EU News
Monthly Journal

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Dear Readers,

Welcome to the New Year with an unlucky number at the end! I would like to wish you all much success. I would also like to express my hope that the threats that await us this year do not materialise. What are they? In the In Focus section, we have examined in detail four events that will take place this year, which in our opinion have the greatest potential to disrupt the European and the global economy: elections in Italy, elections in Germany, the crisis regarding Iran's nuclear programme and a potential "debt crisis" in the United States.

In the EU the imaginary wand of the EU presidency will be taken over by Ireland. And what are its priorities for the first half of this year? Its first priority will be getting through the negotiations regarding the financial perspective for 2014 to 2020. Ireland's longer term objectives include giving a boost to the economy, creating jobs, supporting small and mid-sized businesses and continuing with the preparation of the new Connecting Europe Facility.

As of the 1st of January 2013, the new Treaty on Stability, Coordination and Administration in Economic and Monetary Union came into force, commonly known as the Fiscal (Com)pact. Representatives of 25 member states signed the Treaty last March, and by the end of last year 15 of them managed to ratify it. Only the British and Czech prime ministers have not signed the Treaty, which introduces into national legislation a type of debt brake.

However, we completely agree with the government's decision adopted at its meeting before Christmas that even this year the Czech Republic should not set a specific date for joining the Eurozone. It is true that the prosperity of the Czech economy, which lives off of exports to the states that have adopted the euro, is tied to the euro. The currently practised "wait and see policy" is therefore the right tactic at this time.

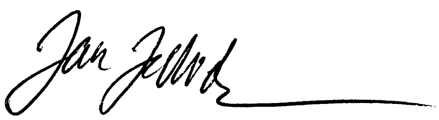
Did you know that this year has been declared by the European Union as the European year of citizens? If not, read our regular contribution from the Representation of the EU in the Czech Republic on page 6. The first foundation of EU citizenship was laid in the Maastricht Treaty 20 years ago and included several rights, the most important of which is freedom of movement.

By mentioning the Maastricht Treaty, we can turn to the Journey into History section, which for the second time already focuses on this breakthrough legislative act in the history of European integration. You can read on page 17 about everything that the Treaty on the European Union and the corresponding Amsterdam Treaty brought.

The main topic this time is VAT. In December we experienced a government crisis in the Czech Republic, the cause of (or excuse for) was an increase in VAT rates. Therefore, with an independent analytical eye we have looked at how high Czech VAT rates are compared to the rates in surrounding EU states. And what were our findings? You can read about them in the main topic starting on page 10.

I would like to wish you all the best in the New Year and enjoyable reading.

Jan Jedlička



Ireland has assumed the EU presidency. The Irish presidency's most difficult task will be negotiations regarding the budget for 2014-2020. The European Union has been awarded the Nobel Peace Prize. As of January, a fiscal pact came into force in 15 EU states, having been signed by 25 member states, but not by the Czech Republic and Great Britain. European leaders have agreed on a banking union.

POLITICS

The main priority of the Irish EU presidency is support for growth

Ireland took over the EU presidency as of the new year 2013. This happened on the fortieth anniversary of the island nation's entry to the European Economic Community (EEC). This is the seventh time Ireland is presiding over the EU.

Ireland has **taken over the EU presidency from Cyprus**. It is noteworthy that both states in the past have been forced by circumstances to ask their European partners for financial assistance. While Ireland has been drawing money from the Eurozone and the International Monetary Fund for two years already, Cyprus is currently negotiating regarding this option.

The main priorities of the upcoming presidency are expected to be:

- **support for growth leading to job creation**,
- **support for small and mid-sized enterprises**,
- **the digital agenda**,
- **the Connecting Europe Facility**, which in the next programme period is expected to serve for improving European infrastructure.

At the beginning of this year, the EU will be involved in further negotiations regarding **the long-term financial framework for the period of 2014-2020**. After the extraordinary November summit, the only topic of which was the form of the next European budget, ended without success, European leaders are expected to meet again this spring.

Another topic which is expected to dominate **the upcoming presidency form of the emerging banking union**. In July 2013, Ireland will be replaced in the EU presidency role by Lithuania.

http://www.eu2013.ie/

EU accepts Nobel Prize, money to help children affected by war

The ceremony to award Nobel prizes was held in Oslo on 10 December. The EU won the Nobel Peace Prize, because it had "**protected peace in Europe in the past six decades**".

The award was accepted jointly **by the three highest representatives of the Union**: European Council Chairman Herman Van Rompuy, European Commission Chairman José Manuel Barroso and European Parliament Chairman Martin Schulz. They were joined by four young people from Spain, Italy, Poland and Malta.

The monetary award reaching two million euros, which is tied to the prize, will finance a humanitarian project to assist children who are the victims of wars and other violent conflicts.

The Nobel Peace Prize symbolises reconciliation around the world. The financial award should mean **hope for the main victims of past, present and future periods, children**, Barroso explained.

The ceremony was also **attended by several officials from EU states**, including German Chancellor Angela Merkel and French President François Hollande. However, neither Czech Prime Minister Petr Nečas nor Czech President Václav Klaus attended. Leading officials from Slovakia and Great Britain also excused themselves from the ceremony.

According to Barroso, the Nobel committee's decision shows that "in this difficult time **the European Union remains an inspiration for countries** and people around the world, and a strong European Union is important for the global society."

http://ec.europa.eu/news/eu_explained/121207_en.htm

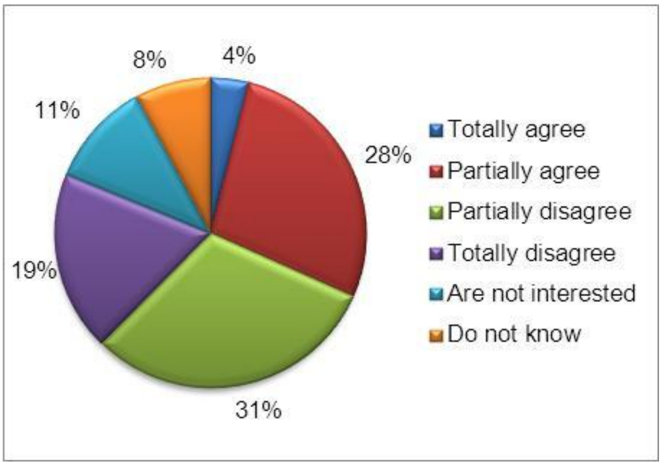
Half of Czechs believe the EU did not deserve Nobel Peace Prize

From the recent survey by Stem/Mark, which was conducted among a sampling of **517 respondents aged 18-59**, it is apparent that 50% of the Czech either entirely or mostly disagrees with the decision to award the Nobel Peace Prize to the EU. Only 32% of the population agree with the decision to award the Nobel Peace Prize to the EU, and 19% either are not interested in the issue or do not have a specific opinion.

The main opponents of awarding the prize include university educated people (62%). The most often specified argument for rejection is the fact that **the EU does not**

deserve the prize, because it does not do what it should (29%). Another 32% of the opponents generally do not agree with awarding the prize to an institution instead of a person, a position stated mainly by university students. However, supporters of the decision perceive **the benefit of the EU in maintaining peace** (26%) **and unifying the continent** (20%).

Do you agree with the decision to award the Nobel Peace Prize to the EU?



Source: STEM/MARK, in the Czech Republic

http://www.stemmark.cz/download/press_release_nobelova_cena_2012.pdf

ECONOMY AND EURO

Fiscal pact comes into force in EU, so far affecting 15 states

On 1 January 2013 **the Treaty on Stability of Coordination and Management in Economic and Monetary Union** took effect, regularly known as the fiscal pact. The main objective of this inter-governmental treaty is to ensure the stability of the Eurozone.

The fiscal compact requires that states that decide to join it within one year from the validity of this Treaty adopt a legal regulation that ensures that **the structural budget deficit does not exceed 0.5% of GDP**. Countries whose debt exceeds 60% of GDP must lower its amount by a minimum of 5% per year.

A condition for the Treaty to come into force in January 2013 was **its ratification by at least 12 Eurozone states**. This number of states has not yet accepted the treaty. Besides Ireland, which was the only state to decide about the future of the document in a referendum, there are Portugal, Spain, France, Germany, Italy, Austria, Slovenia, Greece, Finland, Cyprus and Estonia. Of the countries that use the euro, ratification has been completed only by Slovakia, Malta and the Benelux states.

Outside of the Eurozone,the entire ratification process has been completed in **Romania, Lithuania and Latvia**. Therefore, the treaty is **valid so far in 15 EU states**.

A total of 25 EU states pledged to ratify the treaty in March 2012 with their signatures. However, **the Czech and British governments decided not to join the pact**.

According to Czech Prime Minister Petr Nečas' cabinet, this treaty should be replaced by a constitutional law regarding budget responsibility, which should take effect as of 2014. The so-called "debt brake" is expected to prevent the Czech public debt from exceeding 50% of GDP. In the opposite case, the government will have to ask the Chamber of Deputies without delay to hold a confidence vote.

http://european-council.europa.eu/media/639235/st00tscg26_en12.pdf

The decision about the banking union has been made, and further integration is being negotiated

European leaders held discussions in Brussels regarding the future of the Eurozone and **creation of unified bank supervision**.

The Czech Republic during the negotiations regarding the the banking union **did not use its veto power**, which has been talked about in recent weeks, because according to deputy finance minister Radek Urban the Czech Republic succeeded in negotiating sufficient guarantees and assurances that the functioning of unified banking supervision from the European Central Bank would not threaten the supervisory powers and stability of the Czech financial sector.

In the EBA (European Banking Authority) a system of separate voting with a direct majority is expected to be implemented. This means that the authority's decisions will need to be approved by besides the majority of Eurozone states also the majority of states that do not use the euro.

The summit also focused **on deepening of integration of countries that use the euro**. In the summer EU leaders agreed that the December summit would bring a road map for fundamental changes in the architecture of the Eurozone. However, according to diplomats, this is a run

Russia has offered assistance to Cyprus to help it solve its financial difficulties. The Czech Republic remains unprepared to adopt the euro. This is according to a report issued by the Czech National Bank and the Ministry of Finance. The greatest obstacles are unfinished real convergence and the need to complete certain reforms. The European Commission is planning measures to increase employment levels among young people.

along a long path, and member states still await a series of negotiations.

In the future there would be **a separate budget for Eurozone countries**, which should finance, for example, taxes on financial transactions. The budget should serve as **protection against external shocks for countries affected by crises**. However, this has not please Germany very much. The German chancellor would rather direct money from the fund to finance strengthening of competitiveness.

Moreover, the new budget is expected to be "**very limited**" and is expected to **total 10 to 20 billion euros**. Some countries believe the EU should get involved in its creation only after agreement is reached regarding the multi-year financial framework for the entire EU. The details regarding the budget for the Eurozone and contractual agreements should be clearer by June of next year.

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/134353.pdf

Russia offers to get involved in financial aid for Cyprus

According to CTK, Cyprus due to its financial difficulties that it is currently facing and the reduction of its rating from the Standard & Poors agency by another grade from B to CCC+ is currently negotiating with representatives of international creditors regarding provision of a rescue loan.

Even Russian President Vladimir Putin has commented regarding Cyprus at a high-level meeting between the EU and Russia in Brussels. At that meeting discussions have focused on, among other topics, visa-free relations, cooperation in the energy sector, human rights and the situation in Syria.

Vladimir Putin proposed to the European Commission that Russia could also get involved in international assistance for Cyprus.

"It is not pleasant for us to get involved. But if we achieve an agreement, then we cannot rule out that we will get involved in the effort to stabilise the financial situation in Cyprus," Putin told reporters. However, Russia conditions such assistance on specification **first of the form that such assistance will take.**

The Eurozone is already considering several variants of assistance for Cyprus, including writing off a portion of its debt. However, some states would prefer to welcome restructuring.

The time for the Czech Republic to adopt the single currency has not come yet

Even during the next year, the Czech Republic **will not set a target date for adoption of the single European currency**. Based on economic analyses, such step has not been recommended by the Czech National Bank or the Ministry of Finance. The Czech cabinet adopted this joint recommendation at its session before Christmas.

The Czech National Bank and the Ministry of Finance based their decision on the annual evalouation of the fulfilment of the Maastricht convergence criteria and the level of economicharmonisation of the Czech Republic with the Eurozone.

The criterion of the convergence of interest rates and **the criterion of the share of government debt** in the gross domestic product of the Czech Republic are currently fulfilled, and according to an analysis this can also be expected in the future.

However, the Czech Republic is **not currently fulfilling the criterion related to the budget deficit**, and as a result of church restitutions the deficit for this year will amount to 5% of GDP. However, as of 2013 the Czech Republic should fulfil this criterion while maintaining the planned consolidation strategy.

The price stability criterion means that inflation in a candidate country must not during the past year have exceeded by more than 1.5% the average inflation level in the three EU member states that have achieved the best results. This year the Czech Republic did not fulfil this requirement, but the Czech National Bank and the Ministry of Finance expect that it will in the years to come.

The criterion of stability of the currency exchange rate is not currently being fulfilled by the Czech Republic, because it is not yet involved in the ERM II exchange rate mechanism.

The main obstacle on the path to the euro according to analyses is **the unfinished process of real economic convergence** and **the need to complete reforms leading to long-term sustainability of public budgets**.

Entry to the Eurozone will probably be conditioned on participation in joint institutions and mechanisms, which represent further costs, such as **entry into the European stabilisation mechanism**, meaning the current crisis mechanism of financial aid for states that use the euro. In the future it will probably also be necessary to expect membership in the fiscal and banking union.

http://www.cnb.cz/miranda2/export/sites/www.cnb.cz/cs/menova_politika/strategicke_dokumenty/download/maastricht_vyhodnoceni_2012.pdf

EMPLOYMENT AND SOCIAL POLICY

European Commission proposes measures for improvement of employment of young people

Unemployment of young people is today a major problem in many EU states. The worst situation is **in Greece and Spain**, where about 55% of young people are unemployed. However, the situation is not rosy in other states either, and in 11 member states the unemployment level among this group of the population is more than 25%. The numbers **have significantly worsened since 2008**. In 2011 the number of people up to age 25 were out of work for more than one year reached 1.6 million, compared to 0.9 million in 2008.

Unemplyoment rate by people under 25

Germany	8.1	France	25.4
Austria	8.9	Lithuania	26.5
Netherlands	9.7	Poland	27.1
Denmark	12.9	Cyprus	29.3
Malta	16.3	Bulgaria	29.6
Slovenia	17.5	Hungary	29.9
Luxembourg	18.2	Slovakia	30.1
Belgium	18.9	Ireland	30.2
Finland	19.0	Latvia	31.9
Estonia	19.1	Italy	35.9
CR	**19.8**	Portugal	39.0
UK	20.2	Spain	54.7
EU-27	**23.2**	Greece	57.6
Sweden	23.3	Romania	n/a
Eurozone	23.6		

Source: Eurostat, 9/2012

The European Commission in view of these high numbers decided to respond and **has proposed measures** that should help member states to reverse this unfavourable trend. The proposed recommendation to member states regarding implementation of guarantees for young people should ensure that **young people up to age 25 will receive quality job offers, additional training and preparation or internships within four months** after leaving the system of formal education or becoming unemployed.

The European Commission in the proposed recommendation has called on member states to create strong partnerships with the involved parties, to ensure quick intervention of services related to employment and from other partners involved in supporting young people and to adopt supporting measures to enable the integration of young people in the labour market.

The Commission would like to contribute to improving the situation in several ways:

- **by providing financial resources from the EU**
- **by creating an incentive for the exchange of certified approaches among member states.**

Greater emphasis on monitoring the implementation of guarantees for young people in practice is expected to be implemented **within the European semester**.

The Czech Republic with its number of unemployed people under 25 is below the EU average, but since last year their number **has grown by 3% to 21%**. The Ministry of Labour and Social Affairs is currently preparing a project co-financed from EU money, based on which future graduates will enter companies as interns, where they will acquire work skills and practical experience in the fields in which they are studying. The project is expected to begin functioning as of February of next year.

http://ec.europa.eu/ceskarepublika/press/press_releases/12_1311_cs.htm

http://europa.eu/rapid/press-release_MEMO-12-938_en.htm

ENERGY AND TRANSPORT

Approval of derogation of emission permits

The European Commission has decided definitively that the Czech Republic may in the next phase of European emissions trading continue **to assign to power plants a certain number of emissions permits free of charge**, while its competitors in Western Europe will be able to buy them in auctions.

As of next year, all European energy sectors will be expected to buy their permits in auctions or on the market. However, certain countries have received based on the revised directives regarding the EU ETS from 2009 **the option of requesting a temporary exemption from this rule**.

However, they must **fulfil several conditions**. These include the requirement that an amount corresponding the value of permits free of charge is **invested into modernisation of energy infrastructure, energy diversification and clean technology**. Therefore, the Czech Republic, like other states requesting so-called derogation permits, had to present an investment plan.

It has been approved **by the General Directorate of the European Commission for Climate**, which, however, also required approval from **the General Directorate for Economic Competition**.

The Commission had to examine the Czech request, since certain investment projects could have strengthened the position of ČEZ on the electricity market

The Directorate General for Economic Competition concluded, however, that the Czech Republic's plan was in accordance with EU rules for state support. According to the European Commission, **the market value of the derogation permits** for the Czech Republic **is 1.878 billion euros**.

The Commission also approved a similar request for **Hungary, and Estonia, Cyprus and Romania** already previously received such permission.

http://www.mzp.cz/cz/derogace

INFORMATION SOCIETY

Commission demands further reduction of calling prices in Czech Republic

The European Commission is not impressed by the Czech Telecommunication Authority's (ČTU) proposal to reduce rates for call termination. This is because even the prices that the Czech Telecommunication Authority is proposing are twice as high as in other European countries. Therefore **the Commission has suspended the ČTU's proposal**.

Call termination fees are the prices that operators bill to each other for calls between individual networks. In the end, they can be reflected into calling prices paid by customers.

The ČTU **last reduced rates in mobile networks last summer** from CZK 1.08 to 0.55 per minute of calling. As of the start of the new year, they are expected **to be reduced further to CZK 0.27 per minute**. Prices are also expected to go down for landlines.

However, this is reportedly not sufficient, given the comparison with the prices in other EU states. Critics have long pointed out that **calling prices are too high in the Czech Republic** compared to prices in other countries.

According to the Commission, the new regulation of prices proposed by the Czech Telecommunication Authority **is not in accordance with EU telecommunications regulations, which stipulate that** member states must support economic competition and consumers' interests.

The way the ČTU has calculated the proposed prices is also problematic. The Commission says the **ČTU has imposed wholesale prices**, which do not take into consideration technology based on new generation networks.

However, **the method of calculating costs** and reasonable prices will be important if the ČTU manages to push through a prepared analysis and regulation of mobile calling.

Moreover, the ČTU has not yet sufficiently explained why its proposal is tied only to Telefónica, which offers landline phone service, and the three largest Czech operators. The regulations would not apply to other companies on the market.

http://europa.eu/rapid/press-release_IP-12-1350_cs.htm

The European Commission's representatives in the Czech Republic now contribute to the EU Monthly in the "Commission's Column" section. In this issue the section focuses on the year 2013 as the European year of citizens. It reminds of the 20th anniversary since the laying of the legal foundation for EU citizenship. During the year, several events will be organised throughout the European Union, which will explain to people how they can better exercise their rights.

2013 IS THE EUROPEAN YEAR OF CITIZENS

The year 2013 has been declared by the EU as the European year of citizens. Twenty years ago in the Maastricht Treaty, the first foundation of EU citizenship was laid. This year the EU is attempting to draw attention to what the EU has already brought citizens and to determine whether our expectations have been satisfied and which obstacles still need to be overcome.

EU citizenship guarantees Europeans additional rights, which exceed the rights guaranteed by their individual member states. These include the right to vote and be elected in local and European elections in the EU member state in which they live, the right to consular protection abroad under the same conditions as citizens of another member state, the right to submit petitions to the European Parliament, complaints to the EU public defender or newly the right to get involved in European civic initiatives.

The most valued right of EU citizens is freedom of movement. Europeans make more than a billion trips in the EU annually and are increasingly making use of the right to live in another EU state; it is estimated that in 2010 approximately 12 million citizens lived outside of their home countries. Moreover, approximately 40 million citizens buy goods and services over the internet from other EU states.

However, despite all efforts we still face a number of obstacles to exercising these rights. Therefore, in 2012 the European Commission launched the most extensive pan-European consultation activity named Your rights, your future. In it, it asked citizens to describe the problems that they have encountered when moving around the EU, during work study or vacation in another member state and during exercising of their voting and consumer rights. The Commission will evaluate the contributions in its report on citizenship, which it will release on 9 May 2013. It will also present additional EU proposals for eliminating obstacles, which currently prevent citizens from fully exercising their rights. One year before the EU elections in 2014, it is an appropriate time for an extensive discussion regarding the future.

During the European year of citizens, a series of events will be organised throughout the EU for the purpose of explaining to people how they can best exercise their rights. One of the main events will be a pan-European discussion with citizens about the future of the EU and reforms for improving their everyday lives. In several European cities, politicians will listen to citizens' opinions. The initiatives will be used for further strengthening of citizens' rights and full respect for them. The first discussions have already been held in Spain, Austria and Germany, and many others will follow.

The European year of citizens will be officially kicked off with a discussion with citizens on 10 January 2013 in Dublin, timed for the start of the Irish presidency of the EU. The Commission will also cooperate closely with member states' bodies (at the national, regional and local level and civil society organisations.

An civic association has been set up at the EU level specifically for cooperation with the European commission on the European year of citizens. This association called the European Year of Citizens Alliance (EYCA, http://ey2013-alliance.eu/) is a key strategic partner representing civil society.

The coordination of the European year in the Czech Republic has been verified by the Office of the Czech Government. Together with the European Commission's representative office in the Czech Republic and other partners, various events will be organised to support public awareness about EU citizens' rights. The first of them will be a panel discussion, which shall examine the continuing obstacles to free movement related to working in another member state, which shall take place on 8 January in the European house in Prague.

Additional information:

The European year is devoted to different priorities every 12 months. For example, in 2011 the European Union focused on volunteering, and in 2012 it cited problems with active ageing and intergenerational solidarity.

European year of citizens 2013 website: http://www.europa.eu/citizens-2013

Information service

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/newsroom/calendar/.

Meeting of the key EU institutions

14–17 Jan 2013	**Strasbourg, France**	- European Parliament Plenary Session
17–18 Jan 2013	**Dublin, Ireland**	- Informal Meeting of Ministers of Justice and Home Affairs
20–21 Jan 2013	**Dublin, Ireland**	- Informal Meeting of Ministers for European Affairs
21 Jan 2013	**Brussels, Belgium**	- Eurogroup
22 Jan 2013	**Brussels, Belgium**	- Economic and Financial Affairs Council
28–29 Jan 2013	**Brussels, Belgium**	- Agriculture and Fisheries Council
31 Jan 2013	**Brussels, Belgium**	- Foreign Affairs Council
4 Feb 2013	**Brussels, Belgium**	- General Affairs Council
4–7 Feb 2013	**Strasbourg, France**	- European Parliament Plenary Session
7–8 Feb 2013	**Brussels, Belgium**	- European Council
11 Feb 2013	**Brussels, Belgium**	- Eurogroup
12 Feb 2013	**Brussels, Belgium**	- Economic and Financial Affairs Council
15 Feb 2013	**Brussels, Belgium**	- Education, Youth, Culture and Sport Council

Access as of 2 January 2013

The aim of the In Focus section is to examine in detail and with comments current topics affecting the domestic, European and global political scene. With the start of 2013, we have not been able to avoid pulling out the crystal ball in order to unveil what inevitably awaits us this year. Although the last two digits of the new year could lead to negative expectations, the year will not necessarily be unlucky. However, four conditions will need to be fulfilled.

2013 IN THE SIGN OF FOUR CONDITIONS

The start of a new year with an unlucky number at the end necessarily raises concerns about whether the entire year will be unlucky. It does not necessarily have to be though, if the following four conditions are fulfilled.

1. Italian voters resist the lure of Berlusconi

The season of crucial parliamentary elections will be kicked off in February in Italy, where the seemingly immortal media magnate and notorious fighter Silvio Berlusconi wants to enter the political stage again. He handed the post to technocrat Mario Monti. Monti began taking essential structure steps and implementing savings in public finances and restored financial investors' confidence.

The potential return of Silvio Berlusconi, who was the longest ever serving Italian prime minister since World War II, would probably result in investors punishing him by abandoning Italian debt, and then Italy would obviously end up needing to be rescued by the ESM and IMF. However, it remains a question whether this would be too large of a pill to swallow even for those institutions.

2. An orderly German voter conducts himself orderly

The German elections scheduled for autumn will be a milestone for the process of solving the Eurozone's debt crisis. The potential writing off of Greek debt by creditor states or even Greece's departure from the Eurozone would from a long-term point of view represent a shift in the process of solving the debt crisis, but in the short term it would create political, financial and economic turbulence. And this is exactly what Chancellor Angela Merkel will try to avoid during her election campaign. Therefore, I do not expect that any of the radical steps described above will be taken prior to the German elections.

It is in the interest of the European economy for German voters to leave Angela Merkel in the chancellor's seat or to replace her with the leader of the opposition SPD. Both parties are pro-European, and after the elections they would both obviously push through the only possible solution, writing off of Greece's (and Portugal's?) debt by public investors such as the IMF and the ECB. Moreover, under the steps Merkel will likely take if she is re-elected,, member states will most likely, though hidden from the public, begin negotiating with Greece about its potential return to the drachma.

3. Iran's ayatollahs give priority to pragmatism

The number one global political concern will obviously be resolving the crisis over Iran's controversial nuclear programme. For global security and economic performance, it is essential for the Iranian regime to put fundamentalism on the back burner in favour of pragmatism.

Good will around the negotiating table will prevent military intervention by the US and/or Israel, which together with other retaliation steps would greatly increase tension in the Middle East and elsewhere. Its consequences would by sky-rocketing of the prices of oil and other strategic commodities, which would hamper economic recovery in the developed world, including the CR and the rest of Europe.

4. Democrats and Republicans reach deal

A fundamental condition for a happy new year in 2013, at least as far as the global economy is concerned, is the deal reached to avoid a catastrophic fiscal cliff in the United States. Last year's public finance deficit reached nearly 110% of GDP the final numbers have not yet been released), which is only a little less than the notorious debtors with the label PIIGS.

We are optimistic that the traditionally strong North American winter will cool the heads of American lawmakers, who, although they avoided the fiscal cliff at the last minute, at the end of February will tackle the issue of exceeding the debt ceiling. Democrats and Republicans under President Barack Obama's supervision will likely agree on mid-term consolidation of public debt and thereby alleviate concerns about the trustworthiness of the US as a safe destination for financial investors.

And what about the Czech Republic in the EU context?

Although we have and boast in the current crisis about continuing to have our own monetary policy, we will remain affected by events abroad, particularly in the Eurozone. This is inevitable for a country that exports nearly four fifths of its production, mostly to countries with the euro. Our influence on major events in the European and global economy will be minimal. Helping solve the debt crisis by voluntarily contributing to rescue mechanisms is not in our national interest at a time when the situation involving our public finances is tense. Instead, we can cross our fingers for Eurozone leaders and not create obstacles, such as by refusing to finish the ratification of the Treaty regarding the ESM.

Maybe this year the time has come to re-evaluate our incomprehensible non-participation in the Fiscal Compact or the Treaty on Budget Responsibility. Of the 27 EU states, Britain is the only country besides the Czech Republic that is also not participating, although Britain is perhaps the most different EU state from the Czech Republic.

On 1 January 2013, following lengthy discussions, a new VAT rate took effect in the Czech Republic. This issue of the monthly presents and overview of the development of VAT rates in the Czech Republic as well as the current VAT rates in individual EU states. Where does the Czech Republic stand compared to other EU states, and what VAT trends can we expect? You can read about this and more in our current topic.

VALUE ADDED TAX IN THE EUROPEAN UNION

INTRODUCTION

Petr Nečas' cabinet has behind itself another turbulent year, and even the numerous government crises have not hindered him. The last one in December was caused by issues such as a proposal to increase VAT; the basic and reduced rates were increased by 1% to 21% and 15% respectively as of the new year.

Let's remember our own approval procedure, when business operators and consumers found out about the new VAT rates just under two weeks before their implementation, and let's look at the tax rate itself. Is value added tax rate in the Czech Republic even after its increase excessively high compared to the rest of Europe?

Increasingly smoother functioning of the single internal market in the European Union requires harmonisation of a series of economic and business areas.

Setting joint or at least coordinated rules has not been avoided even in relation to taxation, which has been traditionally regarded as a symbol of sovereignty for national states.

In connection with tax harmonisation, we can observe two main trends in the EU:

- Harmonisation of direct taxes
- Harmonisation of indirect taxes

Harmonisation of direct taxes

Direct taxation, particularly involving taxes on corporate profit or taxes on employees' wages, is a European harmonisation trend affected only peripherally. Cooperation among member states is manifested particularly during providing of tax information, restricting double taxation, taxation of interest or licence fees and combating tax havens.

On the European level, a discussion has been taking place for several years already about adopting directives that would regulate the joint tax base for businesses (the rate would remain in the hands of member states), which several states still strongly oppose.

Harmonisation of indirect taxes

Indirect taxes have been regulated by joint pan-European rules much more and more practically ever since the European integration process began. The reason is an effort to eliminate a maximum of obstacles affecting free movement of goods and services among member states of the European Union.

Harmonisation is at a high level both in relation to selective indirect taxes imposed on selected commodities (such as consumer taxes) and in relation to general indirect taxes, which in the European Union exist as VAT.

LEGISLATIVE ENSHRINING OF VAT IN THE EU

Most important adopted directives regulating VAT in the EU

Name of directive	Detailed contents
First directive 67/227/EEC	definition of VAT and explanation of the need to move to a VAT system by 1 January 1970
Second directive 67/228/EEC	definition of a subject of taxation, persons subject to taxation, tax rates and other basic terms
Sixth directive 77/388/EEC	previous basic directives: harmonising interpretation of basic terms: tax base, territorial reach, included persons, tax fulfilment location, tax rates + introduction of deductions from national VAT revenues into the joint EU budget
Eighth directive 79/1072/EEC	refunding of VAT to persons required to pay taxes who are not settled in the EU.
Tenth directive 84/386/EEC	adjustment of the tax fulfilment location in relation to leasing of tangible property
Thirteenth directive 86/560/EEC	refunding of VAT to persons required to pay taxes on the territory of the EU.
Directive 91/680/EEC	cancellation of tax boundaries within the EC
Directive 92/77/EEC	setting of minimum tax rates as of 1 January 1993
Directive 2006/112/EEC	current basic directives regulating VAT valid since 1 January 2007, codification of legal regulations regarding VAT so far in the EU

Source: Jan Široký – Taxes in the EU, website of DG TAXUD EK

The introduction of the indirect taxation system and especially VAT system in the European Union is a complex and constantly innovated project, which is regulated through EU legislation. Its keystone is the Treaty on the Functioning of the European Union, which in its Article 113 defines the legislative process during harmonisation of tax regulations.

Based on that Article, directives are adopted (in less important areas also directly applying regulations), which must be implemented by each member state into its national legislation.

The first directives were adopted in the 1960s. Since then, several other directives have been adopted, which besides having standard labelling of each European directive are also properly numbered, and its numbers are part of its official name.

Key directive 2006/112/EEC

Current basic legal definition of VAT in the EU Became valid on 1 January 2007, and member states were required to implement the rules specified in it by 1 January 2008. Upon its adoption, the directive repealed and in its text shoehorned existing standards governing VAT, including the sixth directive from 1977, which was amended several times. The fact that the basic directive has been amended ten times already since it became valid is evidence of the breakthrough development in value added tax regulation.

However, sources of VAT harmonisation have also included the judicial practice of the European Court Tribunal and several adopted regulations, such as Commission Regulation (EC) 1798/2003 of 7 October 2003 on administrative cooperation in relation to VAT and on cancellation of directive (EEC) 218/92.

CURRENT VAT RATES IN THE EU

The number of VAT rates and their amounts in individual EU states differ, but certain rules must be complied with. The minimum - and still valid - tax rate limit was introduced by Directive 92/77/EEC of 1992, which became valid as of January 1993, and subsequently by Directive 2006/112/EC of November 2006. According to these standards, the basic rate must not be lower than 15%, and member states may apply one or two reduced rates, which, however, must not be lower than 5%. The directive therefore allows for member states a transitional period, during which they can use a reduced rate of less than 5%. The directive also contains several exceptions, which member states fought for during their negotiations regarding the text.

In practice applied VAT rates can be divided into:

- the standard rate
- the reduced rate
- the super reduced rate
- the parking rate
- the zero rate

Two to three rates are normally used. An exception is Denmark, which has a single rate of 25% (this does not mean, however, that everything is subjected to that rate; some goods and services are relieved of VAT), and another is Luxembourg, which has four VAT rates (super reduced, two reduced and standard).

The option of having a super reduced rate (meaning less than 5%) is used by 5 EU states (Luxembourg, France, Ireland, Italy and Spain). In some states (Belgium, Ireland, Luxembourg, Austria and Portugal) a parking rate is also applied, which helps alleviate the transition from the reduced rate of VAT to the standard rate.

The amount of this parking rate in these states ranges from 12% to 13.5%. Besides the already specified rates, relief from VAT also exists for certain goods and services. The zero rate is due to historical development and is applied temporarily in certain member states (Ireland, Malta, the UK), in which it existed even before 1991.

The standard rate as of January 2013 ranges from its possible minimum level of 15% (and this standard rate option is used by Luxembourg) to 27% (Hungary; the average for all EU states slightly exceeds 21%.

The Czech Republic has two VAT rates:

- reduced rate of 15%
- standard rate of 21%.

These rates are valid as of 1 January 2013. Czech President Václav Klaus signed this increase into law on 21 December 2012 as part of the tax package that was passed in the lower house of parliament two days earlier.

That package contained increases in both VAT rates by one percentage point, from 14% to 15% for the reduced rate and from 20% to 21% for the standard rate. The reduced rate is applied for example for foods, pharmaceuticals, books, magazines, newspapers, passenger transport, water and sewage.

However, due to objections from the EU, during the increase in rates certain medical supplies and children's diapers were moved from the reduced rate to the standard rate. The current rates will apply in the next three years. If another amendment to the VAT act is not adopted by 2016, both rates could be harmonised to 17.5%.

VAT rates in member states by January 2013

	super-reduced rate	reduced rate	standard rate	parking rate
Belgium	-	6/12 %	21 %	12 %
Bulgaria	-	9 %	20 %	
CR	**-**	**15 %**	**21 %**	
Denmark	-	-	25 %	
Germany	-	7 %	19 %	
Estonia	-	9 %	20 %	
Greece	-	6.5/13%	23 %	
Spain	4 %	10 %	21 %	
France	2.1 %	5.5/7 %	19.6 %	
Ireland	4.8 %	9/13.5%	23 %	13.5 %
Italy	4 %	10 %	21 %	
Cyprus*	-	5/8 %	17 %	
Latvia	-	12 %	21 %	
Lithuania	-	5/9 %	21 %	
Luxemb.	3 %	6/12 %	15 %	12 %
Hungary	-	5/18 %	27 %	
Malta	-	5/7 %	18 %	
Netherlands	-	6 %	21 %	
Austria	-	10 %	20 %	12 %
Poland	-	5/8 %	23 %	
Portugal	-	6/13 %	23 %	13 %
Romania	-	5/9 %	24 %	
Slovenia	-	8.5 %	20 %	
Slovakia	-	10 %	20 %	
Finland	-	10/14 %	24 %	
Sweden	-	6/12 %	25 %	
UK	-	5 %	20 %	

*Source: European Commission, VAT Rates Applied in the Member States of the EU, *Cyprus plans on 14 November 2013 to increase the standard rate to 18%.*

Besides in the Czech Republic, two rates are also used in these neighbouring countries:

- Slovakia (10%, 20%),
- Germany (7%, 19%)
- Austria (10%, 20%).

Other membering country – Poland has two reduced rates:

- 8% for selected food products, medical products, newspapers, etc., and
- 5% for books and periodicals (besides newspapers, which are at the 8% rate).

The Czech Republic and neighbouring states are among the member states of the European Union with rates slightly below the average of the European Union.

It is probably no surprise that some of the highest standard rates in January 2013 are in states with the highest tax quota (the ratio of tax revenue to GDP), Denmark (with the already mentioned single rate of 25%) and Sweden (25% and two reduced rates of 6%, for magazines, domestic newspapers and public transport, and 12%, for food and services related to the tourism industry).

Another Scandinavian country does not surpass its neighbours, although it, Finland, also has a high VAT rate of 23%. Hungary has a rate of 27%. Besides the standard rate, two reduced rates of 5% and 18% respectively also exist in Hungary.

DEVELOPMENT OF VAT RATES IN THE EU

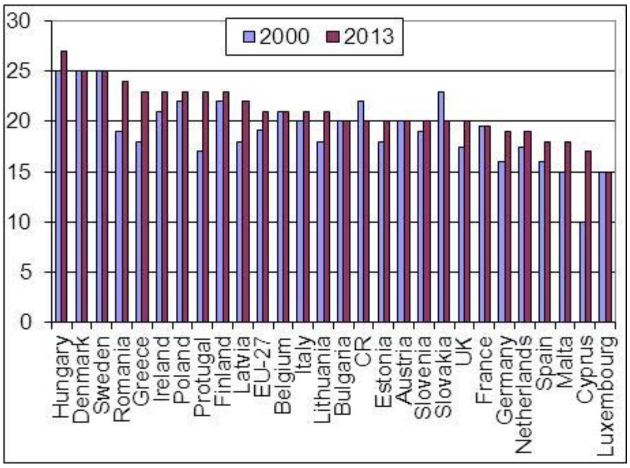
Besides having the highest standard rate, Hungary can also boast of another superlative, since its VAT rate has increased the most since the economic crisis began in 2008. That year, the standard VAT rate was still at 20%, and then it jumped to 25% in 2009 and by another two percentage points in 2012. However, it needs to be pointed out that Hungary had a rate of 20% only from 2006 to 2008.

From 2000 to 2005, its VAT rate was 25%, so during the economic crisis the rate has only returned to its original amount. Since 2000 the standard rate of VAT has most often changed in Portugal and Ireland. It has happened five times in both of these countries.

Although it may seem that changes in the standard rate occur often, the opposite is true. Although the revenues from VAT are very valuable for the state and increasing rates can be one of the easiest and quickest ways for a state to increase its tax revenues, this does not happen so often.

In seven EU member states (Belgium, Bulgaria, Denmark, France, Luxembourg, Austria and Sweden), leaders have not resorted to changing standard rates of VAT at least since 2000. However, in each of the remaining 20 states, there have been approximately 2 changes to rates from 2000 to 2013.

Standard rates of VAT in the EU in %



Source: Eurostat, Taxation trends in the European Union; states in ascending order according to 2013, own preparation

The most changes were carried out in 2009 and 2010. States usually made the changes in response to the economic crisis. In 2009, Estonia, Ireland, Latvia, Lithuania and Hungary increased their standard rates of VAT. However, the UK reduced it rates (even by 2.5% from 17.5% to 15%), but joined another seven EU member states in 2010 and also increased its standard rate.

Britain's rate returned to 17.5%, and in the following year the country even increased its rate by another 2.5% to 20%. In 2010 Ireland again reduced its standard rate to its level from 2008 (21%).

Development of VAT in the Czech Republic

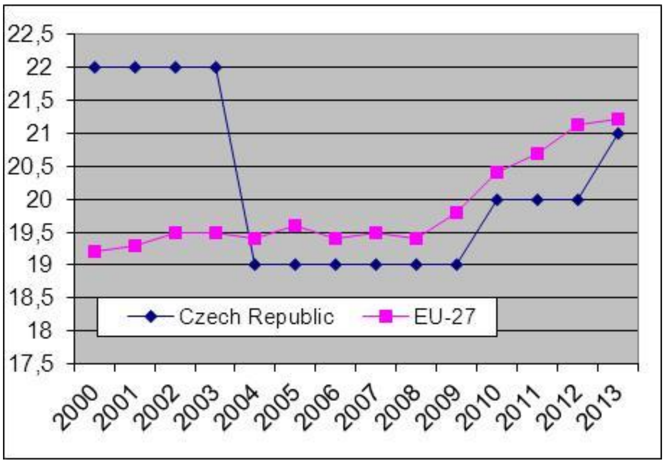
In the Czech Republic three changes to the standard rate of VAT occurred between 2000 and 2013, the most recent as of 1 January 2013. The trend of increasing standard rates of VAT is not unique to the Czech Republic (although the planned change for 2016 should harmonise both VAT rates to 17.5%, which will basically reduce the standard rate), but the trend of gradually increasing standard rate is becoming apparent throughout the EU.

Summary of VAT Development in th Czech Republic

Validity	Reduced rate	Standard rate
01. 01. 1993 – 31. 12. 1994	5%	23%
01. 01. 1995 – 30. 04. 2004	5%	22%
01. 05. 2004 – 31. 12. 2007	5%	19%
01. 01. 2008 – 31. 12. 2009	9%	19%
01. 01. 2010 – 31. 12. 2011	10%	20%
01. 01. 2012 – 31. 12. 2012	14%	20%
01. 01. 2013 –	15%	21%

Source: VAT Rates Applied in the Member States of the EU

Comparison of development of the standard rate of VAT for the Czech Republic and the EU average



Source:Eurostat, own preparation

VAT was introduced in the Czech Republic on 1 January 1993. Until 31 December 1992, a tax on turnover applied to goods. It is interesting to note that the newly introduced standard rate of VAT (23%) was the highest, and the reduced rate (5%) was the lowest in the existence of the independent Czech Republic.

Taxes since then have undergone a series of changes, whether in relation to the amounts of individual rates or specification of goods and services to which the rates apply. Since then the standard rate has been changed 4 times, and the largest change was carried out by 1 May 2004, when it was reduced from 22% to 19%, which also represented its lowest reduction; it later only grew to its current level of 21%.

The reduced rate in the CR remained at the same level as during the introduction of VAT until 2008. Then it went through four increases (twice even by four percentage points) to 15%, which is one of the highest reduced rates in the EU.

SIGNIFICANCE OF VAT IN EU TAX SYSTEMS

Indirect taxes (VAT) as % of total taxation

	2000	2010
Belgium	15.9	16.2
Bulgaria	26.4	33.7
CR	**18.4**	**20.6**
Denmark	19.4	20.7
Germany	16.6	19.1
Estonia	27.2	25.7
Ireland	23.1	22.9
Greece	20.9	23.2
Spain	18.1	17.2
France	16.9	16.5
Italy	15.6	14.7
Cyprus	18.2	25.8
Latvia	23.9	24.3
Lithuania	25.2	29.3
Luxembourg	14.3	16.4
Hungary	22.3	23.0
Malta	21.0	23.3
Netherlands	17.3	18.7
Austria	18.8	18.9
Poland	21.3	24.5
Portugal	24.6	24.8
Romania	21.4	28.6
Slovenia	23.1	22.4
Slovakia	20.4	22.6
Finland	17.4	20.1
Sweden	16.7	21.3
UK	17.9	18.5
EU-27	**17.3**	**18.3**

Source: Eurostat, Taxation Trends in the European Union, 2012

In many EU countries there is an apparent trend of increasing indirect taxes, especially in recent years since the economic crisis erupted. This popular move among EU governments can be attributed to a certain extent to the fact that increasing indirect taxes does not necessarily always have as negative of an effect on a country's economy as increasing direct taxes would.

VAT enables them to carve out a bigger piece of the pie from overall taxes in many states. Among some of them it makes up more than 25% of total taxes. Between the years 2000 and 2010 alone, the weighted average for the European Union rose by one percentage point (in the Czech Republic by more than two percentage points). Since the most recent data is for 2010, when VAT rates were increased several times, we can expect rates to continue to rise.

Conclusion

Stormy debates have been and are being waged in the Czech Republic regarding VAT increases, and the issue is a very current topic. If we disregard the issue of the correctness or incorrectness of this step, how is our VAT situation compared to that in other member states?

The standard rate of VAT in the Czech Republic today is lower than when VAT was introduced in 1993 and is at approximately the average for the European Union, but the Czech Republic's reduced rate is one of the highest among other member states.

Another factor of course is the specification of the goods and services to which the rates apply, but we can regard as a certain plus that with two rates our system is one of the easiest, and if both rates are harmonised (17.5% is planned from 2016) and no other state follows suit with this step, we along with Denmark will be the only countries with a single VAT rate.

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 Poland.

POLAND

Official name	Republic Poland (*Rzeczpospolita Polska*)
Population	38 200 037
Area	312 685 km2
Currency	Złoty (PLN)
Ethnic groups	Polish 96.7%, German 0.4%, Belarusian 0.1%

Source: CIA World Factbook

Poland regained its independence after World War I. After World War II it found itself in the Soviet Union's sphere of influence. In September 1989 following negotiations, the first non-communist government in the former East bloc was established. The country joined NATO in 1999 and the EU in 2004.

The head of state is a president directly elected by the people for a 5-year term. Legislative power is in the hands of a bicameral parliament consisting of the Sejm and the Senate. The Sejm contains 460 lawmakers elected in a proportionate election system for 4-year terms. The Senate has 100 senators elected by a majority system for the same term.

Structure of economy and foreign trade

Compared to the EU average, Poland's economy is much more highly represented by agriculture and industry. The Polish agriculture sector employs more than twice as much of the workforce (12.7%) compared to the rest of the EU-27.

Agricultural production is dominated by potatoes, fruits and vegetables, wheat, poultry and pork. The country's industrial production is focused mainly on engineering and the chemical industry, and coal mining also plays a dominant role.

The country's exports consist mainly of products related to the engineering and automotive industries and agricultural production. Poland's main export partners are Germany, France and the UK in that order. The country exports mainly machines, transport vehicles, chemicals and by-products. Its main importer is Germany, followed by Russia and the Netherlands.

Macroeconomic outlook

Poland is one of the winners of the financial crisis and is the only economy in the EU that did not fall into a recession in 2009. It has maintained its growth pace this year as well, mostly driven by net exports, which have replaced household consumption in this role. The country's growth outlooks for the next two years are also positive.

The country's public debt has remained slightly below the "Maastricht ceiling" of 60% of GDP. The yearly deficits of public finances are gradually returning from values of around 8% to around 3%. In the country there are not even any apparent major inflation pressures, and there is no threat of an unbalanced economy even in relation to other countries; although the current account is in a deficit, its value of between 3-4% of GDP does not represent a risk.

Basic indicators	2011	2012	2013[e]	2014[e]
GDP Growth (%)	4.3	2.4	1.8	2.6
Unemployment rate (%)	9.7	10.1	10.5	10.3
Inflation (%)	3.9	3.8	2.6	2.4
Government deficit (%)	-5.0	-3.4	-3.1	-3.0
Public debt (%)	56.3	55.5	55.8	56.1

Source: European Commission; [e] - estimate

Labor market

The unemployment level, which in the past reached as high as 20% in Poland, disappeared long ago and is now at about half that level. Work productivity exceeds half the EU average by only a couple of percentage points. The minimum wage in the country is slightly higher than in the Czech Republic.

However, monthly labour costs remain lower than in the Czech Republic. For example, in the processing industry, employment of Polish workers on average 25% less expensive than employing their Czech counterparts.

Labor law basics

In Poland it is possible to enter into an employment contract for a definite or an indefinite period, for the duration of performing certain activity and for substitution. All of these types of employment contracts may be preceded by a contract for a probationary period, which, however, may be entered into only once and may last a maximum of 3 months.

The termination notice period lasts from 2 weeks to 3 months, depending on the length of employment. However, in situations defined by law (such as a serious breach of work obligations or loss of authorisation necessary for work) it is possible to terminate an employee immediately without a notice period. The standard work

periods are 8 hours per day and an average of 40 hours per week. Overtime must not exceed 150 hours in a calendar year, and the weekly work period must not exceed an average of 48 hours per week. An employee who has worked for a company for less than 10 years is entitled to 20 days of vacation per year, and an employee who has worked for a company for more than 10 years is entitled to 26 days of vacation.

Basic indicators of labor market		
Unemployment rate (2011)	9.7 %	
Labor productivity (% to Ø EU; 2010)	55.7 %	
Minimum monthly wage (1H/2012)	353 EUR	
Ø monthly labor cost in sectors (EUR) 2010	**Poland**	**ČR**
Manufacturing	962	1 303
Wholesale and retail trade	935	1 350
Transport and storage	1 057	1 346
Accommodation and food	699	835
Information and communication	2 001	2 616

Source: Eurostat

Commercial law basics

A limited liability company (sp. z o.o.) is the most attractive legal form of doing business for foreign investors. Such company may be established by one or more partners with minimum registered capital of PLN 50 per person (approximately CZK 285); for the entire company 100 times that amount applies. For a joint-stock company, the minimum registered capital is PLN 100,000 (570,000), and such company can be founded by one or more persons.

The process of founding a limited liability company of average size in Poland lasts approximately one month, consists of six procedures, and its total costs depend on the amount of equity. These costs range in thousands of zlotys.

Form of Company	Minimum Capital
Limited Liability Company sp. z o.o.	5 000 PLN
Joint Stock-Company (sp.a.)	100 000 PLN
European Society (SE)	120 000 EUR

Source: Eurostat

Main taxes and additional labor costs

There is a flat corporate income tax rate of 19%. However, there is also a 50% sanction rate, if the tax obligation is depreciated through connected entities (such as via internal transfers within a holding). The withholding tax rate on dividends is also 19%.

For individual income tax rates, Poland remains progressive. There are two direct tax ranges containing rates of between 18% and 32%. The standard rate of VAT is 23%, and there are also two reduced VAT rates: 8% and 5%. Employees and employers both contribute to social security. Employees each contribute 13.71% of their gross wages, and employers contribute 20.14%.

Tax/payment	Rate
Corporate Tax	19 %
Dividend tax for non-residents	19 %
Individual Income Tax (progressive)	18/32 %
VAT (basic / lower / zero rate)	23/8/5 %
Social insurance – employee	13.71 %
Social insurance – employer	17.48–20.14%

Source: Embassy of the Republic of Poland in Prague

Energy

Poland's focus on coal mining is also reflected in its energy mix. Nearly nine tenths of its electricity is produced from solid fuels (in the Czech Republic slightly more than half).

Electricity prices for industrial clients are approximately 15% lower than in the Czech Republic. The difference in natural gas prices is minimal.

Ø of wholesale price in 1H/2012	Poland	ČR
Electric Energy (EUR/kWh)	0.0869	0.1028
Natural Gas (EUR/GJ)	9.36	9.31

Source: Eurostat

Investment incentives

Poland also participates in efforts to attract investors to Central Europe. Its offered investment incentives can be divided into three areas: support in key sectors of the economy (such as automotive, aviation, biotechnology and R&D), special economic zones with special conditions for investors, regardless of their sector of activity (e.g. tax breaks) and local support from municipalities.

The level of public support for large businesses (above 250 employees) ranges from 30% to 50% of investment, depending on the region, for mid-sized companies by 10 percentage points more, and for small companies by another10 percentage points more.

The Journey into History section in each issue of the EU monthly examines the development of the European Union. This issue picks up where the previous issue of the monthly left off and focuses on additional changes that the Maastricht Treaty introduced (economic and monetary union, EU citizenship, etc.) and is also focused on another treaty, the Amsterdam Treaty, which brought several other changes, but did not fulfil its main expectations.

EUROPEAN FOUNDING TREATIES OR MAASTRICHT AND AMSTERDAM TREATIES

In the previous issue we familiarised you with changes that the Maastricht Treaty brought (pillar structure, strengthening of the European Parliament's powers), and in this issue we are adding additional changes that it brought.

Economic and monetary union (EMU)

The European Council has addressed the issue of economic and monetary union since the late 1980s. In fact, the issue of creation of an economic and monetary union was included in the Treaty on the EU, which outlined in detail the planned phases and rules for creating the EMU. Three phases were set from 1990 to 2002.

EU citizenship

Citizens in the EU as a whole gained thanks to the Maastricht Treaty EU citizenship in addition to their national citizenship. This gave EU citizens:

- freedom of movement and the right to settle anywhere in the EU;
- the right to vote regarding and to be elected to municipal governments and to the European Parliament in their places of residence;
- the right to diplomatic and consular protection by the authorities of any EU member state, in situations when the EU citizen's state is not diplomatically represented in a third country;
- petition rights and the right to address grievance to the EU ombudsman.

Miscellaneous

- **Change of the name of the European Economic Community to the European Community** – this changed underscored the non-economic significance of the European Community. The European Community was no longer focused primarily on economic cooperation, and security and political objectives began being emphasised as well.
- **Principle of subsidiarity** – this stipulates that all decisions should be adopted as closely related to EU citizens as possible, meaning at the local, regional and national levels. The European Union has a responsibility to act in matters in relation to which objectives could be achieved better at the Community level than at a domestic level.
- **Committee of Regions** – The Maastricht Treaty established a Committee of Regions as an advisory body of the EU, the purpose of which was to involve regions in the legislative process.

Amsterdam Treaty

The Amsterdam Treaty was signed in October 1997 and became valid in 1999. Its original objective was reform of European institutions due to the planned enlargement of the EU to include Central and Eastern European countries. However, this objective was not fulfilled, and was resolved later by a treaty adopted at Nice.

Main goals of the Amsterdam Treaty:

- **employment and civil rights in the EU** were to become the centre of attention;
- **elimination of the last obstacles to free movement of persons and boosting of security** – shifting of policies related to free movement of persons from the 3rd pillar to the 1st pillar of the EU at a multinational level;
- **an effort to boost the EU's voice in the world and enshrine its position in international relations** – creation of a high representative for joint foreign and security policy;
- **reform of European institutions** due to planned enlargement by a large number of countries from Central and Eastern Europe (no major changes occurred in this area, however).

Changes that the treaty brought:

- **introduction of the concept of strengthened cooperation** – meaning differentiated/tiered integration - half of the member states could agree on cooperation in a certain area
- **greater powers for Parliament** – it gained the power to approve the Chairman of the European Commission, and the procedure of joint decisions was implemented in several other areas;
- **change to the system of representing member states** in the Commission, the Parliament and the Council;
- **Schengen acquis** – via the Protocol on inclusion of the Schengen acquis in the EU.

Statistical Window

The statistical window displays the important macroeconomic indicators of all 27 EU member states. These include indicators of economic performance (GDP growth, GDP per capital compared to the average in the EU and PPS), fiscal stability (ratios of public budgets to GDP and public debt to GDP), price characteristics (level of the price ceiling to the EU average) and the current account to GDP ratio. For a comparison, the same indicators for the entire EU are shown in the table. The source is Eurostat.

Key macroeconomic indicators

	GDP Growth Y-o-Y				GDP in PPS per capita to Ø EU				Price level to Ø EU			
in %	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
Belgium	1.0	-2.8	2.4	1.8	116.0	118.0	119.0	119.0	110.3	112.2	111.2	111.0
Bulgaria	6.2	-5.5	0.4	1.7	43.0	44.0	44.0	46.0	49.4	51.2	50.9	49.4
CR	3.1	-4.5	2.5	1.9	81.0	83.0	80.0	80.0	77.3	73.0	75.6	76.5
Denmark	-0.8	-5.7	1.6	1.1	125.0	123.0	128.0	125.0	139.7	142.8	141.3	143.5
Germany	1.1	-5.1	4.2	3.0	116.0	115.0	119.0	121.0	103.5	106.8	104.4	103.2
Estonia	-4.2	-14.1	3.3	8.3	69.0	63.0	63.0	67.0	76.7	77.2	76.3	77.9
Ireland	-2.1	-5.5	-0.8	1.4	132.0	130.0	129.0	129.0	129.7	125.4	118.1	116.3
Greece	-0.2	-3.1	-4.9	-7.1	93.0	94.0	87.0	79.0	91.7	94.8	95.7	95.6
Spain	0.9	-3.7	-0.3	0.4	104.0	103.0	99.0	98.0	95.1	97.6	97.0	97.2
France	-0.1	-3.1	1.7	1.7	107.0	109.0	108.0	108.0	110.7	112.1	110.7	110.2
Italy	-1.2	-5.5	1.8	0.4	104.0	104.0	101.0	100.0	102.4	104.7	103.0	104.4
Cyprus	3.6	-1.9	1.3	0.5	99.0	100.0	97.0	94.0	87.7	89.6	89.5	88.9
Latvia	-3.3	-17.7	-0.9	5.5	58.0	54.0	54.0	58.0	75.0	75.9	73.2	73.8
Lithuania	2.9	-14.8	1.5	5.9	61.0	55.0	57.0	66.0	66.0	66.9	65.0	65.8
Luxembourg	-0.7	-4.1	2.9	1.7	263.0	255.0	267.0	271.0	117.2	121.4	122.0	123.0
Hungary	0.9	-6.8	1.3	1.6	64.0	65.0	65.0	66.0	69.4	63.1	64.6	64.4
Malta	3.7	-2.4	2.7	1.6	79.0	83.0	85.0	85.0	77.4	77.9	77.4	77.9
Netherlands	1.8	-3.7	1.6	1.0	134.0	132.0	131.0	131.0	104.1	107.7	108.3	108.2
Austria	1.4	-3.8	2.1	2.7	124.0	125.0	127.0	129.0	105.1	107.8	105.3	106.4
Poland	5.1	1.6	3.9	4.3	56.0	61.0	63.0	64.0	69.2	58.1	61.2	59.3
Portugal	0.0	-2.9	1.9	-1.6	78.0	80.0	80.0	77.0	87.9	89.1	87.7	87.1
Romania	7.3	-6.6	-1.1	2.2	47.0	47.0	47.0	49.0	63.1	57.5	59.5	60.3
Slovenia	3.4	-7.8	1.2	0.6	91.0	87.0	84.0	84.0	82.8	87.8	86.9	85.8
Slovakia	5.8	-4.9	4.4	3.2	73.0	73.0	73.0	73.0	69.8	73.1	71.2	72.4
Finland	0.3	-8.5	3.3	2.7	119.0	114.0	113.0	114.0	120.7	123.9	123.0	124.7
Sweden	-0.6	-5.0	6.6	3.7	124.0	120.0	124.0	127.0	112.9	107.5	121.8	126.4
UK	-1.0	-4.0	1.8	0.9	113.0	111.0	111.0	109.0	103.0	96.7	100.8	102.0
EU	0.3	-4.3	2.1	1.5	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

	Public budget deficit to GDP in %				Public debt to GDP in %				Current account balance to GDP			
in %	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
Belgium	-1.0	-5.5	-3.8	-3.7	89.2	95.7	95.5	97.8	-1.3	-1.4	1.9	-1.4
Bulgaria	1.7	-4.3	-3.1	-2.0	13.7	14.6	16.2	16.3	-23.1	-8.9	-1.5	0.3
CR	-2.2	-5.8	-4.8	-3.3	28.7	34.2	37.8	40.8	-2.1	-2.4	-3.9	-2.8
Denmark	3.2	-2.7	-2.5	-1.8	33.4	40.6	42.9	46.6	2.9	3.4	5.9	5.6
Germany	-0.1	-3.1	-4.1	-0.8	66.8	74.5	82.5	80.5	6.2	5.9	6.0	5.7
Estonia	-2.9	-2.0	0.2	1.1	4.5	7.2	6.7	6.1	-9.2	3.4	2.9	2.1
Ireland	-7.4	-13.9	-30.9	-13.4	44.5	64.9	92.2	106.4	-5.7	-2.3	1.1	1.1
Greece	-9.8	-15.6	-10.7	-9.4	112.9	129.7	148.3	170.6	-14.9	-11.2	-10.1	-9.9
Spain	-4.5	-11.2	-9.7	-9.4	40.2	53.9	61.5	69.3	-9.6	-4.8	-4.5	-3.5
France	-3.3	-7.5	-7.1	-5.2	68.2	79.2	82.3	86.0	-1.7	-1.3	-1.6	-2.0
Italy	-2.7	-5.4	-4.5	-3.9	106.1	116.4	119.2	120.7	-2.9	-2.0	-3.5	-3.1
Cyprus	0.9	-6.1	-5.3	-6.3	48.9	58.5	61.3	71.1	-15.6	-10.7	-9.8	-4.7
Latvia	-4.2	-9.8	-8.1	-3.4	19.8	36.7	44.5	42.2	-13.1	8.6	2.9	-2.2
Lithuania	-3.3	-9.4	-7.2	-5.5	15.5	29.3	37.9	38.5	-12.9	3.7	0.1	-3.7
Luxembourg	3.2	-0.8	-0.8	-0.3	14.4	15.3	19.2	18.3	5.4	7.2	8.2	7.1
Hungary	-3.7	-4.6	-4.4	4.3	73.0	79.8	81.8	81.4	-7.3	-0.2	1.1	0.9
Malta	-4.6	-3.9	-3.6	-2.7	62.0	67.6	68.3	70.9	-5.0	-7.5	-5.0	-0.3
Netherlands	0.5	-5.6	-5.1	-4.5	58.5	60.8	63.1	65.5	4.3	5.2	7.7	9.7
Austria	-0.9	-4.1	-4.5	-2.5	63.8	69.2	72.0	72.4	4.9	2.7	3.4	0.6
Poland	-3.7	-7.4	-7.9	-5.0	47.1	50.9	54.8	56.4	-6.6	-3.9	-5.1	-4.9
Portugal	-3.6	-10.2	-9.8	-4.4	71.7	83.2	93.5	108.1	-12.6	-10.9	-10.0	-6.5
Romania	-5.7	-9.0	-6.8	-5.5	13.4	23.6	30.5	33.4	-11.5	-4.2	-4.4	-4.4
Slovenia	-1.9	-6.0	-5.7	-6.4	22.0	35.0	38.6	46.9	-6.2	-0.7	-0.6	0.0
Slovakia	-2.1	-8.0	-7.7	-4.9	27.9	35.6	41.0	43.3	-6.2	-2.6	-3.7	0.1
Finland	4.4	-2.5	-2.5	-0.6	33.9	43.5	48.6	49.0	2.6	1.8	1.5	-1.6
Sweden	2.2	-0.7	0.3	0.4	38.8	42.6	39.5	38.4	9.1	6.7	6.7	6.5
UK	-5.1	-11.5	-10.2	-7.8	52.3	67.8	79.4	85.0	-1.4	-1.5	-3.3	-1.9
EU	-2.4	-6.9	-6.5	-4.4	62.2	74.6	80.0	82.5	-2.1	-1.0	-0.7	-0.5

Source: Eurostat