducing regional differences, to use local potential to the maximum extent to grow unemployment and to strengthen regions' competitiveness. It is also intended to focus on **strengthening the role of urban centres** as natural growth areas in regions, to support education, and last, but not least, to ensure sustainable growth in regions with an emphasis on improving the environment.

Another major change is the **reduction of the number of operational programmes for the capital city**. After 2013, there will be, instead of the current two programmes, only one, called "Prague - field of growth in the Czech Republic".

Projects that will be approved as part of this programme should lead to i**ncreased competitiveness of the capital city as a development area of the country** and are expected to ensure a quality life for inhabitants.

Besides one operational programme for technical assistance, there will also be **five topical operational programmes**, which will be managed by individual ministries.

The aim of the operational programme "**Business and Innovation for Competitiveness**" managed by the Ministry of Industry and Trade will be to promote innovations in manufacturing and services, handling of energy and development of ICT in the business sphere.

The operational programme devoted to science and research will be called "**Research, Development and Education**" and will be managed by the Ministry of Education, Youth and Sport. Investments into the development of new skills and qualified human resources are intended to ensure the Czech economy's shift **towards a knowledge economy**, one with an educated labour force that uses top technology and that produces quality results of research and their transformation to innovations and competitive advantages for Czech companies.

The operational programme "**Transport**" managed by the Ministry of Transport will focus on ensuring **completion of backbone roadways and connection of traffic and transport systems** with the help of terminals for passenger and freight transport. Key parts of this will include support for sustainable urban transport and modernisation of vehicle fleets for public transport.

http://www.mmr.cz/cs/Ministerstvo/Ministerstvo/Pro-media/Tiskove-zpravy/2012/MMR-Zakladni-obrysy-budouciho-programoveho-2014-20

EU renews payments in OP Education for Competitiveness

The European Commission has renewed payments in the operational programme **Education for competitiveness,** which it suspended at the beginning of this year due to unsatisfactory audit results. During its investigation it uncovered serious problems in certain programme projects, particularly those that were focused on reforming tertiary education and state leaving exams, e-learning courses and projects of certain universities, such as Jan Evangelista Purkyně University in Ústí nad Labem and Silesian University in Opava. The Commission concluded that the measures adopted by the Czech Ministry of Education were satisfactory, and the **parties agreed on a correction in the amount of CZK 762 million**. However, this does not mean that the Czech Republic would definitely lose money, since there is still a chance that until the programme period ends it will use it for other projects, the ministry assures.

http://www.msmt.cz/strukturalni-fondy/evropska-komise-obnovila-proplaceni-dotaci-operacnimu

The European Commission's representatives in the Czech Republic have begun adding to the EU Monthly contributions in the "Commission's Column" section. This issue is devoted to student mobility. With the approaching new year, there will also be a new change: The Erasmus exchange study programme, as it is known by thousands of students, is ending, but the new YES Europe initiative is beginning. What kinds of programmes will it include? You can read this and more in the article below.

The End of Erasmus? YES!

The option of studying abroad together with the right of free travel and work are the benefits of EU membership most frequently cited in public opinion polls in the Czech Republic. A significant role in this is played undoubtedly by the Erasmus study exchange programme, which since 1987 has enabled students from universities in EU member states to spend time studying at selected universities abroad.

The first students from the Czech Republic were able to make use of this opportunity already at the end of the 1990s, before the Czech Republic joined the EU. Already more than 50,000 students from Czech state and private colleges and universities have been able to gain experience not only studying abroad, but also living abroad thanks to the programme. They have most often opted for studying in Germany, France, the UK and Spain. However, students' mobility is two-directional, and over 25,000 young people have come to the Czech Republic to study during the same period, mostly from Spain, France, Germany and Poland.

Erasmus for everyone

At the end of last year, the European Commission presented a proposal for extensive reform of Erasmus and other education programmes linked to expansion of their reach and increasing of their budgets. The new programme entitled "Erasmus for All" is expected to unify the current Erasmus programme with six other EU programmes in the areas of education, professional preparation, youth and sport. This should lead to increased effectiveness, easier submission of grant applications and elimination of fragmentation and overlapping of programmes.

The Erasmus for All programme will have two entirely new features. The first is a system of guarantees for loans, which will help students of master's study programmes to finance their study abroad and acquire the skills necessary for employment with demands on knowledge. The second feature will be the creation of 400 "knowledge alliances", an extensive partnership among university institutions and businesses focused on support for creativity, innovations and business through providing of new education opportunities and qualifications.

The Commission has also proposed a nearly 70% increase in financial resources compared to the current seven-year budget, which would mean that for the new programme for 2014-2020 up to 19 billion euros could be allocated.

Before the discussion of the proposal in the European Parliament, the European Commission received support for its idea from more than a hundred European personalities from the sectors of culture, industry and support - for example, in the Czech Republic the appeal intended for top representatives of member states has been joined by the head conductor of the Czech Philharmonic Professor Jiří Bělohlávek, architect and designer Eva Jiřičná, entrepreneur Martin Wichterle and former soccer player Pavel Nedvěd.

EP: No to Erasmus, but YES Europe!

The European Parliament has also already discussed the proposal. Lawmakers in the committee for culture and education adopted the proposal at the end of November for the new mobility programme for the period from 2014 to 2020. However, they changed the name to YES Europe (an abbreviation for Youth, Education and Sport).

Despite the change of name, the main goal remains the same - for people to improve their skills and their employment opportunities and to support modernisation of education systems and professional preparation systems. The main activities within existing programmes will continue, although activities will be strengthened in situations when their systematic impact is greatest and where added value of the EU is obvious.

In the year of the 25th anniversary of the Erasmus programme, it seems very likely that a major change will occur in the area of student mobility. However, future students will not be deprived of the unique experiences that Erasmus brought their predecessors and which have even become an impulse for the popular French-Spanish romantic film comedy of the same name. If MEPs support the proposal in January, it will obviously have to be named YES Europe in its continued form.

Details regarding the proposed Erasmus programme are available for everyone at the address http://ec.europa.eu/education/erasmus-for-all/.

Our Information Service section outlines upcoming sessions of EU decision-making bodies accompanied by other significant events such as international summits with super powers. Often agendas for negotiations by these important bodies are not ready until a few days before the actual meetings so they can be as up-to-date as possible. Agendas can be found at: http://europa.eu/eucalendar/.

Meeting of the key EU institutions

3 December 2012	**Brussels, Belgium**
- Eurogroup	
3 December 2012	**Brussels, Belgium**
- Transport, Telecommunications and Energy Council	
4 December 2012	**Brussels, Belgium**
- Economic and Financial Affairs Council (ECOFIN)	
6 – 7 December 2012	**Brussels, Belgium**
- Economic and Financial Affairs Council	
6 - 7 December 2012	**Brussels, Belgium**
- Justice and Home affairs Council	
10 December 2012	**Brussels, Belgium**
- Foreign Affairs Council	
10 - 11 December 2012	**Brussels, Belgium**
- Competitiveness Council	
10 - 13 December 2012	**Brussels, Belgium**
- European Parliament plenary session	
11 December 2012	**Brussels, Belgium**
- General affairs Council	
13 - 14 December 2012	**Brussels, Belgium**
- European Council	
17 December 2012	**Brussels, Belgium**
- Environment Council	
18 - 20 December 2012	**Brussels, Belgium**
- Agriculture and Fisheries Council	
19 December 2012	**Brussels, Belgium**
- Environment Council	
20 – 21 December 2012	**Brussels, Belgium**
- Transport, Telecommunications and Energy Council	

Access as of 1st December 2012

In this issue of the Monthly, we are introducing the new and unit Česká spořitelna Business Index 2012, which thoroughly analyses the business environments in 27 EU countries. Based on seven indicators we have created a statistical tool enabling a comfortable comparison of the conditions for doing business. It includes cost, financial, infrastructure and macroeconomic indicators.

WILL THE REDUCTION OF GRANTS FROM EU FUNDS FOR THE CZECH REPUBLIC BE DESERVED?

The extraordinary November EU summit, which was devoted to the future financial framework for 2014-2020, ended with a fiasco. The leaders of the member states failed to reach an agreement, and the form of the future joint European budgets remains up in the air, like the sum from structural funds that will flow to the Czech Republic.

However, there is one certainty. The growing Czech economy and general pressure for savings will lead to financial assistance from the cohesion policy intended for the Czech Republic being less than it currently is in the 2007-2013 period. The specific amount of the future package of financing is difficult to estimate, but the most frequent estimates are of a sum slightly exceeding 20 bn €.

At first glance, a 25% lower amount could result in an unpleasant surprise. The Czech Republic remains a underdeveloped economy in the EU with huge financial needs. However, the current developments during drawing of funds from the EU leads to a nearly heretical question: "Isn't radical reduction of grants from the cohesion policy deserved for the Czech Republic?"

Share of paid requests on all decided requests

1. Lithuania	60,53%	15. Greece	44,92%
2. Portugal	58,44%	16. Luxembourg	44,85%
3. Ireland	55,56%	17. Netherlands	43,99%
4. Estonia	53,95%	18. Cyprus	42,57%
5. Sweden	53,29%	19. Hungary	42,53%
6. Finland	52,66%	20. Denmark	42,49%
7. Germany	51,70%	21. France	41,37%
8. Poland	50,56%	22. Slovakia	38,22%
9. UK	50,26%	**23. CR**	**36,21%**
10. Latvia	48,48%	24. Malta	33,17%
11. Spain	48,42%	25. Bulgaria	28,47%
12. Austria	47,90%	26. Italy	27,97%
13. Slovenia	47,59%	27. Romania	20,68%
14. Belgium	46,72%		

Source: European Commission

Why deserved first

Why deserved? Because we draw such a small amount. Rabbits are counted after a hunt, which thanks to the rule of N+2 will end in December 2015. Nonetheless, already in the interim period relevant conclusions can be made, and they are not very stimulating for us. From the regular monthly monitoring report by the Ministry of Regional Development it is apparent that by 7 November project implementers were paid just under half of the money that the CR has available. We will get an even sadder picture if we make a comparison across the EU. The statistics of the European Commission until the end of October show that from the point of view of the criteria for grants paid by Brussels for "European projects" we reached only 23rd place.

Why deserved second

Why deserved? Because we are incapable of following rules. Brussels expressed doubts about the effective management and control of the distribution of EU funds this spring, when it decided not to fund payment applications for the following operational programmes due to discovered shortcomings:

- OP Transport,
- OP Environment,
- OP Business and Innovation,
- OP Research and Development,
- Integrated OP,
- OP Technical assistance,
- OP Prague-Competitiveness,
- all regional OP.

In half a year the situation has improved, but applications for payments are still sent to the EC, and refunds have been issued by the Commission for four programmes.

Moreover, serious suspicions of criminal conduct have emerged in relation to several operational programmes. Grants have not in all cases been distributed only based on the criteria of "whole-community use". Of all of the cases we are naming the obvious cases of fraud most mentioned in the media in relation to ROP Southwest and ROP Northwest.

Threat of marred opportunities

The volume of grants for development projects from EU funds, which amounts to approximately CZK 100 billion annually, represents a unique opportunity for acceleration of economic, social and environmental development in our country, and it would be irresponsible to overlook it.

If we do not learn from the mistakes from the programme period so far, we will not fully use resources from Brussels funds, and some of those that we would use would be wasted in senseless projects, and the reduction of overall allocations for the Czech Republic would be deserved and justified. Nonetheless, we hope that this does not happen.

ČESKÁ SPOŘITELNA BUSSINESS INDEX 2012

WHAT IS THE ČESKÁ SPOŘITELNA BUSINESS INDEX?

Purposes and objectives of the index

The EU Office of Česká spořitelna has prepared the ČS Business Index, a tool that corresponds to the programme Guide to Doing Business (not only) in the EU. This is a simple and statistical tool, with the help of which it is possible to compare the business environments in the 27 EU states.

The Business Index also contains seven statistics, which are an important basis for entrepreneurs deciding about investments abroad. An important part of the Business Index is its dynamic dimension, thanks to the results of which it is possible to assess whether the business environment in a particular country has developed in a positive manner or whether negative aspects have prevailed. For these purposes the index has been figured retroactively to 2008.

The Česká spořitelna Business Index is not only a one-time analysis - it will be renewed each year in reaction to the changing business environment. The new version of the index is expected to be issued in the middle of the particular year.

In the introduction to the article, we familiarise readers with the ČS Business Index as it has been prepared for what it can be used for and what it contains. In the next chapter, the results will be summarised,which we will analyse in detail a chapter later. In conclusion, we would like to familiarise you with the assessment of the Czech Republic in the ČS Business Index, including what are its limits and how the country is strong.

must originate from renowned institutions, so that data cannot be questioned.

a) Expected growth of GDP

Twice per year the IMF issues the updated report world Economic Outlook (WEO). Experts from the IMF analyse the economic developments in more than 180 countries, and based on their analysis they estimate the economic development in the next 5 years. In the most recent WEO from April 2012 the IMF estimated the growth outlooks for 2012-2016. The index includes a 5-year average of estimates for future development.

The higher value of expected GDP growth is better for entrepreneurs, because it reflects optimistic expectations and economic stability.

b) Density of motorways

The density of motorways is an indicator that represents the area of infrastructure. There is no doubt that the quality and readiness of a country in terms of infrastructure is very important for entrepreneurs. Therefore, the motorway density infrastructure has been included in the ČS Business Index. We express it as the number of kilometres of motorways compared to the particular country's area in square kilometres according to Eurostat.

A higher value of the motorway density indicator is better for businesses in terms of logistics and effectiveness.

The purpose of business is to generate profit, meaning to maximise revenues and at the same time minimise costs. Investments into countries are often another option. All of the following statistics therefore deal with various costs. The lower the values of cost statistics, the better.

c) Electricity prices

The first cost indicator included in the index is the price of

Table 1: List of included variables

Statistics	Description	Unit	Source
Expected growth of GDP	Average estimate of GDP growth for the next 5 years	% y-o-y	IMF
Density of motorways	Number of km of motorways per 100 km2 of area	km/100 km2	Eurostat
Electricity prices	Average electricity price for large clients without VAT	EUR/kWh	Eurostat
Interest rates from loans	Average rate of mid-term loans to non-financial businesses	% p. a.	ECB
Labour costs	Average monthly labour costs (i.e. wages, contributions for insurance, training) in the business sector	EUR	Eurostat
Costs for company establishment	Average costs for establishing a mid-sized limited liability company	EUR	World Data Bank
Corporate tax rate	Effective average corporate tax rate	% of profit	EC (GD TAXUD

focus on small and mid-sized businesses, interest rates were selected from current loans to non-financial businesses with maturity periods of from 1 to 5 years monitored by the European Central Bank.

e) Labour costs

An essential part of business activities is employment of workers. The statistics have been obtained from the regularly evaluated Labour Force Survey, regularly published on Eurostat. Labour costs indicate how expensive the labour force is. They do not look at the problem from the point of view of average wages, but the statistics also include costs for social insurance, costs for clothing and non-wage costs related to employment. Eurostat monitors the particular characteristics for companies with 10 or more employees in the business sphere.

f) Costs for company establishment

A very important aspect of business is accommodation of the legal and administrative environment towards entrepreneurs. As an indicator of accommodation towards entrepreneurs, costs for company establishment were selected, of which there is an attempt to minimise. The World Bank monitors the bureaucratic demands of doing business in more than 180 countries. The cost of establishing a company is one of the major costs.

g) Tax rate

The last area (but certainly not the least important) is the tax system. Taxes in the EU greatly vary. Entrepreneurs will most likely be interested in the tax system as a whole, but the greatest emphasis will be placed on the corporate tax rate. The problem of the differing tax systems can be identified as their mutual non-comparability, because the minimum tax rates are counted from various bases. This problem can be solved with the help of an effective tax rate, which transfers all tax rates to a joint basis. An effective tax rate has been adopted by the European Commission.

Methodology in the nutshell

The statistics were transferred to non-dimensional numbers from 0 to 100. The worst results were 0, but countries that faired the best in the particular areas were rewarded with 100 points. In order to avoid extremes, the values were limited to the distance of two deviations from the arithmetic average. The resulting index is a direct unbalanced average of points for all seven monitored areas.

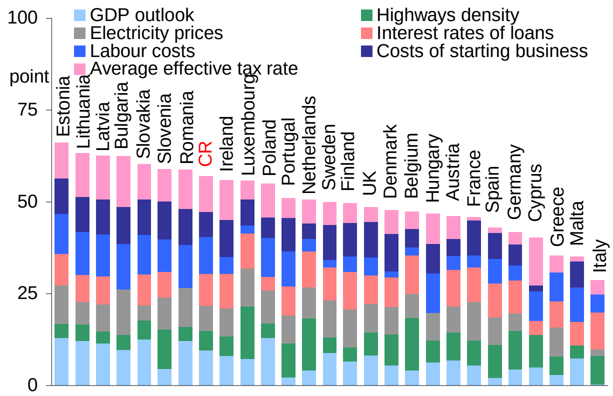
An important finding is that specific results are related to other countries. This is illustrated well in growth outlooks While in 2008 average growth of more than more than 4% of GDP was expected in the Czech Republic, 4 years later only 2.5% was expected. However, in the sub-index of growth potential the Czech Republic reached approximately 68 points. The reason is that together with the Czech outlook, the outlook for the rest of the EU also worsened, and compared to other countries the Czech position practically remained unchanged.

ČS BUSINESS INDEX 2012 – OVERALL RESULTS

Winners from the northeast

The results of the analysis confirm what can be monitored in the trends on the capital markets. The Baltic states faired the best in the index. All three reached medal positions in the Business Index 2012. Led by Estonia, they gained points mainly due to low taxes and low labour costs. Taxes in Estonia are comparable to those in the Czech Republic - business operators are required to pay just under 17% of their overall profits in corporate taxes. In Latvia and Lithuania they pay more than 4% less. The costs of labour in these countries range around 1,000 euros per month, while the average in the EU is approximately 2.5 times higher. An important role is also played by the very good expected growth of GDP compared to European competition. While the eruption of the crisis had almost devastating effects on Estonia, Latvia and Lithuania (in 2009 these economies fell by two digits), they have managed to make use of opportunities, and today (together with Poland, Slovakia and Romania) they can again be described as Baltic tigers with expected growth of more than 3% annually.

ČS Business Index 2012



Source: EU Office calculations

However, this does not mean that the victors should fall asleep at the helm. In order to ensure their victory, they need to catch up with the rest of Europe, for example in infrastructure - in proportion to their size there are very few

highways in the Baltic states, for example in Latvia there are not any according to statistics from Eurostat. A certain role is also played in these states by financial services. Interest rates are slightly higher there than in Western Europe.

The position of the Baltic states is comparable to that of other countries in Eastern Europe, lead by Bulgaria and followed by Slovakia and Slovenia. The reasons for their success are similar - very low labour costs and solid growth outlooks (with the exception of Slovenia, which makes up for its handicap thanks to its developed network of motorways and low business establishment costs) along with low taxes.

Defeat from the South

The current trend is also visible at the opposite end of the ladder. Recently there has been a lot of talk about the bad state of the southern European economies. The most talk has been about debt, but the ČS Business Index indicates that everything cannot be blamed on debt. Following the entire monitored period from 2008 to today, Italy remains in last place. It needs to be pointed out that its position compared to other European countries is not improving. Its decline increased even more in 2012. Countries that wound up in other places at the end of the ladder were Malta, Greece, Cyprus and somewhat surprisingly also Germany.

Italy and Greece can be described jointly, because their advantages and disadvantages are very similar. The common denominator of both staples of European civilisation are bad growth outlooks. According to the IMF the Italian economy is expected to grow in the next five years by about 0.1% annually, and in practice this means that for 5 years Italy will basically remain in the same place. In the case of Greece, the IMF is not much more optimistic; it expects average growth of 0.8%. Another problem facing both economies is the cost of establishing a company. While the cost of establishing a company in Europe as a whole is around 1,000 euros, in Greece it is more than 3,600 euros and is even 4,500 euros in Italy. Another disadvantage of these economies is their relatively high tax burden.

Maltaly and Cyprus have a common problem, which is very expensive electricity. Malta lacks a motorway network and has an effective corporate tax rate of more than 32.2%, which does not attract many investors. However, Cyprus is a tax paradise, and with its average effective tax rate of 10.6% it ranks in second place in Europe behind Bulgaria. However, it has relatively expensive interest and high costs for setting up a company.

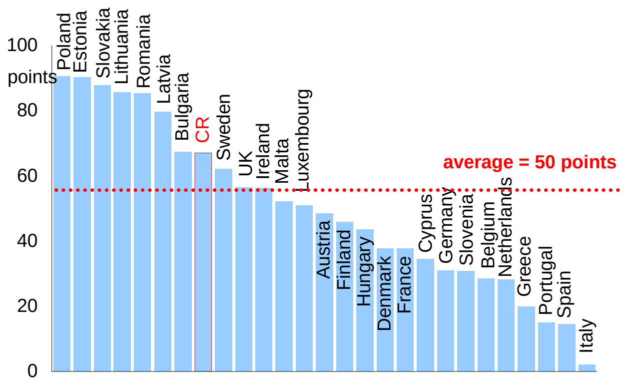
Something interesting in itself is the very bad position of Germany. This is because Germany is often described as a strong and healthy economy that does not have to worry about its future as much as other states. There is certainly a lot of truth to this, but this does not mean that Germany can necessarily attract investors from other EU states. Although Germany increasingly presents itself as a highly developed market for product sales, production has gradually been shifted to cheaper destinations. Labour is very expensive in Germany compared to in the rest of Europe, at 4,000 euros per month, which is 1.5 times the European average. The situation is similar in the rest of Europe, but Germany does not have low taxes (just under 30%) and although growth is expected to be relatively stable, it is not expected to be fast. According to the IMF, in the next five years growth is expected to exceed slightly only 1% annually.

ČS BUSINESS INDEX 2012 – PARTIAL RESULTS

Expected growth of GDP

According to the IMF, the expected growth of GDP in recent years has significantly worsened. Whereas in 2008 outlooks in most states were relatively optimistic, in 2012 growth estimates are much more pessimistic. Poland has faired best and has profited from a large and strong internal market. Between 2012 and 2016, annual growth exceeding 3.4% annually is expected.

GDP growth outlook 2012



Ø GDP outlook for next 5 years in %; IMF
Source: EU Office calculations

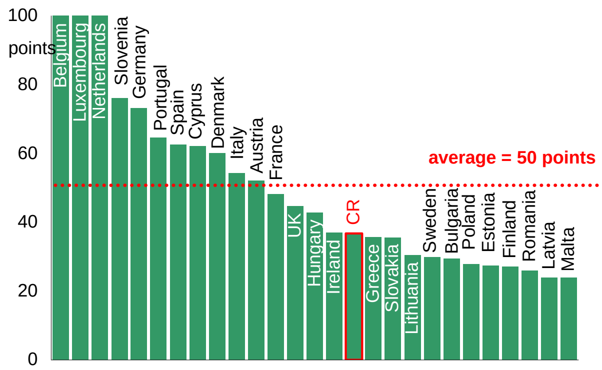
Certain geographical tendencies can also be derived from the expected growth. The best outlooks are expected for Eastern European countries, except Hungary. It is no surprise that the most pessimistic fate is predicted by the IMF for states in the south of Europe.

Density of motorways

One of the main indicators in which Western Europe leads is motorway density. Specific results show that motorway density is the highest in the highly developed Benelux region, the success of which is due to a great extent to the region's advantageous position between Germany and France and between the UK and the Atlantic Ocean. According to Eurostat, there are no highways in Latvia or Malta. In Romania there are only just over 300 km of highways. Contrastingly, the UK has more than 10 times as many highways.

Since the construction of highways is a relatively demanding investment, there have not been very dramatic changes over time. The most progress has been registered in recent years by Ireland, which since 2007 thanks to massive investments into its infrastructure has nearly doubled the length of motorways on its territory and moved from 20th place in 2008 to 15th place this year.

Highways density 2012

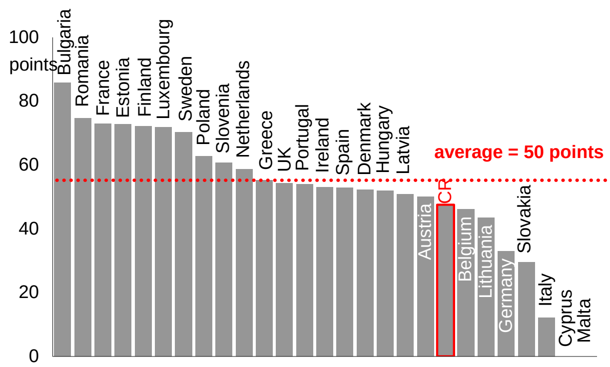


Length of motorways in km to total area in km2; Eurostat
Source: EU Office Calculations

Electricity prices

The first of the monitored cost indicators again relatively gives advantages to eastern states over western states, but this tendency is not as strong as it may seem. The cheapest energy prices are in the newest members of the EU, Bulgaria and Romania. However, rich France is in third place. The most expensive electricity is in Cyprus and Malta, island nations that do not have as much of an opportunity to participate in the internal European market.

Electricity price 2012



Ø wholesales prices in €/kWh excluding VAT; Eurostat
Source: EU Office Calculations

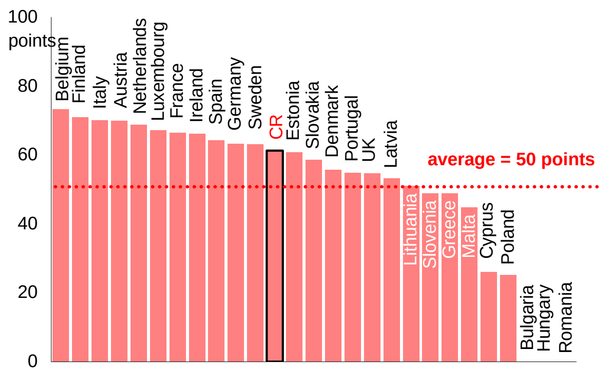
The trend has been for electricity prices to grow, and electricity prices have grown in 21 EU states and dropped slightly only in 6 states. Within the monitored period, they have grown the most in Malta and Cyprus, where they are grown by more than 70% and 35% respectively. Significant growth has also been registered in the Baltic states and in France and Germany. However, electricity prices have fallen in Ireland, Romania and the UK.

Interest rates from loans

Indicators in relation to which developed western countries have scored points include interest rates on loans. In Western Europe there is a more stable low-inflation macroeconomic environment, which is also maintaining a general ceiling of interest in the economy at the lowest levels. An absolute winner is Belgium, where approximately 3% annually is paid for arranged business loans. Loans in Finland, which ranked in second place, are only 0.2 percentage points more expensive. The most expensive loans are in Eastern Europe, and in Bulgaria, Hungary and Romania their annual interest rate is around 10%.

Since 2007 the prices of loans have relatively declined. The eruption of the world financial crisis brought two reasons for reducing rates. These were a combination of weakening inflation pressures and the expansive monetary policies of European central banks. Interest rates declined the most in Latvia, Ireland and the UK. The prices of loans slightly increased or stagnated only in three EU states - Poland, Cyprus and Bulgaria.

Average interest of loans 2012



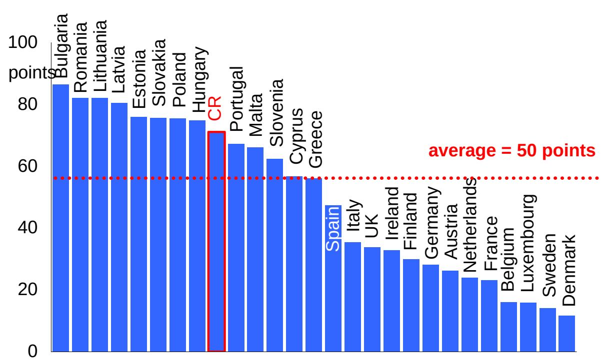
Ø interest rates of 1-5 years loans in % to non-financial corporations; ECB; Source: EU Office Calculations

Labour costs

Labour costs are an indicator that greatly favours new member states over traditional ones. While in Bulgaria, Romania, Lithuania and Latvia entrepreneurs pay less than 1,000 euros per month for employing workers, in rich Western European countries these costs are much higher. In the most expensive European countries, Denmark, Sweden, Luxembourg and Belgium, costs for employing workers even exceed 5,000 euros.

Labour costs over time will grow in all EU states. Between 2007 and 2011 they have grown the most among the newest EU members, Romania and Bulgaria, where labour costs have grown by 52% and 64% respectively. Even despite the relatively dramatic growth, both countries have kept pace and remained in the first two positions from the point of view of labour costs. Labour costs have stagnated in Greece and Ireland.

Average Labour Cost 2012



Ø monthly labour costs in € in business sector; Eurostat Source: EU Office calculations

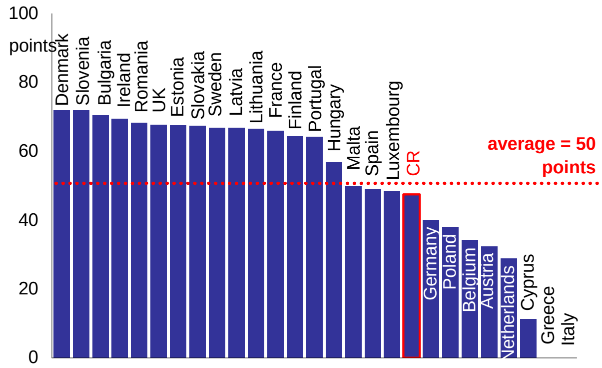
Costs for company establishment

The first half of the ladder of costs for establishing a company does not differ much. In Denmark and Slovenia, setting up a standard limited liability company does not cost anything.

In countries that ended up behind the country in 14th place, Portugal, costs are beginning to sky-rocket, and in the "most expensive" countries, Greece and Italy, they are already huge and exceed 3,500 and 4,500 € respectively.

It seems overall that governments are preparing reforms that cater to businesses, and costs for establishing a company are declining. For example, in Slovenia these costs have fallen to zero, and they have been zero in Denmark since the beginning of the period. They have been significantly reduced in Spain, Hungary and Luxembourg as well. Wherever the costs have risen, they have done so only cosmetically, such as in Sweden, Belgium and Cyprus.

Cost of starting business 2012



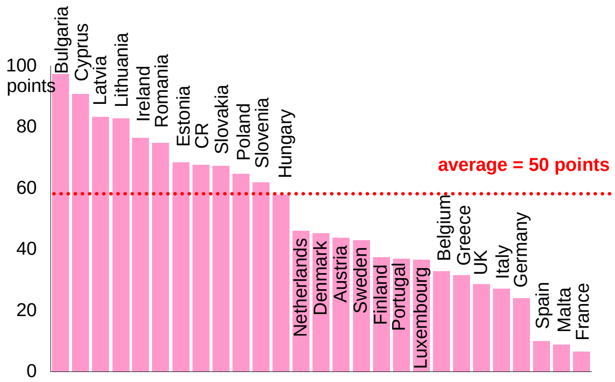
Ø costs of starting business in €; World bank Source: EU Office calculations

Effective tax rate

Corporate tax rates in Europe also differ greatly. They are the lowest in Bulgaria and Cyprus, where earnings are taxed at 8.9% and 10.6% respectively. The situation is also beneficial in Latvia, Lithuania and Ireland. However, there are relatively high corporate tax rates in France, Malta and Spain, where they exceed 30%.

From a time point of view, it is interesting that the average effective tax rate for non-financial companies has been decreasing over time. For example, it has fallen in Germany, where in 2007 it exceeded 35% and has been reduced to 28%. It has also fallen in the Czech Republic from 21% in 2007 to 16.7% last year. The effective corporate tax rate has increased in only one EU state, Greece.

Average effective tax rate 2012



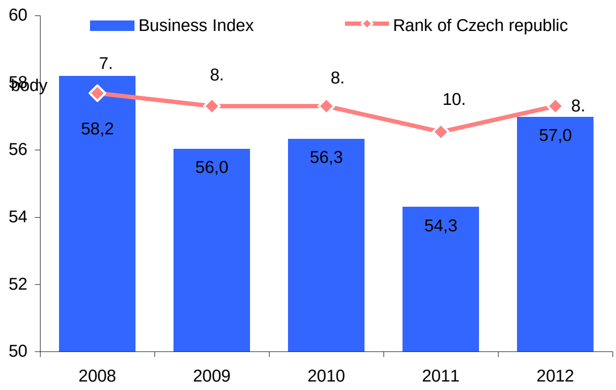
Ø corporate effective tax rate in business economy in %; Source: European Commission; EU Office calculation

BUSINESS ENVIROMENT IN CZECH REPUBLIC

Since 2008 the Czech Republic has remained stably in the first half of the ladder and hovers around 8th place. The reason for the stable and good results is the relatively optimistic outlook regarding growth. It needs to be pointed out that this does not involve actual growth, but the average expected growth in the next 5 years. Compared to the rest of Europe, corporate taxes are also relatively low in the Czech Republic.

However, certain areas have distanced us from the best results. For example, the price of electricity is following conversion to euros above average in the European context. There is certainly room for improvement also at the level of the institutional environment, represented in the ČS Business Index by costs for setting up a company. The index also indicates that additional construction of motorway infrastructure is a positive measure also for the support of the business environment, because compared to the rest of Europe we have a lot to catch up with. This will be beneficial also due to the relatively balanced distribution of inhabitants in the CR and the country's high population density.

ČS Business index in Czech republic



Source: EU Office Calculations

It could surprise someone that we regularly rank in eighth place, even though the average placement in individual sub-indexes is much worse. The first place holder Estonia is not first in all indicators. For victory it is enough that in most indicators it reaches above-average results. Similarly, in sub-indexes the Czech Republic usually ranks in eighth place, but only seven countries have an average number of points higher than the Czech Republic.

Compared to 2007 outlooks for GDP growth have declined. Whereas 5 years ago the IMF predicted more than 4% annual growth of production, this year it expects only 2.5% growth. Even despite this relatively significant decline, the point evaluation of the Czech Republic is practically unchanged. The reason is simple - just as the Czech Republic's growth outlook has worsened, so has that of the EU as a whole.

With indicators of motorway density during the monitored

Subindex	Points	Rank	Basis statistics
ČS Business Index 2012	**57.0**	**8.**	--
1. Expected growth of GDP	67.1	8.	average growth pace 2.54% p.a.
2. Density of motorways	36.7	16.	0,93 km of motorways/100 km2
3. Electricity prices	47.5	20.	0.0982 EUR/kWh for large customers
4. Interest rates from loans	61.3	12.	4.03% p. a. for mid-sized loans
5. Labour costs	71.1	9.	1,508 euros per month per employee
6. Costs for company establishment	47.5	19.	1,119 euros for a standard limited liability company
7. Effective tax rate	67.6	8.	16.7% of profit

years, the Czech Republic remained in 16th place, with only one exception. According to Eurostat, 77 km of new roadways have been opened in the Czech Republic since 2007, meaning the Czech Republic has maintained a trend spanning across the EU.

The price of electricity is vulnerability for the Czech Republic. Since 2007 it has grown by 26%. That would not be anything unusual if energy prices were also growing similarly in other countries. Although energy prices have also grown in other countries, in the Czech Republic the pace of their growth has been faster. As a result, the Czech Republic has moved from 12th place in the sub-index for 2008 to 20th place this year.

The interest level in the Czech Republic has a slight declining trend. With the exception of the crisis year 2008, it has fallen each year. However, this trend has been faster in other EU states. In 2007 the Czech Republic had the third cheapest loans in Europe. Nonetheless, in subsequent years it lost its comparative advantage, and last year it ranked in 12th place. For next year it will certainly be interesting to watch what will happen to interest rates, now that the Czech National Bank has reduced its rates to a historic minimum, practically to zero, and how this will effect the Czech Republic's position in the index.

Labour costs are relatively low in the Czech Republic, even though even here they are slowly rising. In an international comparison, however, this slight growth has practically no effect, and the Czech Republic for the duration of the monitored period remains in 9th place out of the 27 EU member states.

The costs for establishing a company show one interesting characteristic of the ČS Business Index, which it is useful to take into consideration. The gradually declining ladder is not necessarily caused by the fact that "we are ruining something" - someone raises prices or makes a bad decision. It can also be caused by a passive approach - while everyone else is acting, we are staying in place. This is the case with costs for establishing a company. While in much of Europe an attempt has been made to knock down such costs, they have remained almost the same in the Czech Republic for several years already. As a result the Czech Republic has fallen since 2008 from 14th place to 19th place.

The last evaluated indicator is an effective tax rate. In recent years it has been reduced relatively drastically. The public finance reform introduced in 2008 has gradually reduced the effective corporate tax rate from the original 21% to 16.7%. Nonetheless, this trend is not likely to continue in the near future. Within the business environment, the Czech Republic has benefited from this change. It has gone from 12th place in the particular sub-index to its current position of 8th place.

SUMMARY IN CONCLUSION

The Business Index is a useful tool intended for comparing the business environments in EU member states. It enables business operators who are considering expanding production or sale to other EU states to identify their needs quickly and find suitable candidates for investment. However, the final selection of the country for investment will depend on the specific details related to the business activities, and this index is not a suitable tool for a final decision. However, nonetheless it provides very useful information, an effective comparison of the quality of the business environment, both between individual countries and in relation to changes in time.

The results of the Business Index 2012 confirm the real capital flows. Production is clearly being moved from expensive western markets to more perspective eastern markets. Even sale is often moved to eastern countries - on the saturated markets in the west there is very high competition, and on the markets of the former Soviet block it tends to be much easier to get established, even at the expense of lower sales prices.

The Business Index can serve not only business owners. The bad positions of Greece, Italy and Spain confirm that the ongoing crisis is not only a debt crisis, but that the unfavourable business environments in those countries have hindered their economic growth. The combination of a bad business environment and an irresponsible approach to debt can seem like a very dangerous combination, which can cause much unpleasantness for a long time far in advance.

The Guide to Doing Business Section is part of the advisory programme "Business Guide (not only) in the EU", which the EU Office has offered since the beginning of this year. Within the program, we provide our clients from among small and medium-sized businesses with information about how to expand abroad successfully and what business environment awaits them there. You can find more information about the programme here: www.csas.cz/eu. In this issue we present Austria.

AUSTRIA

Official name	*Republic Austria (Republik Österreich)*
Population	8 404 252 (2011)
Area	83 871 km^2
Currency	Euro (EUR)
Ethnic groups	Austrians 91.1 %; former Yugoslavs 4 %

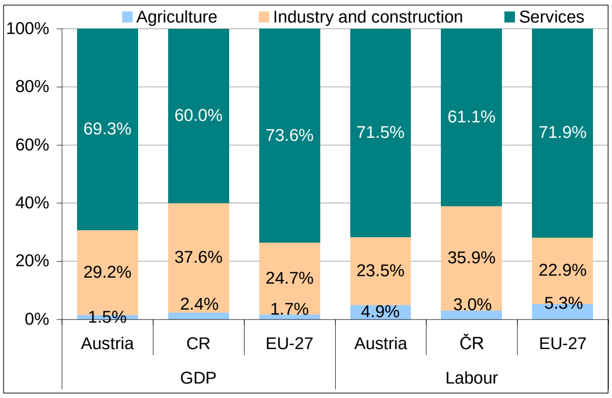
Source: CIA World Factbook

Austria gained its independence in 1918 as a result of the breakup of the Austro-Hungarian Empire. During the Second World War it was annexed by Germany, and it regained its independence in 1955. It has been a member of the EU since 1995.

The government consists of a federal chancellor, vice-chancellors and individual ministers. Legislative power is held by the country's bicameral parliament, which consists of the National Council (183 lawmakers elected by the people for five-year terms) and the Federal Council (representing federal states, into which the states appoint their representatives).

Structure of economy and foreign trade

National economy – Austria (CR and EU)



Source: Eurostat; data for 2010 (GDP) and 2011 (Labour)

The service sector is Austria's dominant economic sector and comprises 70% of GDP. Compared to the Czech Republic, there is a weaker industrial sector, and a greater role in the labour market is played by agriculture (which employees approximately 5% of the population).

Austria's main crops are grain, potatoes and fruit. Meat production is focused on raising of pigs and livestock. Industrial production is focused mainly on engineering and construction.

Key export commodities include machines and equipment, means of transport, chemicals and food. However, oil, machines and means of transport are imported to the country the most. The country's main import and export partners are Germany, Italy and Switzerland respectively.

Macroeconomic outlook

The Austrian economy did not return to the pre-crisis condition until 2011, when GDP grew by 3.1%. The main engines of growth were rising consumer demand and growing investment activities.. Our southern neighbour did not avid the weakening global demand either, and this year it expects weak, but still positive economic growth

Basic indicators	2010	2011	2012^e	2013^e
GDP Growth (%)	2.3	3.1	0.8	1.7
Unemployment level (%)	11.8	13.1	13.4	12.7
Inflation (%)	1.1	2.2	2.4	2.0
Budget deficit (% GDP)	-4.5	-2.6	-3.0	-1.9
Public debt (% GDP)	71.9	72.2	74.2	74.3

Source: European Commision; ^{e} - estimate

Austria's public debt has reached a level above 70%, which is ten percentage points higher than called for in the Maastricht Treaty for adoption of the euro, but in contrast with other Eurozone countries is a solid number. The relative stability of the system of public finances is demonstrated by the country's low budget deficits. It is expected to reach 3% in relation to GDP, so that a year later it can reach 1.9%.

Labor market

The unemployment level in Austria is one of the lowest in the EU and is 3% lower than in the Czech Republic. Work productivity exceeds the EU average by 15%. The country does not have a nationwide minimum wage, but is accustomed to defining them in collective agreements.

Basic indicators of labor market		
Unemployment level (2011)	4.2 %	
Labor productivity (% to Ø EU; 2010)	115.5 %	
Minimum monthly wage (1H/2012)	--	
Ø monthly labor cost in sectors (EUR)	**Austria**	**ČR**
Manufacturing (2010)	4 369	1 303
Wholesale and retail trade (2010)	3 352	1 350
Transport and storage (2010)	4 087	1 346
Accomodation and food (2010)	2 172	835
Information and communication (2010)	5 939	2 616

Source: Eurostat

In Austrian business sectors, average labour costs are usually 2 to 3 times higher than what they are in the Czech Republic. The largest differences is in the processing

industry, where Austrian labour costs are 3.4 times the value in the Czech Republic.

Labor law basics

Austrian labour law defines two basic types of employment relationships, to which different legislative regulations apply. These types are "Angestellte", which are employees working mainly in administrative positions (office work) or services (trade) and "Arbeiter", who usually perform more demanding manual labour.

An employment contract can be entered into for a definite or indefinite period. The probationary period lasts 1 month, but collective agreements often adjust that period and may shorten it. The termination notice period for Angestellte positions ranges from six weeks to five months, depending on the number of years worked at the particular employer. The termination notice periods for Arbeiter positions range from one to five months and are defined in collective agreements. The work period in Austria is 8 hours per day, 40 hours per week. The work period can be extended to 9 hours per day, but only if Friday's are shortened.

Business law basics

Form of Company	Minimum Capital
European Company	120 000 EUR
Special limited partnership	not required
Limited Liability Company	35 000 EUR
Joint Stock-Company	70 000 EUR
Collective company	Not required

Source: Wirtschaftskammer Österreich (WKO)

A limited liability company (GmbH) is the most common form of entry by foreign investors into the Austrian market, and the minimum required capital per partner is 70 euros and is 35,000 euros (CZK 875,000) for an entire company. For most business projects, joint-stock companies (AG) are used, whose capital must be at least 70,000 euros, approximately CZK 1.8 million.

Costs for setting up an average limited liability company are higher in Austria, but in most cases they are under 1,600 euros and include eight procedures, which take approximately 25 days to complete.

Main taxes and peripheral labor costs

Tax/payment	Rate
Corporate Tax	25 %
Dividend tax for non-residents	25 %
Individual Income Tax (progress)	20.44/33.725/50 %
VAT (basic / lower)	20 % / 10 %
Social insurance – employee	18.07 – 18.20 %
Social insurance – employer	21.7 % – 21.83 %

Source: Steueregesetze

There is a flat corporate tax rate of 25 %, which is above average in Europe. The rate on withholding taxes from dividends is exactly the same.

Calculation of income taxes for individuals is somewhat more complicated and involves progressive taxation with rates of 20.44%, 33.725% and a rate limit of 50%.

The basic VAT rate is 20%, and the reduced rate of 10% applies to food, housing rental, newspapers, books, income from artistic activities and passenger transport. Deductions for social security have several components and consist of contributions from employers (18.07% of gross wages for Angestellte and 18.20% for Arbeiter) and employers (21.83% for Angestellte and 21.70% for Arbeiter).

Energy

Ø of wholesale price in 1H/2012	Austria	CR
Electric Energy (EUR/kWh)	0.0906	0.1028
Natural Gas (EUR/GJ)	11.45	9.31

Source: Eurostat; excluding VAT

Renewable resources are the primary electricity generating source in Austria, with a share exceeding 2/3, and the country does not use nuclear power plants. Our energy mix structure is nearly opposite, with a dominant position of solid fuels (coal) and nuclear energy; energy from renewables comprises only a fraction of the Czech energy mix.

Electricity prices for industrial customers are at about the EU average in Austria, which is only a couple percent lower than in the Czech Republic.

Investment incentives

Austria has a target programme of attracting large foreign investors, and it tends to focus on incentives and grants for small and mid-sized enterprises, often with support from EU funds. Support is directed mainly to the following areas: innovation, energy and the environment, research, development and technological development.

The maximum limit of grants from public sources in proportion to the volume of investments ranges depending on the region between 15 and 20% for large business; for mid-sized businesses it is 10% higher, and for small businesses it is 20% higher.

The Journey into History section in each issue of the EU monthly examines the development of the European Union. In this issue we focus on the Maastricht Treaty, which was a major milestone in the founding agreements. The article is divided into two parts. In this part it focuses on a detailed overview of the changes that the Maastricht Treaty has brought and presents in detail the pillar structure of the European Union.

EUROPEAN FOUNDING TREATY, OR WHAT THE MAASTRICHT TREATY BROUGHT I.

At the end of the 1980s the fall of communism and changing of political regimes occurred in Central and Eastern Europe. In 1990 with the reunification of Germany, one of the former communist countries became part of the European Community. The situation in Central and Eastern Europe therefore led to considerations about how to continue the European integration process, and therefore two inter-governmental conferences were held. The result was a decision to change the founding agreement, so that it would be possible to deepen European integration further.

Maastricht Treaty

In 1992 the Maastricht Treaty on the European Union was signed, known as the Maastricht Treaty.

The agreement on the EU established the European Union, which until then did not have its own legal subjectivity.

Most important changes:

- Implementation of pillar structure, definition of new objectives (economic, security, political) and related policies
- Strengthening of the European Parliament's powers
- Creation of economic union
- EU citizenship
- Miscellaneous
  - Change of the name of the EEC to the EC
  - Principle of subsidiarity
  - Committee of regions

Pillar structure

The Maastricht Treaty created the European Unit founded on 3 pillars (note: the Lisbon Treaty abolished the pillar structure in 2009.

The first pillar included all three existing communities (ESUO, the EEC and Euratom). They fell under joint policy (for example, joint trade policy, joint agricultural policy. Decisions within the first pillar occurred at a supranational level, and decisions were adopted by a qualified majority.

In the legislative process, the Commission submitted a proposal, which was subsequently approved by the Council and the European Parliament and enforced by the Court Tribunal.

The second pillar included joint foreign and security policy. It enabled states to carry out joint activities related to foreign policy.

The third pillar included cooperation in the areas of justice and internal affairs.

Within the second and third pillars, each state defended its own interests. All decisions were taken at an inter-governmental level, and all member states had to agree unanimously.

The main actors in these two pillars were the European Council, the Council of Ministers (now the Council of the EU and the High Representative for joint foreign and security policy. The Court Tribunal, like the European Commission and the European Parliament, had no powers in these two pillars

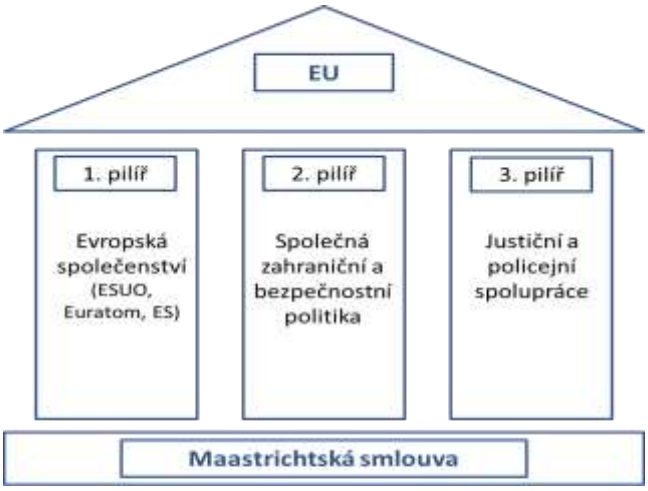
Strengthening of the European Parliament's powers

The Maastricht Treaty harmonised the voting periods of the Commission and the European Parliament to 5 years and implemented the procedure of joint decisions. As a result, the Parliament gained a greater role in the legislative process and could adopt decisions together with the Council.

The procedure of joint decisions included one, two or three readings, depending on the extent to which a consensus could be reached between the Parliament and the Council. In situations when the Parliament and the Council disagreed, a negotiation process was commenced. If the negotiations did not reach a consensus, the European Parliament had a veto right.

The procedure of joint decisions applied for example to issues related to the internal market, consumer protection, environmental protection and rans-European networks.

We will focus on other changes that the Maastricht Treaty brought in the next issue of the Monthly.



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). Source of all these data is Eurostat.

Key macroeconomic indicators

	Y-o-Y Inflation				Unemployment level				Average wages to Ø EU			
	VI-12	VII-12	VIII-12	IX-12	Q4-11	Q1-12	Q2-12	Q3-12	2007	2008	2009	2010
Belgium	2,2	2,0	2,6	2,6	7,2	7,1	7,4	7,4	128,5	135,1	138,1	134,3
Bulgaria	1,6	2,4	3,1	3,4	11,6	12,0	12,2	12,5	8,6	11,1	12,7	12,6
CR	3,8	3,3	3,4	3,5	6,6	6,8	6,8	6,8	30,0	36,3	35,9	36,8
Denmark	2,2	2,1	2,6	2,5	7,8	7,5	8,0	8,1	154,5	160,0	166,1	163,5
Germany	2,0	1,9	2,2	2,1	5,7	5,6	5,5	5,4	133,9	137,5	138,5	137,3
Estonia	4,4	4,1	4,2	4,1	11,8	10,7	10,0	n/a	29,7	33,4	32,0	31,0
Ireland	1,9	2,0	2,6	2,4	14,7	14,8	14,7	15,0	103,7	108,1	107,1	104,6
Greece	1,0	0,9	1,2	0,3	20,5	21,8	23,9	n/a	55,0	55,5	62,5	66,2
Spain	1,8	2,2	2,7	3,5	23,0	23,8	24,7	25,6	73,1	77,2	81,4	80,2
France	2,3	2,2	2,4	2,2	9,8	10,0	10,3	10,7	107,7	111,5	115,0	112,8
Italy	3,6	3,6	3,3	3,4	9,2	10,0	10,6	n/a	85,8	89,1	92,4	91,4
Cyprus	2,9	3,8	4,5	3,6	9,5	10,2	11,4	12,0	74,2	n/a	n/a	n/a
Latvia	2,1	1,9	1,9	1,9	15,5	15,4	15,9	n/a	22,2	26,9	27,9	26,6
Lithuania	2,6	2,9	3,4	3,3	14,1	13,6	13,3	13,0	21,0	24,6	23,2	21,9
Luxembourg	2,6	2,7	2,8	3,2	4,8	5,0	5,1	5,2	150,4	156,2	162,3	159,7
Hungary	5,6	5,7	6,0	6,4	10,9	11,1	10,9	n/a	28,5	30,8	29,3	29,5
Malta	4,4	4,2	3,2	2,9	6,5	6,1	6,5	6,5	51,6	55,7	57,7	58,1
Netherlands	2,5	2,6	2,5	2,5	4,9	5,0	5,1	5,3	139,6	143,3	149,6	146,4
Austria	2,2	2,1	2,3	2,8	4,2	4,1	4,3	n/a	120,4	123,7	127,5	124,6
Poland	4,2	4,0	3,8	3,8	10,0	10,0	10,0	10,1	28,4	31,9	27,2	29,3
Portugal	2,7	2,8	3,2	2,9	14,1	14,8	15,5	15,7	53,5	55,4	57,7	56,2
Romania	2,2	3,1	4,0	5,4	7,5	7,2	7,2	7,1	16,0	18,1	16,8	18,0
Slovenia	2,4	2,6	3,1	3,7	8,6	8,2	8,4	8,4	48,6	52,4	54,2	54,8
Slovakia	3,7	3,8	3,8	3,8	13,9	13,7	13,8	14,0	23,7	28,2	30,5	30,2
Finland	2,9	3,1	3,3	3,4	7,6	7,5	7,6	7,8	118,2	124,1	129,5	129,4
Sweden	0,9	0,7	0,9	1,0	7,5	7,5	7,6	7,7	121,0	121,7	114,9	125,0
UK	2,4	2,6	2,5	n/a	8,3	8,2	7,9	n/a	161,3	139,2	126,3	129,4
EU	2,5	2,5	2,7	2,7	10,0	10,2	10,4	10,6	100,0	100,0	100,0	100,0

	Productivity to Ø ČR				Average interests of mortgages				Electricity price Ø EU			
	2008	2009	2010	2011	2009	2010	2011	1H-2012	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