



# EU News Monthly Journal

Number 117,  
June 2013

**Page 2** | Events: EU citizens are losing confidence in European integration

**Page 10** | Microscope: European Commission's spring outlook

**Page 11** | Topic of the Month: Analysis of the automobile industry in the Czech Republic and EU

**Page 17** | Doing business: Spain

**Page 19** | Journey into History: Enlargement of EU III.



#### EU OFFICE

Česká spořitelna, a.s.  
Budějovická 1518/13a  
140 00 Praha 4  
tel.: +420 956 718 012  
fax: +420 224 641 301  
[EU\\_office@csas.cz](mailto:EU_office@csas.cz)  
<http://www.csas.cz/eu>

Jan Jedlička  
Head of EU Office  
+420 956 718 014  
[jjedlicka@csas.cz](mailto:jjedlicka@csas.cz)

Iva Dlouhá  
+420 956 718 015  
[idlouha@csas.cz](mailto:idlouha@csas.cz)

Jana Majchráková  
+420 956 718 012  
[jmajchrakova@csas.cz](mailto:jmajchrakova@csas.cz)

Tomáš Kozelský  
+420 956 718 013  
[tkozelsky@csas.cz](mailto:tkozelsky@csas.cz)

under the auspices of Pavel Kysilka  
CEO of ČS

Dear readers,

May has been relatively a relief given this year's hectic European developments. The Cypriot crisis seems to have been ironed out, and no direct successor of it is expected in the near future. So why should you read this issue of our Monthly?

Perhaps because interesting recommendations have been published within the European Semester. They state overall that the European Union is no longer directly threatened by a crisis of public finances, but that the lack of growth outlooks and Europeans' "bad mood" are much more serious problems.

Unlike last year, the Commission is no longer placing as much emphasis on speedy correction of budget imbalances and is giving member states more time to stabilise public finances. And it is doing it well! After all, there were already strong restrictions in the EU as a whole between 2010 and 2012. During that period, the deficit of public finances stripped of the influence of the economic cycle thanks to austerity measures was reduced by 2.6% from -5.5% in 2010 to -2.9% last year. For this year, the Commission even expects further reduction of this deficit in the EU to -1.9%.

One problem is that citizens are becoming increasingly disillusioned with the current economic outlooks and are less willing to tighten their belts. The economic crisis has resulted in a decline in support for the European project, which is also evidenced by a public opinion survey from the renowned Pew Research Centre. In my opinion, it has brought shocking results. Did you know, for example, that only 11% of Italians agree with the claim that EU integration has strengthened the national economy.

The European Commission has criticised the Czech Republic during the European Semester for well known problems: insufficient combating of corruption, an unwillingness to depoliticise and professionalise state administration by adopting a service bill, etc. You can read more on page 8 in the Commission's Column.

Our main topic this week is the economic sector, which is of the greatest importance in the Czech Republic. In terms of the number of produced cars, we and the Slovaks are among world superpowers. While our neighbours to the east are ahead of us in the number of cars produced per person, in absolute expression we occupy 5th place in Europe, since last year a total of 1.2 million cars were produced in the Czech Republic. You can find a lot of interesting information, numbers and trends on pages 11 to 16.

This month's In Focus section looks towards the future, specifically the European Commission's spring economic prognosis. But do not expect very optimistic reading. After last year's recession, the domestic economy will not rebound from the bottom this year either, and in fact Brussels analysts expect a further decline, this time by 0.4%. The situation is not expected to get better until next year, when our GDP is expected to grow by 1.6%.

Dear Readers, we wish you the speediest possible start of long awaited summer days. If you spend them glossing through our Monthly, then all the better.

Jan Jedlička



EU citizens are losing confidence in European integration. During the third European Semester, the European Commission has issued recommendations for individual member states' economic policies, in which it appeals to states to end austerity measures and do more to support growth. Representatives of the Council, the Parliament and the Commission have approved an increase in the EU budget for 2013 by 7.3 billion euros. Negotiations regarding the multi-year EU budget for 2014-2020 are being put in motion. The EU has stepped up its fight against tax evasion.

## POLITICS

### EU citizens' confidence in European integration declining

Public support for the European project in recent years has been **declining**, which is often attributed to the effects of the economic crisis. Although European Commission Chairman José Manuel Barroso declares that the worst is already over in the EU, the decline in confidence in European integration among citizens has not been halted. This is according to a **study** published by the **Pew Research Centre**. It involved 7,600 people from eight member states, including the **Czech Republic, Germany and France**.

Far fewer people believe the claim that European integration has strengthened the economy than during a similar survey in 2012. Everywhere except in the Czech Republic, **support for the European project has fallen**. Nonetheless, support for the EU is the lowest in the Czech Republic (38%). The biggest decline was registered in France, by nearly 20%.

#### EU citizens' confidence in European integration

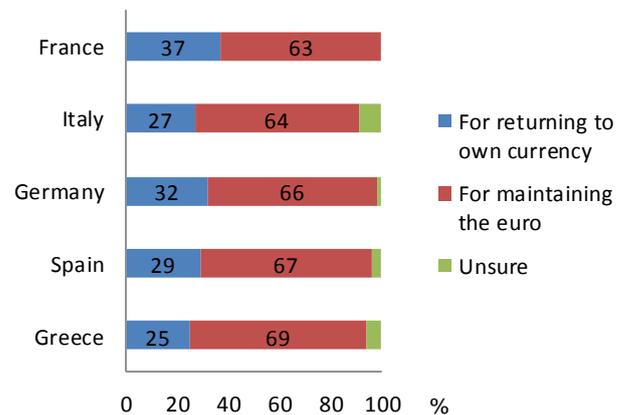
Country	Agreement with the claim: European Integration has strengthened the economy		Support for the European project	
	2012	2013	2012	2013
Germany	59 %	54 %	68 %	60 %
UK	30 %	26 %	45 %	43 %
France	36 %	22 %	60 %	41 %
Italy	22 %	11 %	59 %	58 %
Spain	46 %	37 %	60 %	46 %
Greece	18 %	11 %	37 %	33 %
Poland	48 %	41 %	69 %	68 %
<b>CR</b>	<b>31 %</b>	<b>29 %</b>	<b>34 %</b>	<b>38 %</b>

Source: Pew Research Center

The authors of the study state that the long-term crisis has caused record differences between public opinion in **France** and **Germany**, which so far have been the main engines of European integration. While only a quarter of German respondents consider the economic situation bad, 91% of French do. In the **Czech Republic**, 80% of respondents are unhappy with the current situation. In **Greece**, 99% of respondents said they were dissatisfied with the situation in their country.

However, despite all differences, EU citizens in some respects share certain opinions. Most respondents in all

#### Support for the euro remains strong



Source: Pew Research Center

states consider Germany the most trustworthy EU nation, for example. Although support for European integration as a whole is declining, confidence in the euro remains high, even despite the talk about the **"euro crisis"**. A total of 70% of Greeks and Spaniards want to keep the common currency, and only slightly fewer Germans, Italians and French do.

<http://www.pewglobal.org/2013/05/13/the-new-sick-man-of-europe-the-european-union/>

## ECONOMY AND EURO

### Commission: Key to overcoming crisis is growth, not austerity

The European Commission has published **specific recommendations** to individual EU states. The aim of these recommendations is to lift Europe out of the crisis. During the third so-called **European Semester**, the Commission advises them how they should boost their competitiveness and also maintain stable economies. This year, the Commission is generally appealing to states **to halt austerity measures and provide more support for growth**.

The specific recommendations for individual countries affect a number of areas, such as tax systems, pension systems and education. The Commission also evaluates **states' fiscal discipline**. If the state deficit exceeds 3%, the approach to be taken in the event of an excessive deficit can be commenced, the aim of which is to force the country to rectify the situation. So far this approach has been applied in 20 of the 27 EU countries, but at the end of May



the Commission cancelled it in five states (Italy, Lithuania, Latvia, Hungary and Romania), which managed to reduce their budgets, although at the same time the approach was initiated in **Malta**.

For another six countries, the deadline for deficit reduction was extended in relation to the approach for excessive deficits. **France, Poland, Slovenia and Spain** now have until 2015 to eliminate their excessive deficits, while **the Netherlands** and **Portugal** have until next year. However, for extension of the deadline for bringing deficits in line, each particular government has to carry out structural reforms in order to restore competitiveness and jump-start growth.

Another country that has long experienced problems with public finances is **Belgium**. However, Italy, for example, has been praised for structural reforms. Even the strongest EU economy, **Germany**, has not avoided recommendations. Recommendations for that country include reduction of certain high taxes. Countries in Central Europe with significant improvement in public finances include **Hungary**.

In the Commission's Column section on page 8 you can read about what specific recommendations the European Commission has issued to the **Czech Republic**.

[http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm)

## BUDGET

### Negotiations about multi-year EU budget gradually get under way

The draft budget for the next seven years (2014-2020), on which the European Council agreed in February following difficult negotiations, was rejected by an overwhelming majority of European Parliament legislators in March. The European Parliament and the Council therefore are expected to discuss a **new compromise proposal**.

However, the negotiations became complicated after it came to light that more than **11 billion euros** was missing in the budget for 2013. The European Parliament then stated that the talks regarding the multi-year budget would not commence until the request to add that missing amount was satisfied. However, some countries have strictly rejected adding 11 billion euros to the budget.

Therefore, within the so-called trilogue (representatives of the Council, the Parliament and the commission), a compromise was introduced, under which the Parliament would for the time being be **satisfied with an increase by 7.3 billion euros**, which would a spending increase by 5.5%

compared to the original plan for **140.3 billion euros**. However, that amount could still rise during the second half of the year, when an increase by an additional **4 billion euros** is expected to be approved. This is at least what the European Parliament is demanding, but finance ministers still have not commented regarding it. They have conditioned the definitive increase by **seven billion** on progress in the negotiations regarding the multi-year EU budget.

EP lawmakers also emphasised that the negotiations regarding the **multi-year financial framework** would not be wrapped up until the approval of the second part of this year's budget. If it is not approved, the EU will reportedly start the next period in 2014 with a deficit.

The first formal talks between representatives of the European Parliament and the Council have already taken place. So far it appears that EP lawmakers will not demand changes in the total amount of the multi-year budget (**960 billion euros**), but rather shifts between individual amounts.

In our opinion, the form of the future multi-year financial framework will not be approved sooner than this autumn.

[http://europa.eu/rapid/press-release\\_IP-13-427\\_en.htm](http://europa.eu/rapid/press-release_IP-13-427_en.htm)

## TAXATION AND CUSTOMS UNION

### EU wants to fight against tax evasion

**Tax evasion** is currently a serious problem affecting EU states' economies. For several years already, the EU has been attempting to combat **tax evasion and fraud**. Top EU officials discussed the problem at the May European Council meeting in Brussels.

Although an expert EU team focused on tax evasion has existed since 2006 and since then various measures have been taken to fight the problem, member states' governments are still deprived of high amounts as a result of tax evasion. For example, according to estimates **the Czech Republic is deprived of about CZK 100 billion per year**. **The European Union as a whole is deprived annually of approximately a billion euros**, according to European Council Chairman Herman Van Rompuy.

European Commission Chairman José Manuel Barroso therefore has called on member states to adopt the Commission's **action plan** for strengthening the fight against tax fraud and evasion from last December.

The European Commission has increasingly called for creating a **black list** of tax havens. The European Parliament envisions that it would mostly limit the use of tax havens. According to the EP, a list of tax havens on which



The European Commission is currently preparing documents for completion of the integrated payment market in the EU. The European Commission and the EIB want to improve access by SMEs to EU financing. The EU continues to suffer high youth unemployment. The European Commission is proposing creating a system of guarantees for young people. The EU and China seek a compromise regarding the issue of customs duties on Chinese solar panel imports.

**specific sanctions** would be imposed is expected to be published by the end of 2014. Those sanctions are expected to including ending or limitation of treaties on restriction of double taxation or preventing access to EU public contracts for companies with their headquarters in countries on the black list. Banks in countries on the list could face revocation of their banking licences.

#### Automatic exchange of information

Another measure for fighting tax evasion is expected to be **the automatic exchange of information**. It will make it possible to identify who is saving money in a country other than where he lives.

This principle already currently functions in the entire EU except Austria and Luxembourg, which have negotiated a transitional period until the information exchange system is also joined by countries outside of the EU, specifically Andorra, Lichtenstein, Monaco, San Marino and Switzerland. However, the Commission is now proposing expanding the automatic exchange of information to include **a wide range of data exchanged between tax authorities and cancelling bank secrecy**.

Luxembourg and Austria have already agreed that the European Commission will begin negotiating about the exchange of information with five states outside of the EU, and it can be expected that both **Luxembourg and Austria** will support the information exchange plan.

[http://ec.europa.eu/taxation\\_customs/taxation/tax\\_fraud\\_ev/asion/index\\_en.htm](http://ec.europa.eu/taxation_customs/taxation/tax_fraud_ev/asion/index_en.htm)

[http://europa.eu/rapid/press-release\\_SPEECH-13-392\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-13-392_en.htm)

## INTERNAL MARKET

### Commission preparing documents for EU integrated payment market

The EU 27 continues to dream of a fully integrated payment market enabled by a set of three regulations.

The first of the documents, **a draft directive regarding access to basic current accounts**, has already been presented by the European Commission. The proposal now heads to the European Parliament.

While measures for supporting consumer protection, such as transparent billing of bank fees and a much simpler way of transferring a payment account to another bank will probably be approved by EP lawmakers, some of them regard as problematic the proposal that all consumers in the

EU should be able to open their own accounts regardless of their financial situation.

It can at least somewhat be predicted how **the draft second directive regarding payment services**, which the Commission plans to introduce in the weeks to come, will look. Green book: **On the path to an integrated European market of payments made by card, over the internet and with the help of a mobile phone**, obstacles have been identified that prevent the completion of a single market related to card payments, online payments and payments by mobile phone.

According to the document, the first important obstruction in the path is the single euro payment area (**SEPA**), which erases differences between domestic and foreign payments.

The first method is related to e-payments, meaning online payments, and mobile payments (**m-payments**). The European Commission expects the SEPA system to include in the future not only standards and rules for payment instruments in euros, but also in other currencies.

The last legal regulation, **the publication of which is also planned soon**, will be the regulation regarding multi-party inter-bank fees.

[http://europa.eu/rapid/press-release\\_IP-13-415\\_en.htm](http://europa.eu/rapid/press-release_IP-13-415_en.htm)

## FINANCE

### SMEs to have better access to EU financing

The European Commission says **small and medium-sized enterprises (SMEs)** playing a large role in creating jobs and contributing to economic growth and unemployment reduction. The Commission also says it is necessary to work on improving conditions for their business activities. The Commission's report, which it made public together with the **EIB**, adds that it is currently important to improve their access to EU funds. One of the biggest problems that SMEs in the EU reportedly face is insufficient access to finances, which can be lent to them by the EIB. It lend **13 billion euros** to them in 2012.

SMEs are also financially supported directly by the European Commission. A total of **1.1 billion euros** in guarantees provided to them by the Commission have helped arrange loans for more than **13 billion euros**. These loans were used by up to 220,000 small businesses in Europe, the overwhelming majority of which (90%) have less than ten employees each.

In order to improve SMEs' access to this financing, the European Commission has launched a new **internet portal**, which contains all of the necessary information about



available funds from the EU. Within various EU programmes, over **100 billion euros is available for 2007-2013**. Access to all of these funds is newly available at one place.

<http://www.eib.org/projects/press/2013/2013-071-ifc-eib-and-afd-support-small-businesses-and-mobilize-investment-in-mena.htm?media=rss&language=en>

## EMPLOYMENT AND SOCIAL POLICY

One of the most serious current problems in the EU is **high youth unemployment**, mainly affecting southern Europe. Therefore, officials from EU member states will address the problem at their June summit.

### Examples of certain activities within guarantees for young people financed from the ESF

Measures	Activities
Outreach strategies and focal points	<ul style="list-style-type: none"> <li>School visits by PES</li> <li>Development of specialised youth services as part of PES or contracted private providers</li> <li>Distribution of printed material at youth centres or youth events</li> </ul>
Ensuring greater availability of start-up support services	<ul style="list-style-type: none"> <li>Self-employment support</li> </ul>
Providing individual action planning	<ul style="list-style-type: none"> <li>PES staff training</li> </ul>
Offer early school leavers and low-skilled young people routes to re-enter education and training or second-chance education programmes	<ul style="list-style-type: none"> <li>Training and second chance programmes</li> <li>Provide digital skills training</li> <li>Language training provision</li> </ul>
Encourage schools and employment services to promote and provide continued guidance on entrepreneurship and self-employment for young people	<ul style="list-style-type: none"> <li>Training sessions of employment services' staff and teachers</li> <li>Training sessions for unemployed young people</li> </ul>

Source: European Commission report, Note: PES = Public Employment Service

Since 2007, youth unemployment in the EU has risen by nearly **10%** and is now at **24%**. In Spain and Greece, more than half of people over age 25 are unemployed. Most other countries are also experiencing the problem. In 18 of the 27 member states, there are regions where youth unemployment exceeds **25%**. Approximately 7.5 million young people in the entire EU are unemployed.

At the end of last year, the European Commission proposed creating a system of guarantees for young people. The guarantees should ensure for people under age 25 further education, new jobs or internships within 4 months after finishing studies or after losing their jobs. **The system of guarantees** is expected to have available a special fund financed by the European Social Fund and the Cohesion Policy. In the draft EU budget, officials from member states have **allocated 6 billion euros**, which will be available for unemployed youth in regions where youth unemployment levels exceed 25%.

In April the European Parliament's Committee for Employment and Social Affairs also proposed expanding the Commission's original proposal. According to EP members, the initiative for youth employment should apply to young **graduates up to the age of 30**, and access to resources from the special fund for young people should be available for regions that had youth unemployment levels of more than **20%** in 2012. The Commission would like the guarantees to begin functioning as of January 2014.

[http://europa.eu/rapid/press-release MEMO-13-464\\_en.htm](http://europa.eu/rapid/press-release_MEMO-13-464_en.htm)  
[http://europa.eu/rapid/press-release PRES-13-215\\_en.htm](http://europa.eu/rapid/press-release PRES-13-215_en.htm)

## ENERGY AND TRANSPORT

### EU, China seek compromise regarding solar panel imports

Concerns have been expressed in the EU that it could end up in a trade war with China. The reason is the imposition of a **47% customs duty on imports of Chinese solar panels to the EU**. It is expected to take effect as of 6 June, and the European Commission will decide about its long-term validity in December.

The imposition of the customs duty has been proposed by European Commissioner for Trade Karl De Gucht. Already since last September, EU officials have been investigating Chinese solar panel imports due to suspicions that they are being sold on the European market for dumping prices. This accusation has been made by **European solar industry representatives** led by German producer, whom cheap Chinese competition is very negatively affecting.



The European Environmental Agency has issued a report about water quality in the EU, according to which the water quality at most swimming sites is good. The Czech government has approved a proposal by the Regional Development Ministry to shift resources from risky operational programmes. Debate in the EU regarding the proposed tobacco regulation has been lively. Some states support it, while others have concerns about it.

However, not everyone in the EU is happy about the plan for **introducing customs duties**. The move is not popular among companies that install solar panels in Europe. Moreover, tense relations with China could make things difficult for exporters from certain European states.

**Experts predict** that Commissioner De Gucht himself will attempt to reach a settlement. One solution could be an **agreement on a minimum price**, on which all producers supplying solar panels to the European market would have to agree. The Chinese side has also called for a compromise to be reached. China's ambassador to the WTO has described the European Commission's decision as a "**mistake**", but he has refused to say whether China will take any measures in reaction to it.



According to the **Czech New Agency (ČTK)**, one reaction could be **investigation of the importation of certain types of steel pipes from the EU**, Japan and the United States, which China has initiated. The investigation is intended to help identify potential losses that Chinese companies could suffer as a result of alleged dumping prices by manufacturers from those parts of the world.

<http://trade.ec.europa.eu/doclib/press/index.cfm?id=905>

## ENVIRONMENT

### Quality of water for swimming in EU improves

The quality of water intended for swimming in European swimming sites **has improved year-to-year**. This is according to the latest report from **the European Environmental Agency (EEA)**, which was published at the end of May and contains data from the summer of 2012. Compared to the previous year, the number of sites that satisfy at least the minimum requirements for water quality

for swimming grew by nearly **2%**. A total of **94% of swimming sites in Europe satisfy the requirements**.

According to the EEA, the best swimming conditions are in **Luxembourg and Cyprus**, where quality water can be found in all swimming areas. There are also excellent (above-average) conditions in eight other countries, including **Malta, Croatia, Greece, Germany and Finland**. The situation in the Czech Republic is also very good in eleventh place, and 76.3% of its swimming sites offer excellent conditions for swimming.

#### Five countries with the best conditions for swimming

Country	% of locations with above-average water quality
1-2. Cyprus, Luxembourg	100.0 %
3. Malta	96.6 %
4. Croatia	95.3 %
5. Greece	93.3 %

Source: EEA report on quality of water for swimming in the EU in 2012

The quality of water for swimming has been measured in the EU since 1990 based on the updated directive regarding swimming water quality, which member states must enshrine in their national legislation **by the end of 2014**. Water quality is measured in the 27 EU member states as well as in **Croatia and Switzerland**. More than two thirds of the swimming sites are located along coastal beaches, and the rest are rivers and lakes.

Although water quality at European swimming sites continues to rise, **approximately 2% of the swimming sites in Europe still do not satisfy the quality requirements**. According to the EEA report, most of those swimming sites are in **Belgium (12%), the Netherlands (7%) and Britain (6%)**, where some beaches were even closed during last year's season.

[http://www.eea.europa.eu/publications/european-bathing-water-quality-2012/at\\_download/file](http://www.eea.europa.eu/publications/european-bathing-water-quality-2012/at_download/file)

## REGIONAL POLICY

### Green light for reallocation from risky OP

Czech Prime Minister Petr Nečas at a May session proposed the Regional Development Ministry's proposal for shifting resources from risky operational programmes, which are at risk of not being fully drawn by the end of the programme period. **More than CZK 7 billion** from European funds will therefore be directed to more successful programmes. The approved document calls for the shift of resources from risky operational programmes to



other programmes with **greater potential** for complete utilisation of resources.

As a result, regional operational programmes **will receive CZK 0.5 billion** from the Technical Assistance OP and CZK 3.1 billion from ROP Northwest. The resources will be invested into **education** (educational infrastructure in the form of equipment for schools of a technical and natural science character, support for kindergartens), **social areas** and **support for 2nd and 3rd category motorways**. CZK 3.7 billion will be transferred from the Environment OP to the Transport OP. It serves for modernisation and development of the Prague metro and support for sustainable and environmentally friendly public transportation.

#### Commission reveals more large transport projects in Czech Republic

The European Commission **has approved** two more large projects in the Transport Operational Programme and will send to the Czech Republic from the Cohesion Fund and the European Fund for Regional Development approximately 142.77 million euros (for both projects).

**The European money will contribute** to optimisation of the Zbiroh-Rokycany railway route in the Plzeň Region, which is part of the Trans-European Transport Network (the railway route Athens-Sofia, Budapest-Vienna-Prague-Nuremberg/Dresden). Another project approved by the European Commission is a project for the high-speed motorway R4 intersection I/20 - Nová Hospoda, developed in the South Bohemian Region near the town of Písek.

<http://www.mmr.cz/cs/Ministerstvo/Ministerstvo/Pro-media/Tiskove-zpravy/2013/Jankovsky-Vlada-schvalila-vyznamny-krok-v-cerpani>

## HEALTH AND CONSUMER PROTECTION

### States' stance regarding European tobacco policy ambiguous

Reducing the number of smokers in the EU, particularly among young people, is the main goal of the **revision of the tobacco directive**, which is currently being discussed in a very lively manner in the Council, in individual EP committees and in member states.

According to data from the European Commission, most people begin smoking before reaching adulthood. The Commission points out that in the EU 700,000 die each year from smoking. The main proposed points include **new rules**

**for health warnings on packaging**, which are expected to become much bigger in the future. The Commission also plan **to ban cigarettes with flavours**, such as menthol and chocolate, because these are reportedly the most attractive for young people. Slim cigarettes also would no longer be produced in the future.



However, critics argue that the proposed regulation could have **several negative consequences**. The tobacco industry in several states including the Czech Republic is a major employer, and another argument being made by opponents of the directive is that it would result in job losses. Critics say certain measures would also result in boosting the **black market**. Moreover, sales of tobacco products are a significant source of revenues for state budgets. However, smoking bears huge social and economic costs, which have a major impact on state finances and entire economies.

#### States for and against the European tobacco directive

During a meeting of agriculture ministers in May, **Greece** expressed its sceptical opinion regarding the directive, and that country's position was supported by delegates from other states, including the **Czech Republic** and **Poland**.

However, the Commission's proposal is supported by **Ireland, Belgium, Finland, France and Great Britain**.

Countries that have not yet issued a clear position include **Germany and Italy**.

[http://ec.europa.eu/health/tobacco/docs/com\\_2012\\_788\\_en.pdf](http://ec.europa.eu/health/tobacco/docs/com_2012_788_en.pdf)

The European Commission Representation in the Czech Republic has been adding regularly to the Monthly with contributions in the Commission's Column section. This issue is devoted to the third European Semester, during which the European Commission issued recommendations for member states' economic policies. The contribution represents the most important recommendation issued by the European Commission for the Czech Republic.

## EUROPEAN COMMISSION ISSUES RECOMMENDATIONS FOR CZECH ECONOMIC POLICY

At the end of May, the European Commission issued its recommendations this year for member states' economic policies.

The European Commission analyses the progress member states have made with reforms and issues recommendations regarding what they still need to do. The aim is to create conditions for sustainable economic growth, not only in individual member states, but thanks to coordination on a European level also in the EU as a whole.

### What has the Commission recommended to the Czech Republic this year?

#### Here are the main points:

1. To plan the budget for 2013 so that during 2013 the excessive budget is adjusted in a sustainable manner in order to achieve the structural adaptations specified in the Council's recommendations as part of the approach followed during excessive deficits; In 2014 and subsequent years to strengthen and strictly carry out a budget strategy accompanied by sufficiently specified measures in order to ensure fiscal efforts that are reasonable for sufficient progress towards achieving mid-term goals; To give priority to spending supporting growth and to allocate resources for remaining projects co-financed from EU funds in the existing financial framework;
2. To reduce the high level of taxation of work by shifting taxation to areas that less reduce growth, such as periodic taxation on housing and taxation on motor vehicle operation; To reduce differences in tax treatment between employees and self-employed individuals; To improve compliance with tax regulations and reduce costs for such compliance by creating a single collection point and harmonisation of tax bases for individual income taxes and contributions to social security and health insurance;
3. To increase the legally set retirement age faster than set by existing legal regulations and to create a clear connection between the legally stipulated retirement age and life expectancy and re-examine the mechanism for indexation of pensions; To supplement the increase in the retirement age with measures supporting the

employment of older workers and to reduce the possibilities of early retirement; In particular, to eliminate the public subsidy for early retirement; To adopt measures that would significantly improve the cost effectiveness of expenditures for health care, particularly hospital care;



4. To adopt measures to boost the effectiveness of public services supporting employment; To significantly increase the availability of child care facilities supporting social inclusion with a focus on children up to age 3 and to increase the participation of Roma children, particularly by adopting and implementing the act on private child care facilities and increasing the capacity of public child care facilities;
5. To ensure the implementation of the anti-corruption strategy for 2013-2014; To adopt a service act, which should ensure stable, effective and professional state administrative services; To improve the management of resources from EU funds with consideration for the 2014-2020 programme period; To boost the capacity of implementation of public contracts at a local and regional level;
6. To create a targeted evaluation framework for education in elementary schools and to take targeted steps to support schools that report weaker results. To adopt measures to improve the system of accreditation and financing of universities; To increase the share of financial resources allocated to research institutions based on their performance;
7. With the use of ongoing research, to continue with the reform of regulated professions by reducing or eliminating entry barriers and reserved activities, if they are deemed unreasonable; To adopt additional measures to improve the energy efficiency of buildings and industrial sectors.

The full wording of the recommendations both for the Czech Republic and for the other EU member states and related documents can be found at [http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_cs.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_cs.htm).

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

<b>6 – 7 June 2013</b>	<b>Brussels, Belgium</b>
- Justice and Home Affairs Council	
<b>6 – 7 June 2013</b>	<b>Brussels, Belgium</b>
- Transport, Telecommunications & Energy Council	
<b>10 June 2013</b>	<b>Brussels, Belgium</b>
- Transport, Telecommunications & Energy Council	
<b>10 – 13 June 2013</b>	<b>Strasbourg, France</b>
- European Parliament plenary session	
<b>14 June 2013</b>	<b>Brussels, Belgium</b>
- Foreign Affairs Council	
<b>17 - 18 June 2013</b>	<b>Lough Erne, North Ireland</b>
- G8 Summit	
<b>18 June 2013</b>	<b>Brussels, Belgium</b>
- Environment Council	
<b>19 June 2013</b>	<b>Brussels, Belgium</b>
- Agriculture and Fisheries Council	
<b>20 June 2013</b>	<b>Brussels, Belgium</b>
- Eurogroup	
<b>20 – 21 June 2013</b>	<b>Brussels, Belgium</b>
- Employment, Social Policy, Health and Consumer Affairs Council	
<b>21 June 2013</b>	<b>Brussels, Belgium</b>
- Economic and Financial Affairs Council	
<b>24 June 2013</b>	<b>Brussels, Belgium</b>
- Foreign Affairs Council	
<b>25 June 2013</b>	<b>Brussels, Belgium</b>
- General affairs Council	
<b>27 - 28 June 2013</b>	<b>Brussels, Belgium</b>
- European Council	

Access as of June 3<sup>rd</sup> 2013



At the beginning of May, the European Commission presented a new economic outlook with a two-year time horizon including this year and 2014. This is the third time in the last six months that the European Commission has issued a specific detailed overview with a lot of economic indicators, including GDP growth, unemployment levels and inflation in member states, the Eurozone and the EU as a whole. However, these outlooks also include candidate countries and certain other countries that are not EU members.

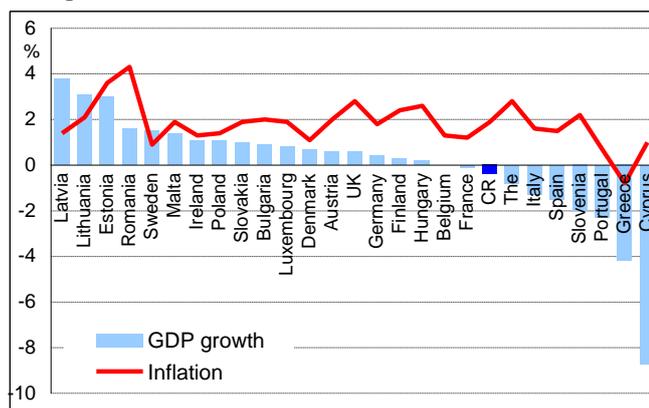
## EUROPEAN COMMISSION'S SPRING OUTLOOK

European Commission presented spring outlook, which shows, that in the first half of this year the economy is expected to stabilise, and the 2012 recession could be followed in the second half of 2013 with a recovery along with continued slight growth of GDP in the subsequent year. This year, the growth level is expected to be -0.4% in the Eurozone and -0.1% in the EU as a whole.

Probably no one will be surprised that the largest decline is expected to be in Cyprus, where the GDP growth level is expected to be -8.7%, followed by Greece with -4.2%. Contrastingly, the Baltic states are expected to grow the fastest, with GDP growth exceeding 3%.

The long awaited economic recovery is expected to occur in 2014, when most states are expected to enter "green" numbers. A decline is expected only in Cyprus (3.9%) and Slovenia (0.1%). GDP is expected to grow 1.2% in the Eurozone and 1.4% in the EU as a whole. In the Czech Republic and other EU states, uncertainty about future development is slowing demand and consumption. The effect of growth in energy prices on inflation is decreasing, along with inflation as reflected in consumer prices. The reduced inflation trend is very apparent.

### GDP growth and inflation outlook in 2013



Source: EC - economic prognosis for spring 2013

While in its winter prognosis, the European Commission expected 2% inflation in the EU, according to the latest spring prognosis inflation is expected to be 0.2% less, lime in the Eurozone (1.8% in the winter prognosis, 1.6% inflation in the spring prognosis). The highest inflation is expected in Romania (4.3%). However, 0.8% deflation is even predicted for this year in Greece. The declining inflation trend will also continue in the year that follows (EU 1.7%, Eurozone 1.5%).

While inflation remains at a low level and the European Commission has been adjusting it downward in its forecasts, the opposite situation is true with unemployment. During 2013, unemployment is expected to reach 12.2% in the Eurozone and 11.1% in the EU. Unemployment is expected to reach a miserable 27% in Spain and Greece.

### Development of key macroeconomic variables in %

	Czech republic			EU - 27		
	2012	2013	2014	2012	2013	2014
GDP growth	-1.3	-0.4	1.6	-0.3	-0.1	1.4
Unempl. level	7.0	7.5	7.4	10.5	11.1	11.1
Inflation	3.5	1.9	1.2	2.6	1.8	1.7
Public budget balance *)	-5.2	-3.1	-3.0	-4.0	-3.4	-3.2
Public debt*)	45.5	48.3	50.1	86.9	89.8	90.6

Source: EC - Economic outlook Spring 2013, \*) as of GDP

The lowest unemployment levels in 2013 are in Austria (4.7%) and Germany (5.4%). Unemployment in 2014 is expected to remain at approximately its 2013 level. States' indebtedness is expected by the prognosis to continue, and from this year's 89.8% public debt to GDP, the debt level is expected to grow by 0.8% to 90.6%.

### And how is the Czech Republic doing?

If we overlook the low inflation and lower unemployment than in the rest of the EU, the other macroeconomic numbers are not very favourable for us. We certainly have hoped for an economic recovery in the Czech Republic this year or at least "positive" stagnation. However, we can have confidence that GDP growth will finally happen in 2014. Although our public debt is below the Maastricht set level of 60% and approximately half the level of the entire EU, the pace of growth of this debt is much more unpleasant.

Still in the autumn according to the Commission's prognosis, the ratio of public debt to GDP in the Czech Republic is expected to be 48.1%, followed by 50.1% six months later. While in 2012 public debt to GDP was more than 45%, in 2014 it will be five percentage points greater! Therefore, we wish for increased confidence in the economy and economic growth, so that in the years to come we will not end up in the same situation as certain southern member states.

Tomáš Kozelský, EU Office ČS

As the main topic of the June Monthly, we focus on one of the most important economic sectors in the Czech Republic, the automobile industry. We present analysis of the automobile industry both in the Czech Republic and in the EU as a whole. We focus in detail on statistics of production and quantities of produced and sold automobiles in individual countries and on the development of the automobile industry in the world.



## ANALYSIS OF THE AUTOMOBILE INDUSTRY IN THE CZECH REPUBLIC AND EU

### INTRODUCTION

The automobile industry is very important for the Czech Republic and is one of the traditional drivers of the Czech economy, not only because it employs a lot of people, has a long-term tradition and regularly produces more than a million vehicles, but also because of its position within Europe. Even despite the relatively small size of our country and economy compared to other member states, the Czech Republic's developed automobile industry is not losing pace, but is even remaining ahead, according to some indicators. These indicators include the number of produced vehicles and the share of employees in the automobile sector in

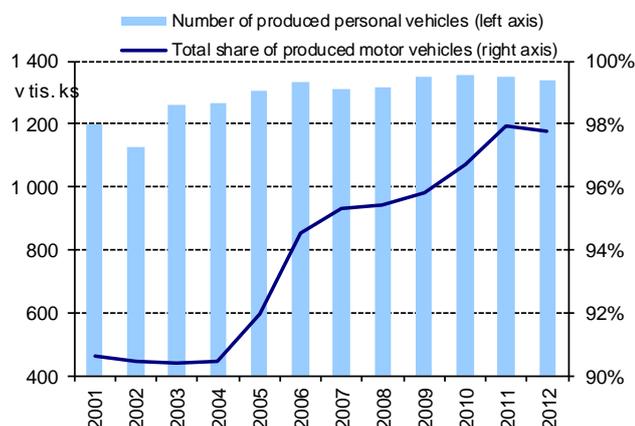
relation to the overall work force. The share of gross added value in the automobile industry in relation the overall added value for all sectors in the national economy has long enabled the Czech Republic to rank in the highest positions compared to other EU states. Even despite the economic crisis, the automobile industry has been maintaining its importance, and if the anticipated economic recovery occurs next year, it will be not only for the industry, but also for the Czech Republic a new impulse for growth and increasing of the Czech Republic's position on the European market and elsewhere.

### IMPORTANCE OF AUTOMOBILE INDUSTRY IN CZECH REPUBLIC

#### Czech automobile production

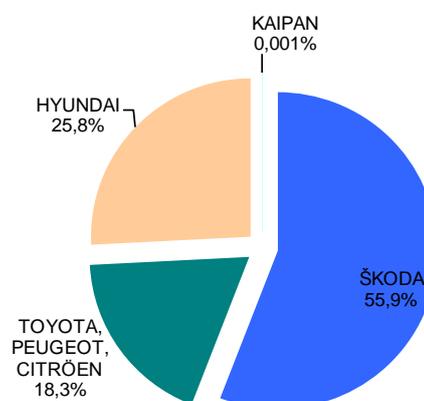
From 2001 to 2012, just under 10 million personal vehicles were manufactured in the Czech Republic. Between 2001 and 2004, annual production remained stably at around 450,000 vehicles, and as of 2005 production grew sharply due to the arrival of new automobile production plants to the Czech Republic (TPCA in Kolín and Hyundai in Nošovice). The most personal vehicles were produced in the Czech Republic in 2011, 1,195,000 vehicles, double the quantity in 2005. Most of the vehicles produced in the Czech Republic are personal vehicles, which make up 99% of all motor vehicles produced in the Czech Republic.

#### Development of the production of personal automobiles in the Czech Republic



Source: Automobile Industry Association, small service vehicles of up to 3.5 t also included in the personal vehicle category

#### Produced personal automobile brands in the Czech Republic in 2012



Source: Automobile Industry Association

The remaining approximately 1% is divided among production of buses, service vehicles and motorcycles. However, in 2013 the automobile industry has been fully affected by the economic crisis, and during the first quarter of the year only 285,715 vehicles were produced, an 18.14% decline in production compared to the first quarter of 2012. All three large automobile firms in the country registered production declines.

Four personal automobile manufacturers have a presence in the Czech Republic. According to the Automobile Industry Association's data from 2012, the most vehicles were produced by Mladá Boleslav-based Škoda Auto 656,306



# Main topic

vehicles), giving it a majority 55.9% share of all produced personal vehicles in that year. Hyundai has also been successfully producing vehicles in the Czech Republic. In 2012 it produced 303,035 personal vehicles. The joint venture of Toyota, Peugeot and Citroen in Kolín produced just under 200,000 automobiles. The small Czech manufacturer of sport roadster vehicles, Kaipan, has the smallest share of the market of produced automobiles (0.001%).

## Czech automobile market according to registered vehicles

According to data from the Automobile Industry Association, for the period from 2003 to 2012 a total of 1,471,180 newly produced automobiles were registered in the Czech Republic. A total of 1,533,307 imported used vehicles were registered for the first time during the same period. The registration of imported used vehicles grew the most between 2006 and 2008 (an average of 209,000 registrations), and the most were registered in 2008 (230,974 vehicles).

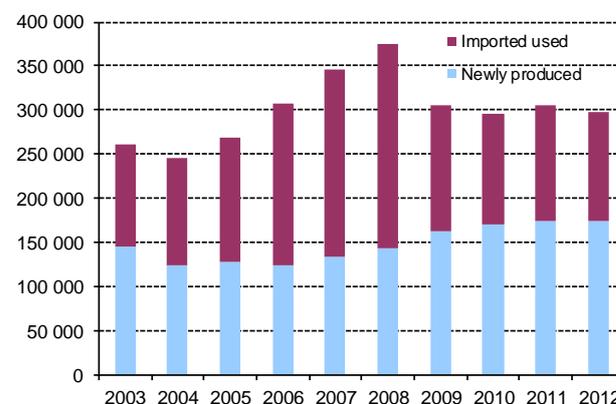
### Development of personal vehicle brands according to the number of first registrations in the Czech Republic

Year 2001			Year 2012		
Brand	Quant.	Share (in %)	Brand	Quant.	Share (in %)
Škoda	79 948	52.5	Škoda	53 778	30.9
VW	9 517	6.3	VW	15 185	8.7
Renault	8 838	5.8	Hyundai	15 162	8.7
Opel	8 369	5.5	Ford	12 719	7.3
Peugeot	8 344	5.5	Renault	10 456	6.0
Ford	4 609	3.0	Kia	8 564	4.9
Citroën	4 259	2.8	Peugeot	6 725	3.9
Toyota	3 750	2.5	Citroën	5 711	3.3
Seat	2 793	1.8	Toyota	3 951	2.3
Fiat	2 773	1.8	BMW	3 901	2.2
Nissan	2 546	1.7	Opel	3 836	2.2
Mazda	2 358	1.5	Audi	3 810	2.2
Daewoo	1 995	1.3	Dacia	3 805	2.2
Suzuki	1 767	1.2	MB*	3 236	1.9
Hyundai	1 463	1.0	Nissan	3 163	1.8
Others	8 816	5.8	Others	20 007	11.5
<b>Total</b>	<b>152 145</b>	<b>100.0</b>	<b>Total</b>	<b>174 009</b>	<b>100.0</b>

Source: Automobile Industry Association, \* MB = Mercedes-Benz

In the last four years, we have observed increased numbers of registration among newly produced vehicles, which indicates that people are more interested in new vehicles than used ones, while the opposite situation was true previously. The turning point was 2008.

### Development of the number of first registered personal vehicles



Source: Automobile Industry Association

According to the most recent data, a total of 298,352 personal vehicles were first registered in the Czech Republic in 2012, of which 174,009 were newly produced and 124,343 were imported used vehicles.

It is interesting to observe the development of personal vehicle brands according to the number of first registrations in the Czech Republic. In 2001, just under 80,000 Škoda brand vehicles were registered, giving that brand more than a 50% share of all registered vehicles on the Czech market.

Other brands fared worse than Škoda in the share of registered brands. However, if we move a few years, specifically to 2012, we can notice a change at first glance. Although the most registered vehicles were again of the Škoda brand, its dominant market share, 30.9%, is not nearly as large as it was in 2001. Volkswagen, Hyundai, Ford and Renault have been catching up to Škoda, and their individual shares of the overall number of first registrations range from 6% to 8.7%.

Hyundai in particular has jumped a few percentage points forward. While in 2001 Hyundai vehicles made up only 1% of newly registered vehicles, that share was 8.7% in 2012. The jump is certainly related to the opening of the new Hyundai production plant in Nošovice, North Moravia, and the brand's popularity in the Czech Republic continues to grow.



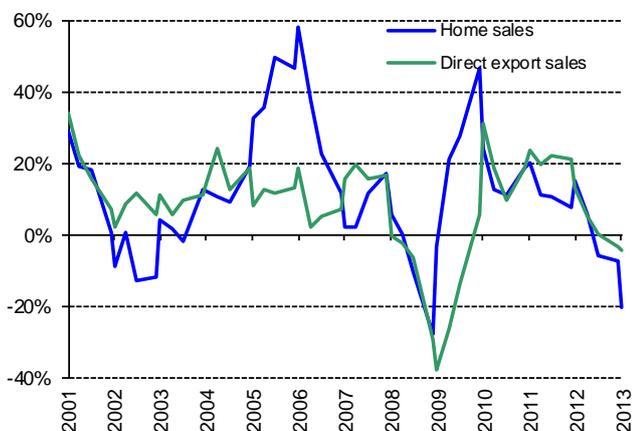
Among the 15 most popular brands in 2012 compared to 2012 were South Korean Kia, Japanese Toyota as well as luxurious European brands BMW, Mercedes-Benz and Audi.

## Czech automobile market according to performance and job market indicators

The development from the beginning of the new millennium has shown that the automobile industry is among the most dynamic sectors of the Czech economy.

The development of the year-to-year tempo of revenues in the automobile industry was reflected partially by the development of the economy. The Czech Republic's economy between 2003 and 2006 grew at tempos that we can only dream of today. In 2006 there was 7% GDP growth with a subsequent decline to the "bottom" (-4.5% GDP growth) in 2009, when the economic crisis was fully hitting. This growth and subsequent decline is also noticeable in domestic revenues in the automobile industry.

### Year-to-year pace of growth in revenues in the automobile industry



Source: Czech Statistical Office

However, the economic crisis has not only affected the Czech Republic, and therefore even relatively stable revenues from direct exports fell in 2009 by tens of percentage points. The economic growth a year later and a certain apparent improvement in the situation on the market restarted both domestic revenues and revenues from direct exports.

However, the current situation shows that the economic crisis is far from behind us, and if we consider other impulses, including increasing of VAT, uncertainty and reduction in consumption, it certainly will not come as a surprise that domestic revenues in the automobile industry have again begun declining.

The European Commission forecasts for 2013 for the Czech Republic stagnation, which could even lead to a slight decline, followed by slight growth in 2014 in the amount of 16% of GDP in the Czech Republic and 1.4% in the EU as a whole, which may also give a boost to the automobile industry and subsequent revenues.

The automobile industry, with just under 150,000 employees, is now approximately at the level it was at in 2007, when it was not yet apparent that at subsequent decline would occur not only in that sub-sector or that there would be an economic crisis. Between 2008 and 2009, the number of employees in the automobile industry in the Czech Republic fell by nearly 15%, which represented more than 20,000 employees. Since then, the number of employees in the industry has been rising gradually, as the market has recovered.

A certain momentary problem in the automobile industry is shown by the reduction in the number of employees in the last two quarters in 2012. However, this decline is not expected to be long-term, and if the already mentioned economic recovery occurs, the situation on the job market within the automobile industry will calm down, and the number of employees in that sector could grow again.

## IMPORTANCE OF AUTOMOBILE INDUSTRY IN EU

In terms of the automobile industry's share of overall employment in the EU, the Czech Republic was in first place in 2011, followed by Slovakia and Hungary. In the EU, the number of employees in the automobile industry has been declining and is approximately 2.3 million people. In absolute expression, we are exceeded by Germany, Italy and France. It will be difficult for us to compete with Germany, which has more than 800,000 employees in the automobile industry. However, the trend in the development

of their number in Germany is the opposite compared to the Czech Republic. Gone are the days when the sector of motor vehicle (except motorcycles) and trailer and semi-trailer production in Germany employed more than 900,000 people.

However, the situation is even worse in France. While in 2000 over 220,000 people were employed in the automobile industry, in 2010 the number was 60,000 fewer employees. A slight decline was also registered in Italy, when in ten



## Main topic

years employment in the automobile industry fell by approximately 10%.

It can generally be stated that the decline in employment in the past ten years has occurred mainly in western countries, and growth has occurred in the east, depending on how production has moved. One of the highest increases in the number of automobile industry employees was recorded in Slovakia, where in 2000 approximately 20,000 people were employed in the automobile industry, compared to just under 60,000 in 2011, nearly triple the number in 2000.

### Member states according to the number of produced vehicles

Among motor vehicle production in the entire EU over the past 10 years we can observe a relatively dynamic development. The most motor vehicles were produced in the EU between 2006 and 2007 (19.725 million motor vehicles of all categories in 2007, including 17,104 million

personal vehicles). In subsequent years as a result of the global economic crisis a sharp decline in production in the automobile industry occurred. In 2008 there was a year-to-year decline by 6.6% compared to 2007, and in 2009, which was economically the weakest year, there was a year-to-year decline in motor vehicle production by 17% compared to the previous year. Since 2010 there has been a slight stabilisation of production, but the European automobile industry has not managed to return to the values that it achieved before the crisis.

According to the most recent from the International Organisation of Motor Vehicle Manufacturers, in 2012 more than 16 million motor vehicles were produced in the EU, the overwhelming majority of which (14.6 million) were personal vehicles.

From the point of view of individual countries, the largest producer of personal vehicles was clearly Germany, which produced just under 5.5 million motor vehicles. It needs to be added that Germany is the largest, the most populous

#### Number of produced motor vehicles in member states in 2012

Country	Personal vehicles	Service vehicles	Total number of motor vehicles	Population	Motor vehicles per 1,000 inhabitants
Germany	5 388 456	260 813	5 649 269	81 843 743	69.03
France	1 682 814	284 951	1 967 765	65 327 724	30.12
Spain	1 539 680	439 499	1 979 179	46 196 276	42.84
UK	1 464 906	112 039	1 576 945	63 256 141	24.93
<b>Czech Republic</b>	<b>1 171 774</b>	<b>7 164</b>	<b>1 178 938</b>	<b>10 505 445</b>	<b>112.22</b>
Slovenia	900 000	0	900 000	5 404 322	166.53
Poland	540 000	107 803	647 803	38 538 447	16.81
Belgium	507 204	34 670	541 874	11 094 850	48.84
Italy	396 817	274 951	671 768	60 820 696	11.05
Romania	326 556	11 209	337 765	21 355 849	15.82
Hungary	215 440	2 400	217 840	9 957 731	21.88
Sweden	162 814	n/a	162 814	9 482 855	17.17
Slovenia	126 836	4 113	130 949	2 055 496	63.71
Austria	124 000	19 060	143 060	8 443 018	16.94
Portugal	115 735	47 826	163 561	10 541 840	15.52
The Netherlands	28 000	29 462	57 462	16 730 348	3.43
Finland	2 900	-	2 900	5 401 267	0.54
<b>EU-27</b>	<b>14 611 682</b>	<b>-</b>	<b>16 240 476</b>	<b>466 956 048</b>	<b>34.78</b>

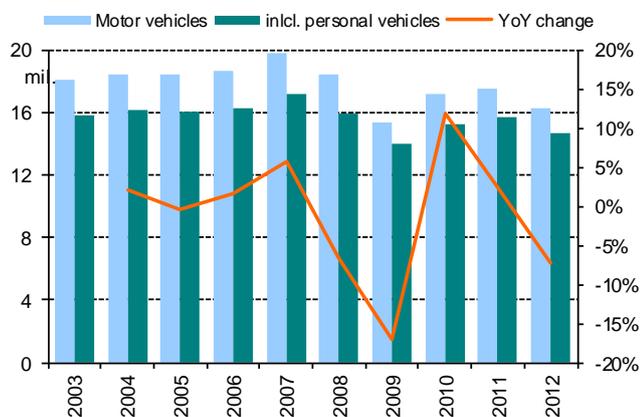
Source: International Organisation of Motor Vehicle Manufacturers; service vehicles include the category of light commercial vehicles, freight vehicles and buses, \*) the total for the EU 27 is lower than the total for individual countries, since it is stripped of double counted performance.



and the most economically developed EU state, and in Germany there are a number of production plants of various automobile manufacturers. The long-term most successful automobile manufacturers have historically included states of western and southern Europe (Germany, France, Belgium, the UK, Spain and Italy), which, however, recently have stepped on the feet of Central and Eastern European Countries (the Czech Republic, Poland and Slovakia).

In 2012, production rapidly declined in Italy, where as a result of low sales of automobiles and cost reduction, several factories were closed. The country that ended up in fifth place was the Czech Republic, which can boast of over 1 million produced personal vehicles, and per 1,000 inhabitants in the particular year produced the most motor vehicles after Slovakia (112.22). In the category of service vehicles, the largest manufacturer in 2012 was Spain, where there are large Nissan production plants in Barcelona and Ávila, where most of the service vehicles produced in Spain originate.

#### Development of the number of produced vehicles in the EU 27



Source International Organization of Motor Vehicle Manufacturers

It is apparent from the specified statistics that the trend of recent years has been a shift of motor vehicle production from western Europe towards the east. This trend is most apparent with personal vehicles. While in 2003, the main producers were developed western and southern states, in 2012 there was an apparent radical shift of production to Eastern Europe. The most drastic change is visible with Romania, where there was a 331.3% growth in production in 2012 compared to 2003. Within a couple of years, there was a huge growth in production also in Slovakia and the Czech Republic.

Currently, three times more personal vehicles are produced in Slovakia and in the Czech Republic 2.5 times more vehicles than ten years ago. Contrastingly, production in wealthier western states and in southern states in recent years has been declining rapidly, car factories there have been closing and relocated to Eastern European countries with cheaper labour. The largest decline in production occurred during recent years in Finland (by 84.9%) and the Netherlands (by 82.8%), which, however, already ten years ago produced low numbers of vehicles. Of the automobile powerhouses, Italy suffered the greatest decline in production (-61.3%), followed by France (-47.7%).

#### Member states according to the number of registered vehicles

As far as statistics regarding the number of registered vehicles in EU countries are concerned, according to data from Eurostat valid as of 31 December 2011, the country with the largest number of registered vehicles per 1,000 inhabitants is Luxembourg. This can be attributed to the fact that Luxembourg is a rich country with few inhabitants, where citizens of neighbouring countries such as Belgium, France and Germany often also work and use their registered service vehicles in Luxembourg.

A large number of vehicles per 1,000 inhabitants are also registered in southern and western EU states. It is apparent that on average every other citizen has a registered vehicle. Eastern European countries have far fewer registered vehicles compared to Europe as a whole. The fewest vehicles per 1,000 inhabitants are registered in Romania, where as of 31 December 2010 there were a mere 202 vehicles per 1,000 inhabitants. Romania is one of the poorest countries in the EU, and therefore these statistics are not at all surprising. In the Czech Republic as of 31 December 2010 (newer statistics are not available), there were 429 registered vehicles per 1,000 inhabitants.

If we take into consideration only the number of registered vehicles, the most are in Germany, as the country with the largest population and a wealthy country. There is also a relatively large number of registrations in Italy, where 37,113 vehicles have been registered, which amounts to 612 vehicles per 1,000 inhabitants. Somewhat of a paradox is the fact that in recent years there has been a sharp decline in production in Italy, although the country truly has many registered vehicles.

Something else that is certainly interesting is a comparison of individual countries within the share of registered vehicles that are more than 10 years old. The largest share of registered older vehicles as of 31 December 2011 was in Lithuania



# Main topic

(85.7%). Poland and Latvia also have a large share of older vehicles. Even in the Czech Republic, there is not a higher share of new vehicles, but 60% of the registered vehicles are more than 10 years old. Contrastingly, the newest vehicles are driven in Luxembourg, where there is a large concentration of wealthy inhabitants, and vehicles more than 10 years old make up a mere 19.2% of the total number of registered personal vehicles. Three quarters of the vehicles in the UK and Belgium are also less than 10 years old. Therefore, it applies that the wealthier the countries, the more relatively new vehicles there are there. It can be stated generally that in poorer Central and Eastern European countries, people tend to drive older vehicles and cannot afford to buy new ones.

## Outlook of automobile market in Europe

The automobile industry in Western Europe is not currently going through a growth period, according to the prognosis from the investment bank Goldman Sachs, it can even expect a decline this year. However, in 2014 according to the forecast, the dynamics of new vehicle sales will get out of red numbers.

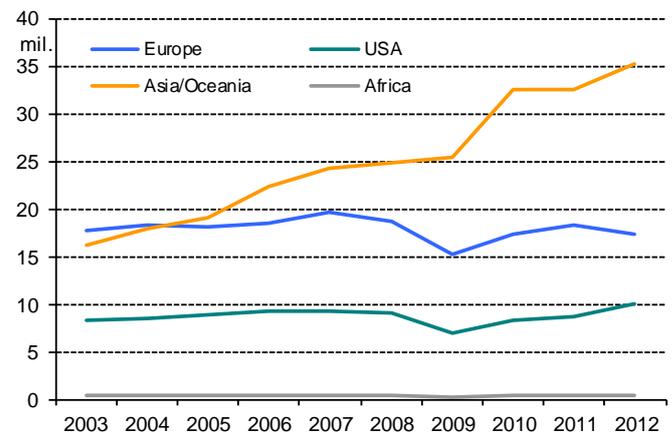
This will increase both the number of sold vehicles and the indicator in the number of vehicles per 1,000 inhabitants. This year according to the prognosis, 12.7 million new vehicles will be sold in the EU-15, Iceland, Norway and Switzerland, and that number is even expected to rise slightly in subsequent years.

## OVERVIEW OF GLOBAL AUTOMOBILE MARKET

The development of the number of produced vehicles has undergone major changes in recent years. Europe has already lost its dominant position, and Asia is replacing it at an unstoppable pace. Europe began losing its dominant position in 2005, and since then Asia's advance has accelerated (in our case also with Oceania). In both Europe and America, there was an apparent decline in production during the years of the economic crisis, which also had a major effect on the automobile industry.

The decline in production in 2009 compared to 2008 in Europe and America amounted to more than 5 million fewer personal vehicles. Europe still has not reached its pre-crisis levels, especially since in 2012 it registered a further decline in the number of produced vehicles. However, Asia and Oceania already produced half of the approximately 60 million personal vehicles produced in 2012 and are leaving other regions far behind.

Global production of personal vehicles



Source: International Organization of Motor Vehicle Manufacturers

## CONCLUSION

The automobile industry is still maintaining its important position both in the Czech Republic and in the whole European Union. The developing growth in the sector was hit by the economic crisis, which had a harsh effect both on Europe and on the markets for European vehicles with a resulting decline in sales and revenues in the automobile industry.

The economic crisis also led to lay-offs and labour downsizing in this industry. However, not all EU member states have managed to return to their positions before the economic crisis, and it is apparent from the most recent statistical data that automobile production is being shifted

from traditional western countries (France, Italy) to eastern EU countries as well as to Asia, where, for example, China and India have ideal conditions both for growth in the number of produced vehicles and in the number of sold vehicles.

Undoubtedly, a new impulse for the automobile industry is and shall remain new technology, along with the transition from traditional fuels to alternative sources, whether these involve electric vehicles, hybrids or other designs. However, the largest impulse for the automobile industry may be the long awaited economic recovery, which according to numerous prognoses could occur next year.

The Guide to Doing Business Section is part of the advisory programme "Foreign Business Guide", 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](http://www.csas.cz/eu). In this issue we present Spain.



## SPAIN

Official name	The Kingdom of Spain
Population	46 196 276
Area	505 370 km <sup>2</sup>
Currency	Euro (EUR)
Ethnic groups	73 % Spanish; 18 % Catalan people; 2,5 % Basque people

Source: CIA World Factbook

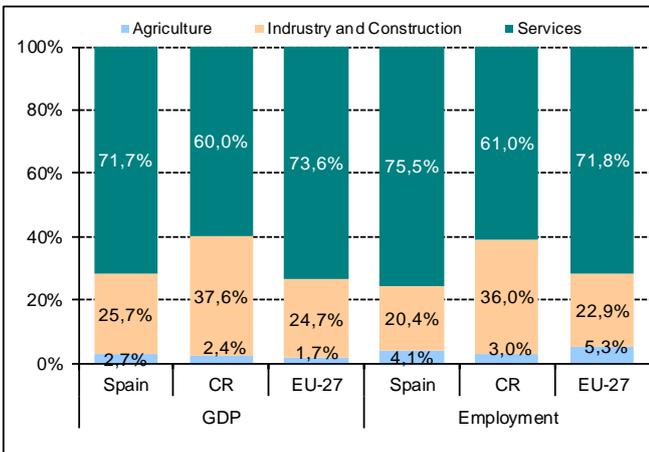
Spain reached its height as a global superpower in the 16th and 17th centuries. Following the destructive 1936-1939 civil war, authoritarian general Franco assumed power, and the country did not become a democracy until 1975. In 1982 it joined NATO, and 4 years later it entered the EEC.

Based on its 1978 constitution, the Kingdom of Spain is a constitutional monarchy with a large degree of decentralisation. Besides its national parliament, the country has 19 other autonomous parliaments with various degrees of authority. Spain's monarch is King Juan Carlos I. In the 2011 elections, the centre-right People's Party led by the current prime minister Mariano Rajoy won a majority.

### Structure of economy and foreign trade

Spanish industry, whose share of GDP is 12% lower than in the Czech Republic, is focused particularly on production of textiles, shoes and food. The country's relatively large agricultural sector by European standards is focused on production of grain, vegetables, olives and wine grapes. Meat production is focused on raising of cattle and swine.

#### Sectors of the National Economy - Spain (CR and EU)



Source: Eurostat, data as of 2010 (GDP) and 2011 (Employment)

Spain particularly exports motor vehicles and food and imports products such as machinery, fuel and chemicals. It mainly trades with large western European countries: France (18% of exports and 12% of imports), Germany (11% of exports and 13% of imports) and Italy (8% of exports and 7% of imports).

### Macroeconomic outlook

The Spanish economy was hit very hard during the 2009 crisis, and since 2011 Spain has been in a recession again. The main reason is the banking crisis, which was caused by a large number of loss-making loans after the price bubble on the real estate market burst. Average real estate prices in 2012 fell by 36% compared to 2007, and the crisis is also clearly reflected by the country's high unemployment level (25%). Therefore, it is no wonder that Spain is another country, which for its banks received a loan of up to 100 billion euros from the ESM rescue fund.

This year, Spanish GDP is expected to fall year-to-year by 1.4%. The cause of this will be reduced domestic demand, the consolidation of public finances and stricter conditions on the credit market. The prognosis is more positive for 2014, when growth by 0.8% is expected.

Basic indicators	2011	2012	2013 <sup>e</sup>	2014 <sup>e</sup>
GDP Growth (%)	0.4	-1.4	-1.4	0.8
Unemployment rate (%)	21.7	25.0	26.9	26.6
Inflation (%)	3.1	2.4	1.7	1.0
Government deficit (%)	-9.4	-10.2	-6.7	-7.2
Public debt (%)	69.3	88.4	95.8	101.0

Source: European Commission; <sup>e</sup> - estimate

### Labor market

Spain's unemployment level is the highest in the EU, and every fourth Spaniard is out of work. Average work productivity is 108% of the EU average (in the Czech Republic it is 60.1%). The minimum monthly salary in Spain is the equivalent of 752.85 euros, which is about 2.5 times higher than in the Czech Republic.

Compared to the Czech Republic, monthly labour costs in all selected sectors in Spain are much higher. For example, in the processing industry, Czech labour costs are 56% lower than in Spain.



# Doing business

Basic indicators of labor market		
Unemployment level (2012)	25.0 %	
Labor productivity (% to Ø EU; 2011)	108.0 %	
Minimum monthly wage (1H/2013)	752.85 EUR	
Ø monthly labor cost 2011	Spain	CR
Manufacturing	3 156 €	1 448 €
Construction	2 663 €	1 483 €
Wholesale and retail trade	3 129 €	1 494 €
Real estate activities	2 131 €	932 €
Accommodation and food services	3 984 €	2 826 €

Source: Eurostat

## Labor law basics

An employment contract can be entered into in writing or verbally, but either party may demand that it be in written form. It can be entered into for a definite or an indefinite period. An employment contract may set a probationary period lasting 6 months for qualified technicians or 2 months for other employees, and during the entire probationary period employment can be terminated at any time even without stating a reason.

If one party intends to terminate the employment relationship, that party must inform the other in advance as specified in the employment contract or collective agreement. The termination notice period is 15 days, and severance pay can be up to 12 monthly salaries.

## Commercial law basics

The most common types of companies in Spain are limited liability companies and joint-stock companies. A limited liability company (S.L/S.R.L) or a joint-stock company (S.A.) may be founded by one or more partners. The minimum required capital for a limited liability company (S.L) is 3,000 euros. For larger business projects, joint-stock companies (S.A) are used more, and their registered capital must be a minimum of 60,000 euros.

In the World Bank's collective index "Doing Business" Spain ranked in 44th place, putting it ahead of the Czech Republic

Form of Company	Minimum Capital
Limited Liability Company	3 000 EUR
New Limited Liability Company	3 000 EUR, max. 120 000 EUR
Joint Stock-Company	60 000 EUR
European company	120 000 EUR

Source: web pages of Ministry of Finance in Spain

(65). Registration of a company in Spain lasts on average more than a month and costs approximately 1,100 euros.

## Main taxes and additional labor costs

The current corporate income tax rate is 30 %. For larger companies with an annual turnover of up to 10 million euros, more progressive taxation exists with rates of 25% (up to 300,000 euros of profit) and 30%. For small businesses with up to 25 employees, the progressive tax rates are 5% lower. Individual income tax rates are also progressive, and there are even seven tax brackets. Nonetheless, a 21% withholding tax on dividends applies for non-residents.

The basic VAT rate is 21%. However, Spain also has a reduced rate of 10% (for certain food products, transport, housing, etc.) and a super-reduced rate of 4% (for basic food products, pharmaceutical products, books and periodicals). Spain's social security system is relatively costly for employers, who pay 30-32 % of their employees' gross earnings into it. Employees contribute 6.35 % of their gross earnings to social security.

Tax/payment	Rate
Corporate Tax	30 %
Dividend tax for non-residents	21 %
Individual Income Tax (progressive)	24.75-52 %
VAT (basic / 1. lower / 2. lower rate)	21/10/4 %
Social insurance – employee	6.35 %
Social insurance – employer	29.9 %

Source: web pages of Ministry of Finance in Spain

## Energy

Electricity prices have been growing in Spain since the start of 2008 and are currently at around 12 euro cents per kWh, which is almost 20% higher than in the Czech Republic. As far as natural gas prices are concerned, during the financial crisis prices fell rapidly and bottomed out in mid 2009, when they were approximately 7.5 euros per gigajoule, after which following a slight rise in 2011 they rebounded and rose to their current price of 10.5 euros per gigajoule, which is even a fifth higher than in the Czech Republic, where the price of natural gas was still more expensive two years ago.

Ø of wholesale price in 2H/2012	Spain	CR
Electric Energy (EUR/kWh)	0.1211*	0.1029
Natural Gas (EUR/GJ)	10.410	9.392

Source: Eurostat, prices excl. VAT, \* in 1H/2012



During the last two months on this page, we have focused on the history of the EU integration process, which came in five waves. In the June issue of the Monthly, we move from long ago to recent history and the present. We will focus on the sixth enlargement of the EU in 2007, when the EU was joined by Romania and Bulgaria, and the seventh enlargement, which we will focus on in July. At that time, Croatia will become the 28th EU member.

## HISTORY OF EU ENLARGEMENT III.

Romania was the first country from Central and Eastern Europe to establish official relations with the European Community, when it entered into preferential agreements enabling advantageous entry for Romania into the EU's single internal market. The country submitted its official application for EU membership on 21 June 1995, but the country's internal political situation did not enable quick commencement of pre-accession negotiations. Bulgaria began its effort to join the EC in 1991, and four years later it submitted its official application for EU accession.

Both countries' support for NATO during the Kosovo conflict helped their prospects for accession. The accession negotiations with Bulgaria and Romania were eventually completed in 2004, and 1 January 2007 was set as the date for their accession.

The period between the culmination of the accession negotiations and the accession date was unusually longer than in previous cases, since Bulgaria and Romania had to make significant efforts to fulfil conditions for entry. If either country had not been able to fulfil the set conditions, the Commission could have used a series of protective measures, including the option of postponing that country's accession by one year.

### EU enlargement in time

<b>Original members</b>	Belgium, France, Italy, Germany, The Netherlands
<b>1973</b>	Denmark, Ireland, United Kingdom
<b>1981</b>	Greece
<b>1986</b>	Portugal, Spain
<b>1995</b>	Finland, Austria, Sweden
<b>2004</b>	Czech republic, Estonia, Cyprus, Lithuania, Latvia, Hungary, Malta, Poland, Slovakia, Slovenia
<b>2007</b>	Bulgaria, Romania
<b>2013</b>	Croatia

Source: *European Commission*

One of the serious problems that Romania faced prior to joining the EU was a rise in xenophobia within social and political movements targeting ethnic Hungarians along with radicalising of the ethnic Hungarian minority protecting against the adoption of a new university bill that gave a significant advantage to the Romanian language. Another matter of concern was the situation for orphans. The EU

demanded that Romania adopt stricter legislation regarding adoption of Romanian children abroad.

The ongoing Balkan wars and the change in smuggler routes from them also had the negative effect of increasing organised crime in Bulgaria. The EU criticised the country at the time and still criticises it for insufficiently fighting human trafficking and drug trafficking, insufficiently controlling its borders and the involvement of the political elite in illegal trade. Non-fulfilment of set entry conditions by Bulgaria led to a halt to financing of the country from European funds, specifically involving the freezing of 50 million euros from pre-accession aid from the PHARE programme.

Both of the newest admitted countries have the same intention regarding adopting the euro. Bulgaria and Romania both want to join the Eurozone as soon as possible, but the economic reality is somewhat putting the brakes on that plan. With respect to convergence criteria, Romania has problems with inflation and high interest rates. Bulgaria is suffering the same problems and is even in a dispute with the European Central Bank about how the word "euro" should be written in Bulgaria.

Croatia's path to the EU was opened 10 years ago at the European Council's summit in Thessaloniki, which resulted in a declaration regarding the possible enlargement of the EU to the western Balkans, provided that the candidate countries fulfilled the Copenhagen criteria. In 2004, Croatia became an official candidate country, but along with that status several conditions and obligations were imposed on it related to law and environmental policy. During that same year, it was announced that accession talks with Croatia would begin in the spring of 2005, assuming that the country agreed on complete cooperation with the International Criminal Tribunal for the former Yugoslavia in the Hague.

However, since the candidate country did not satisfy that requirement, accession talks were ended in 2005, with it stated that they could be restarted if the requirement was fulfilled. In October of that same year, the situation change, and the EU decided that Croatia already satisfied all of the requirements, and the negotiations regarding the country's accession resumed. The result of those negotiations is already known today - Croatia will become the second former Yugoslav republic to join the EU when it becomes the EU's 28th member in July 2013.

This concludes our excursion into the history of European integration. However, we may return to it in future issues of our Monthly and focus on attempts by countries such as Turkey and Iceland to join the EU.



# Statistical Window

The statistical window displays the important macroeconomic indicators of all 27 EU member states. It includes comparable data from the labour market (the unemployment level, the average gross salary compared to the EU average, work productivity compared to the Czech Republic) as well as price characteristics (year-to-year inflation based on the HICP index, average mortgage interest rates and electricity prices compared to the EU average for 1000-2500 kWh). For a comparison, the same indicators for the entire EU are shown in the table. The sources of the data are Eurostat and the EBC.

## Key microeconomic indicators

in %	Inflation (YoY)				Unemployment rate				Average wages to Ø EU			
	I-13	II-13	III-13	IV-13	Q2-12	Q3-12	Q4-12	Q1-13	2008	2009	2010	2011
Belgium	1.5	1.4	1.3	1.1	7.6	7.7	8.0	8.2	135.1	138.1	134.3	128.9
Bulgaria	2.6	2.2	1.6	0.9	12.3	12.4	12.5	12.4	11.1	12.7	12.6	13.1
CR	1.8	1.8	1.5	1.7	6.9	7.0	7.2	7.2	36.3	35.9	36.8	35.6
Denmark	1.0	1.0	0.7	0.4	7.9	7.4	7.3	7.1	160.0	166.1	163.5	155.0
Germany	1.9	1.8	1.8	1.1	5.5	5.4	5.4	5.4	137.5	138.5	137.3	132.2
Estonia	3.7	4.0	3.8	3.4	10.0	10.0	9.8	n/a	33.4	32.0	31.0	29.9
Ireland	1.5	1.2	0.6	0.5	14.9	14.8	14.2	13.7	108.1	107.1	104.6	99.0
Greece	0.0	0.1	-0.2	-0.6	23.9	25.4	26.1	n/a	55.5	62.5	66.2	47.4
Spain	2.8	2.9	2.6	1.5	24.7	25.5	26.1	26.5	77.2	81.4	80.2	76.1
France	1.4	1.2	1.1	0.8	10.2	10.3	10.5	10.9	111.5	115.0	112.8	108.1
Italy	2.4	2.0	1.8	1.3	10.6	10.8	11.4	11.9	89.1	92.4	91.4	87.5
Cyprus	2.0	1.8	1.3	0.1	11.4	12.3	13.3	14.1	n/a	n/a	n/a	n/a
Latvia	0.6	0.3	0.3	-0.4	15.3	14.4	13.8	12.4	26.9	27.9	26.6	25.8
Lithuania	2.7	2.3	1.6	1.4	13.3	13.0	13.2	12.5	24.6	23.2	21.9	21.0
Luxembourg	2.1	2.4	2.0	1.7	5.1	5.1	5.2	5.5	156.2	162.3	159.7	150.4
Hungary	2.8	2.9	2.3	1.8	11.0	10.7	10.9	n/a	30.8	29.3	29.5	28.3
Malta	2.4	1.8	1.4	0.9	6.6	6.3	6.5	6.6	55.7	57.7	58.1	59.4
Netherlands	3.2	3.2	3.2	2.8	5.2	5.3	5.6	6.2	143.3	149.6	146.4	138.4
Austria	2.8	2.6	2.4	2.1	4.3	4.5	4.6	n/a	123.7	127.5	124.6	118.4
Poland	1.6	1.2	1.0	0.8	10.0	10.2	10.4	10.6	31.9	27.2	29.3	28.2
Portugal	0.4	0.2	0.7	0.4	15.6	16.1	17.0	17.7	55.4	57.7	56.2	53.0
Romania	5.1	4.8	4.4	4.4	7.1	7.0	6.7	7.1	18.1	16.8	18.0	18.0
Slovenia	2.8	2.9	2.2	1.6	8.5	9.4	9.4	9.8	52.4	54.2	54.8	51.5
Slovakia	2.5	2.2	1.9	1.7	13.9	14.0	14.4	14.5	28.2	30.5	30.2	29.1
Finland	2.6	2.5	2.5	2.4	7.7	7.8	7.9	8.1	124.1	129.5	129.4	125.0
Sweden	0.7	0.5	0.5	0.0	7.8	8.0	8.1	8.2	121.7	114.9	125.0	125.4
UK	2.7	2.8	2.8	n/a	7.9	7.8	7.7	n/a	139.2	126.3	129.4	119.1
EU	2.1	2.0	1.9	1.4	10.4	10.5	10.7	10.9	100.0	100.0	100.0	100.0

in %	Productivity to Ø CR				Average interest rate on mortgages				Price electricity to Ø EU			
	2008	2009	2010	2011	2009	2010	2011	1H-12	2010	2011	1H-12	2H-12
Belgium	251.3	264.5	259.3	257.3	n/a	n/a	n/a	n/a	120.5	121.8	115.1	115.7
Bulgaria	30.5	33.0	33.7	36.4	10.9	9.7	8.8	8.5	45.1	43.4	42.1	45.2
CR	100.0	100.0	100.0	100.0	5.8	5.2	4.5	4.1	118.5	118.7	114.8	110.4
Denmark	267.2	277.2	282.8	279.6	4.4	3.7	4.0	3.5	163.9	167.2	163.7	155.7
Germany	202.2	207.1	204.4	202.7	4.3	3.8	4.0	3.4	145.6	142.8	140.7	139.0
Estonia	81.2	80.9	83.0	83.9	4.3	3.9	3.7	3.3	55.0	52.9	55.5	54.3
Ireland	280.5	294.0	281.3	282.4	3.1	3.1	3.5	3.2	117.8	125.0	129.5	132.4
Greece	157.8	168.1	156.6	150.8	4.1	3.8	4.7	4.0	57.0	56.4	61.0	60.8
Spain	173.3	190.8	184.9	184.3	3.4	2.6	3.5	3.6	111.3	116.1	120.0	119.5
France	232.3	246.3	236.7	235.0	5.0	4.3	4.4	4.6	82.4	81.5	77.6	78.3
Italy	207.1	217.2	211.0	207.1	3.8	2.8	3.6	4.4	88.9	86.6	91.8	95.7
Cyprus	142.8	150.6	146.8	146.2	5.9	4.6	5.3	5.6	105.7	114.6	137.8	137.6
Latvia	66.7	66.0	63.5	75.2	22.0	21.3	22.2	22.2	57.4	60.9	64.8	57.9
Lithuania	70.1	66.2	68.2	72.2	9.9	6.0	4.2	3.7	66.3	65.0	63.8	61.3
Luxembourg	573.5	582.9	599.8	604.5	n/a	n/a	n/a	n/a	105.1	95.5	93.3	90.0
Hungary	89.6	85.0	84.8	84.2	14.6	10.5	10.5	12.2	93.9	87.2	80.5	78.0
Malta	122.0	130.7	128.3	125.4	3.8	3.7	3.6	3.6	109.6	102.9	99.0	95.0
Netherlands	227.8	236.1	229.9	226.1	4.9	4.6	4.6	4.4	52.7	54.9	57.2	54.4
Austria	n/a	n/a	n/a	n/a	4.0	3.1	3.4	3.4	117.4	113.5	109.9	107.1
Poland	75.7	68.9	73.8	73.7	8.0	7.1	7.0	8.9	80.1	78.0	74.5	74.8
Portugal	109.0	117.3	115.3	112.6	3.4	3.4	4.8	5.1	100.4	102.3	110.7	108.3
Romania	47.6	43.7	43.5	45.1	12.6	11.7	9.5	7.7	57.4	56.6	53.6	52.4
Slovenia	123.0	127.1	122.6	122.2	4.4	3.5	4.0	3.9	92.4	86.9	86.5	84.1
Slovakia	87.2	93.4	94.4	94.5	6.2	5.6	5.2	5.4	97.4	97.9	96.4	92.8
Finland	239.6	243.8	239.2	242.4	2.6	2.1	2.6	2.3	93.8	100.5	96.6	93.7
Sweden	240.4	230.0	257.8	270.3	2.1	2.4	3.9	3.7	112.6	116.0	109.5	107.6
UK	202.4	191.1	195.6	192.5	n/a	n/a	n/a	n/a	83.6	83.9	90.2	93.3
EU	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100.0	100.0	100.0	100.0

Source: Eurostat, <sup>\*)</sup> net balance, GDP per capita according to PPP

This publication is considered a supplementary source of information provided to our clients. The information in the publication should be seen as irrefutable or unalterable. The publication is based on the best sources of information available at time of publication that are generally considered reliable and correct. Česká spořitelna, a.s., its branches and employees cannot, however, guarantee this. The authors assume that anyone potentially using any information found in this publication will cite their sources.

Some of the pictures used in the report were taken from Audiovisual Library of the European Commission.