



EU News

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Dear readers,

September is traditionally a month when after the summer holidays not only do children return to school, but EU bureaucrats also return to their offices. And our Monthly, super-charged with news, is evidence of the fact that they have fully gotten back to work.

We begin with the European Commission President's State of the Union speech given in the European Parliament. This regular speech, which was first given in 2010, is not yet as well known and familiar to the public as a similar State of the Union speech given by the President of the United States, but it still has brought interesting information. José Manuel Barroso correctly pointed out that even despite progress in managing the economic crisis in the EU and the Eurozone, the battle is not yet won. It is not enough simply to rely on the ECB, but it is also necessary to finish key systematic steps. Barroso emphasises a lot the importance of completing the Banking Union. However, his speech was missing greater emphasis on fiscal responsibility and labour market flexibility. In a situation when the majority of member states are more in debt than ever in their history and are suffering double-digit unemployment, outlooks for solving the debt and economic crisis do not appear very rosy.

Although sometimes complaints are voiced that the European Union is run "by unelected bureaucrats from Brussels", soon this often repeated myth will be disproved again. The main helm will again be taken – boosted by historic success in the German elections – by an elected female representative of the largest European economy. Although the negotiations regarding a new governing coalition in Germany are not yet finished, it appears very likely that Angela Merkel will remain chancellor. What will this bring to Europe, and how will the debt crisis be further solved? You can read about this in the Microscope section on page 7.

Although Europe is still dealing with a debt crisis, which in certain states has taken the form of excessive indebtedness of the public coffers and elsewhere indebtedness of private banks, the increasingly difficult position of European countries in global economic competition also has its causes. The European Commission is correctly named in public reports regarding the position of innovations, science, research and competitiveness of European industry. You can read more about how to boost competitiveness in international markets and how to use for it European science, research and innovations in the Commission's Column on page 5.

Sparrows on almost every roof in Europe have been tweeting about the fact that the European Union's most painful sore is high unemployment. We examine how serious this problem is in the main topic of the Monthly, beginning on page 8. The reading is interesting, but quite pessimistic. As a taste, I will offer some statistics: in 17 states from the EU-28, at least every tenth person is jobless, and in Spain and Greece every fourth person is out of work.

Other contributions will not fit into the Editorial, but they are also very interesting. May you have the same opinion after reading this Monthly!

Jan Jedlička



European Commission President José Manuel Barroso has given his annual speech regarding the State of the Union in the European Parliament. MEPs have approved the single supervision over Eurozone Banks, which is one of the pillars of the Banking Union. The EC has issued a report regarding the competitiveness of European industry. At present the European processing industry makes up 15.2% of GDP. The EU is already considering how to set climate and energy goals for the next decade following 2020. The Czech Republic is only a supporter of one goal, and that is reduction of CO₂ emissions.

POLITICS

Barroso's State of the Union speech: We all must work together to build a better Union

European Commission President José Manuel Barroso in his **State of the Union speech** given in the European Parliament in Strasbourg on 11 September, pointed out that Europe had managed the economic crisis well, but he said the battle had not yet been won. Barroso added that in order for Europe to continue to cope with the crisis successfully, **the Banking Union** would need to be completed.

The first step towards creating the Banking Union was already taken by MEPs at their plenary session, when they approved **the creation of joint bank supervision**, which is one of the pillars of Banking Union. Barroso also said the EU must remember the competitiveness of its industry and work on completing the internal market, particularly in the telecommunications sector.

The Commission President also said that before the EU elections, the EU must be united. European Institutions **should cooperate**, since the Union's future would be formed by everyone together, he added. He said internal solidarity within the EU would also depend on the **EU's strength on the international stage**.

He went on to say that the main priorities of the EU elections should be **the fight against unemployment and boosting economic growth**. Barroso also cited the pressure currently being applied to states that want to integrate with the EU. He had in mind in particular Ukraine, and he indirectly cited Russia's efforts to prevent that country from signing an association treaty with the EU.

http://europa.eu/rapid/press-release_SPEECH-13-684_en.htm

ECONOMY AND EURO

MEPs approve joint supervision over Eurozone banks

An overwhelming majority of MEPs at the September plenary session of the European Parliament voted in favour of **creating a single supervision mechanism**, which is expected to become one of the pillars of the Banking Union.

The new supervisory body will be created within the European Central Bank (ECB), which will directly watch over approximately 150-200 banks, whose **assets exceed 30 billion euros** or represent more than a fifth of a country's economic output. The ECB will take over the new function

as of next year. It will not supervise Czech banks. Its supervision will be mandatory for countries using the euro, but at the MEPs' **request non-members are expected to participate in the decision process as equal partners**. EU bodies hope that deeper integration of Eurozone countries could help avoid additional economic crises.

The Parliament and the ECB Board will have the authority to approve the chairperson and vice-chairperson of the new supervisory body and request their removal. Under the new agreement, **the ECB Board will have to inform the head of the EP** and the head of the relevant parliamentary commission if it wants to reject a decision by the newly formed supervisory body.

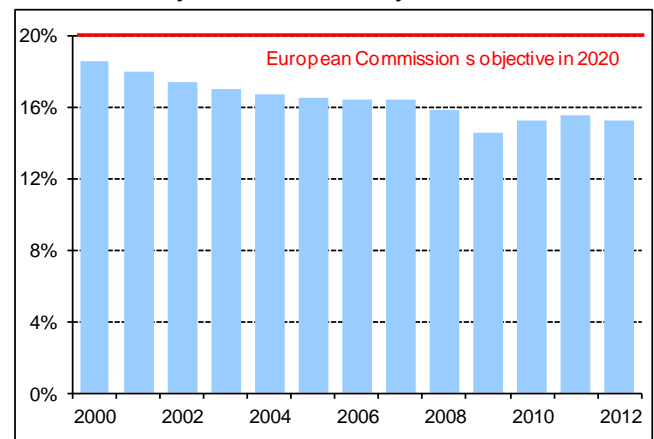
http://europa.eu/rapid/press-release_MEMO-13-780_en.htm

FOREIGN TRADE

Commission: "Industrial Compact" will help EU economy

According to a current report from the European Commission focused on the **competitiveness of the processing industry**, its share of European industry has fallen from 15.8% before the crisis to 15.2% of European GDP in 2013. So far it does not appear that the EU would be able to meet its informal goal that it has set for itself to achieve by 2020 for the processing industry to make of 20% of GDP.

Share of industry in the EU-28 economy



Source: Eurostat

The Commission says the **"Industrial Compact"** could become the solution. The European Commissioner for Industry and Entrepreneurship Antonio Tajani says the EU could find inspiration in the fiscal compact, which European countries' leaders signed in March 2012.



Events

He says EU states should focus on reducing energy prices, providing easier **access to credit, encouraging investments and reducing administrative burdens**. He adds that it is also necessary to cope with a lack of professional skills among workers. The Commission is expected to introduce the new initiative in the autumn, and next February it is expected to be discussed at the EU summit. More information regarding the topic of **competitiveness of European industry** can be found in the "Commission's Column" section on page 5.

[http://europa.eu/rapid/press-release MEMO-13-815_en.htm](http://europa.eu/rapid/press-release_MEMO-13-815_en.htm)

ENERGY AND TRANSPORT

Climate-energy obligations for 2030: The Czech Republic is a supporter of one goal

Several more years are left for the EU to fulfil climate and **energy obligations by 2020**, for which three goals apply within the Europe 2020 Strategy:

- 20% reduction of CO2 emissions;
- achieving a 20% percent share of renewable resources in electricity production;
- increasing energy efficiency by 20%.

The European Union is already now considering how to set climate and energy goals for the next decade following 2020. Will there only be one, or three? And will they be legally binding?

The Czech Republic is among the countries that believes that there should only be one goal by 2030: **reduction of CO₂ emissions**. This is the only potential obligation on whose creation all member states agree, **except Poland**.

Like to the UK, the Czech Republic does not support setting a goal for a **share of renewable resources in power generation**. The Czech Republic is not in favour of creating a goal for energy efficiency either.

<http://www.cebre.cz/cz/novinky/novinka-743/>

INFORMATION SOCIETY

Commission approves telecommunication market reform

The European Commission has approved **a draft reform of the telecommunications market** presented by the European Commissioner for the digital agenda, Neelie Kroes. MEPs and EU member states will soon begin negotiating regarding the package. The main aim of the

plan is for Europe to sprint to the top of the global ladder of digital technology.

Main points of plan

| | |
|---|--|
| Cancellation of roaming fees for incoming calls in Europe | Fees for incoming foreign calls are to be prohibited as of 1 July 2014 . Companies can either offer customers tariffs valid in the entire EU or enable them to select another operator for their roaming services . Companies in the future also would not be allowed to bill for a call within the EU more than for a regular long-distance call . Calls from a mobile phone within the EU would not be allowed to cost more than 19 euro cents per minute. |
| Simpler rules (principle of single European passport) | Telecommunications services would need only one permit for providing services in all 28 member states, instead of 28 individual permits as they due now. |
| Pan-European protection of net neutrality | Commission wants to ban blocking and limiting of internet content. |

Source: European Commission

<https://ec.europa.eu/digital-agenda/en/news/communication-commission-european-parliament-council-european-economic-and-social-committee-a-0>

COHESION POLICY

MEPs reject lengthier period for drawing from EU funds

The situation surrounding drawing from EU funds is not going for the Czech Republic as the country imagined it would. According to current data from the Ministry for Regional Development, in the Czech Republic nearly 45,000 projects have been **approved for nearly CZK 695 billion**. Recipients were paid **57.4% of the allocation**, while only **34.7 of money came from the European Commission** (certified expenditures).

Czech MEP Oldřich Vlasák (ECR), who is also a vice chairman of the European Parliament, has introduced in the

The European Commission has approved a draft reform of the telecommunications market presented by the European Commissioner for the digital agenda, Neelie Kroes. MEPS have rejected a longer period for drawing of money from EU funds for countries that have not succeeded in drawing money. The exceptionally prolonged period applies only to Slovakia and Romania.

Riskiest operational programmes in the Czech Republic

Several operational programmes are currently plagued by a high risk that the assigned allocation will not be managed to be drawn for the programmes **by the end of the 2007-2013 programme period**. These are the Environment OP, the Education for Competitiveness OP, the Integrated OP, the Technical assistance OP and two regional operational programmes - ROP Northwest and newly also ROP Central Bohemia. Moreover, for the last mentioned programme, **there is a risk that due to a high error rate the Commission may halt it entirely**. A medium risk of loss of resources is currently being coped with for the Transport OP, the HR and Employment OP, the Business and Innovation OP and the Research and Development for Innovation OP.

EP a legislative proposal for extending the period of time allowed for drawing of the national allocation from EU funds by one year. The original proposal for relaxation of n+2 and n+3 rules called for inclusion of only Slovakia and Romania. Vlasák's new initiative includes other states, which like the Czech Republic for various reasons are not managing to draw EU money successfully.

However, MEPs in the committee for regional development swept the proposal from the table at the end of September. So the exception will continue to apply only for Slovakia and Romania.

Disbursement of grants from ROP Northwest to resume in early October

Recipients of grants in the Karlovy Vary and Ústí regions will see disbursement of financial resources from the Regional Operational Programme Northwest (ROP Northwest) at the beginning of October.

Nonetheless, the CR still has **other options for mitigating the anticipated loss of EU money**, a threat that it really faces. One of the possible variants is reallocation within individual OP's. According to outgoing Czech Minister for Regional Development František Lukl, it is possible that resources may be transferred from the Technical Assistance OP to the ROP Moravia-Silesia and the Prague Competitiveness OP and from the Environment Op to the Transport OP. The ministry has even called for **internal reallocations** among priority axes within individual OP's.

<http://www.nuts2severozapad.cz/rop-sz-obnoveni-proplaceni-dotaci-se-blizi-2>

Status of drawing of grants from EU funds in the Czech Republic

| Operational programme | Total allocation in billions of CZK | Signed grant agreement (issued decision) | | Certified expenditures submitted to the European Commission | |
|-----------------------|-------------------------------------|--|-----------------|---|-----------------|
| | | billions of CZK | % of allocation | billions of CZK | % of allocation |
| OP D | 174 108.2 | 189 038.3 | 108.6 | 80 040.0 | 46.0 |
| OP ŽP | 147 770.8 | 67 034.5 | 45.4 | 36 378.7 | 24.6 |
| OP PI | 93 504.0 | 89 807.2 | 96.0 | 29 633.1 | 31.7 |
| OP LZZ | 56 751.0 | 55 470.4 | 97.7 | 21 500.8 | 37.9 |
| OP VaVpl | 62 373.3 | 57 222.3 | 91.7 | 11 883.2 | 19.1 |
| IOP | 48 584.0 | 40 509.6 | 83.4 | 12 098.5 | 24.9 |
| OP VK | 53 096.2 | 50 080.6 | 94.3 | 15 757.0 | 29.7 |
| OP TP | 5 843.1 | 4 343.2 | 74.3 | 1 716.7 | 29.4 |
| ROP SZ | 22 734.7 | 17 915.6 | 78.8 | 5 338.5 | 23.5 |
| ROP MS | 21 880.8 | 19 738.9 | 90.2 | 9 063.1 | 41.4 |
| ROP JV | 21 560.2 | 21 411.2 | 99.3 | 12 503.1 | 58.0 |
| ROP SM | 20 178.4 | 16 084.0 | 79.7 | 10 302.9 | 51.1 |
| ROP SV | 20 071.1 | 20 847.0 | 103.9 | 9 082.3 | 45.3 |
| ROP JZ | 18 992.9 | 19 215.7 | 101.2 | 10 358.0 | 54.5 |
| ROP SČ | 17 087.1 | 17 125.4 | 100.2 | 5 471.3 | 32.0 |
| OP PK | 7 198.9 | 6 167.2 | 85.7 | 3 044.3 | 42.3 |
| OP PA | 3 426.4 | 2 889.6 | 84.3 | 1 534.2 | 44.8 |
| NSRF | 795 161.1 | 694 900.9 | 87.4 | 275 705.8 | 34.7 |

Source: Ministry of regional development CZ

The European Commission Representation in the Czech Republic has been adding regularly to the Monthly with contributions in the Commission's Column section. This month's issue is focused on innovation and competitiveness of industry in the European Union. The European Commission recently published reports regarding innovations, science, research and the competitiveness of European industry. You can read about how the European Union is doing in other areas in the following article.



INNOVATION AND COMPETITIVENESS OF INDUSTRY IN THE EUROPEAN UNION

Recently the European Commission published several reports focused on development of innovations, science and research in the EU and the competitiveness of European industry. These documents offer an interesting view of the post-crisis situation in the key sectors of the European economy whose future prospects are currently estimated with very cautious optimism.

The reports analyse progress in the areas of innovation, such as to what extent ideas from innovative sectors are capable of achieving market deployment, creating better jobs as well as increasing the EU's competitiveness.

Each state's innovative potential is formed by various parameters, such as the number of patents, the share of employment in knowledge-intensive fields and competitiveness of goods and services requiring a high level of skill. It's not surprising that in the light of these indicators, the Czech Republic is in the second third, below the EU average. The European Commission identified Sweden as the most innovative Member State.

The insufficient level of investments into science and research and unsatisfactory situation with regard to innovations, are highlighted in another recent report from the European Commission, – [an analysis of the European Research Area](#) as the single market in relation to science and research is called. Following its completion, the ERA should facilitate mobility, competition and international cooperation of research workers and research institutions and companies.

The Commission's report also points to several shortcomings, which so far prevent the full completion of the ERA planned for 2014. Besides insufficient public expenditures for science, other problems include non-transparent recruitment of researchers, insufficient exchanges of information and lack of preparedness among scientists for industrial practice.

The connection to industry is key for innovation. In the private sector, up to 80% of all innovations originate from it. Currently, however, limited investments into innovations are one of the weaknesses of European industry, as shown by two other reports from the European Commission from the end of September, devoted to the competitiveness of this sector.

Other weak spots include high energy prices, limited access to financing as well as slow effectiveness of public administration bodies. The result is declining productivity and high unemployment.



Both reports also include positive indicators: the main driver of the industrial activity has been exports. In this area, the EU has performed better than the United States of America and Japan. In 2012, the EU achieved a trade balance surplus of 365 billion EUR. Innovative performance also rose, and most Member States improved their business environments. Skills among the labour force also improved in most Member States.


The report ranked the Czech Republic among moderate innovators, in which investments into research and development have grown. The relatively good performance of the research and innovation system was to a significant extent fueled by strong production sectors focused on innovative industries, such as motor vehicles and electronics.

Nevertheless, investments into research and development have been facing a lot of challenges in the Czech Republic. It is particularly desirable to improve the quality of the education system, cooperation between research institutions and businesses and effective management of the research system.

The Commission's report was not limited to research and development. It also identified other areas that significantly limit the competitiveness of Czech industry.

Matters related to public administration, such as effective implementation of an anti-corruption strategy and well functioning public servants act, are mentioned as the major challenges. Other problematic areas include sustainability of industry and improvement of the quality of education and skills.

The full text of the report on competitiveness of European and Czech industry is available here: http://ec.europa.eu/enterprise/policies/industrial-competitiveness/monitoring-member-states/index_en.htm



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/eucalendar/>;
<http://www.eu2013.lt/en/>.

Meeting of the key EU institutions

| | |
|--|---------------------------|
| 7 – 8 October 2013 | Luxembourg |
| - Justice and Home Affairs Council | |
| 10 October 2013 | Luxembourg |
| - Transport, Telecommunications & Energy Council | |
| 14 October 2013 | Luxembourg |
| - Environment Council | |
| 14 October 2013 | Luxembourg |
| - Eurogroup | |
| 15 October 2013 | Luxembourg |
| - Economic and Financial Affairs Council | |
| 15 October 2013 | Luxembourg |
| - Employment, Social Policy, Health and Consumer Affairs Council | |
| 17 October 2013 | Frankfurt, Germany |
| - Governing Council meeting of the ECB | |
| 17 – 18 October 2013 | Luxembourg |
| - Agriculture and Fisheries Council | |
| 18 October 2013 | Luxembourg |
| - Foreign Affairs Council | |
| 21 – 22 October 2013 | Strasbourg, France |
| - European Parliament Plenary | |
| 22 October 2013 | Luxembourg |
| - General Affairs Council | |
| 24 – 25 October 2013 | Strasbourg, France |
| - European Parliament Plenary | |
| 24 – 25 October 2013 | Brussels, Belgium |
| - The European Council | |

Source: www.europa.eu, <http://www.eu2013.lt/en/>, access as of September 30th 2013.

German Chancellor Angela Merkel's CDU/CSU coalition achieved historic success in Germany's October elections and by only a slim margin failed to win a majority of over 50% of votes in the German Bundestag. And with whom is the coalition likely to form a governing majority? And what direction will German policy take after the elections in relation to the EU, the Eurozone and its problems? Read more in the current issue of the Monthly in the commentary section "in Focus".



GERMAN ELECTIONS AND WHAT WILL FOLLOW?

Although the German elections have not brought a lot of major surprises, they have brought a few small ones. It certainly was not expected that the winning coalition of the CDU/CSU would be short only five votes of obtaining an absolute majority in the Bundestag. On the other hand, the election result of the second-place Social Democrats was a disappointment.

A surprise was the result of the Free Democrats from the FDP. Although public opinion polls predicted it, 4.8% of votes is a disappointment. Since the FDP did not receive the minimum of 5% needed to enter Parliament, for the first time in the History of the Federal Republic of Germany the party's representatives will not sit in Parliament. And this is a huge blow to this party.

Results of the German federal elections in 2013

| Party | % of votes | Number of mandates |
|-------------------------|------------|--------------------|
| CDU/CSU | 41.5 | 311 |
| SPD | 25.7 | 192 |
| Left | 8.6 | 64 |
| Alliance 90 / Greens | 8.4 | 63 |
| FDP | 4.8 | 0 |
| Alternative for Germany | 4.7 | 0 |
| Pirates | 2.2 | 0 |

Source: *Der Bundeswahlleiter*

Who will create the coalition? What will they push for?

From a mathematical point of view, there are multiple variants, but the most common discussed is a grand coalition of the CDU/CSU with the SPD or a black-green coalition of the CDU/CSU and the Greens. Theoretically there is also the possibility of a tri-coalition of the SPD + Greens + Left, which would exclude the winning party of Angela Merkel.

However, the Social Democrats and the Greens have ruled out that possibility, because they do not want to cooperate with a post-Communist party with a platform based on the former East German SED.

How much of an influence will the new coalition government have on European politics? It depends on its composition. A coalition of the CDU/CSU with the Social Democrats would probably press more for introduction of a joint base for corporate taxes in all EU countries or would not result in desired flexibility of the situation on the labour market (see

for example directives regarding the work period). In Germany measures would probably be implemented leading to quicker economic growth, though at the expense of worsening public financing.

A governing coalition of the CDU/CSU and the Greens would be something new on the German political scene. "Die Grünen" have so far only tried involvement in the government twice in history (1998-2002 and 2002-2005), and always in coalition with the Social Democrats. The political differences between the conservative Christian Democrats and the environmental-left Green are quite extensive, despite the agreement regarding closure of nuclear power plants. We consider the creation of such a coalition to be improbable.

How will the debt crisis be resolved?

From the point of view of possible solutions to the debt crisis, I do not see major differences between the approach of a grand coalition and that of a black-green coalition. Both the Social Democrats and the Greens are pro-European, and there is not much of a reason to change the hitherto strategy pushed by Chancellor Merkel. Therefore, I expect that with the newly formed German government, the "cucumber season" will end as far as the debt crisis is concerned, and negotiations will move forward at full speed under the leadership of Angela Merkel, who strengthened by her election mandate will begin strongly pushing her agenda. In my opinion, this will have two main effects.

First, the politics of austerity and painful reforms in problematic states of the Eurozone will not diminish, even though the southern wing of the EU led by French president Hollande criticises this approach.

Second, Europe does not await a melt-down, but instead deeper integration. Neither Greece nor other problematic states from the South will be pushed out the Eurozone. The Banking Union will be enhanced by a joint mechanism for rescuing of problematic banks.

And what will be the impacts on the Czech Republic?

The Czech Republic as a small open country lying in the heart of Europe has genuine economic and security interest in a strong and healthy united Europe and on a democratic and economically prosperous Germany. The likely new government under the leadership of the hitherto chancellor is a guarantee that the Federal Republic of Germany will achieve that status.

Jan Jedlička, EU Office ČS



In the main topic of the October Monthly, we focus on the problem of high unemployment in individual member states. We focus on the situation before and after the crisis, and we are also interested in the soonest outlook. We will also focus on unemployment of young people up to age 25 and recommendations and measures proposed by the European Council as well as how to solve the problem with high unemployment.

UNEMPLOYMENT IN THE EUROPEAN UNION

1. INTRODUCTION

Unemployment is a very pressing and current topic. Although the worst of the crisis from 2008 and 2009 is probably behind us, the revival of the economy and reduction in unemployment is still being awaited in vain in certain EU states. The anticipated decline in unemployment was apparent before the economic crisis in the EU, but the changes that came with the crisis halted that trend and even reversed it.

Then double-digit unemployment was rare. In recent years, unemployment exceeded 10 percent in more than half of European Union member states according to estimates from the European Commission, and according to its estimates it will remain at that level in the years to come. Unemployment levels among young people are especially high. In some EU states, young people are even being referred to as a lost generation.

2. THE DEVELOPMENT OF UNEMPLOYMENT IN THE EU STATES

The development of unemployment in the EU is like on a swing. In 2000, the average for the EU was just under 9% (about 20 million unemployed), and the highest level of unemployment was in Slovakia at 18.9%.

The lowest unemployment was around 3% in Luxembourg, the Netherlands and Austria. This was followed by a decline until 2007 and the start and first quarter of 2008. At that time, according to data from Eurostat, there were about 16 million unemployed in the EU, which represented an unemployment level of 6.8%.

In 2008 and 2009, the economic crisis hit the EU, and the crisis also affected the labour market. The number of unemployed grew, and differences began to deepen not only between individual states, but also between regions. The average for the EU in 2007 was still at a comfortable 7.2% and was at 7.6% in the Eurozone.

In 2007, unemployment remained the highest in Slovakia, but it was still 7% lower than in 2000. Slovakia was also the only state that had a double-digit unemployment level.

Slovakia was not the only state where unemployment dropped several percentage points between 2000 and 2007. Poland, Bulgaria, Latvia and mainly Estonia (a decline in unemployment by 9%) and Lithuania, with an unbelievable decline in unemployment from 16.4% in 2000 to 3.8% in 2007 were the winners in the battle against unemployment.

The Czech Republic with 5.3% ranked among states with the lowest unemployment. However, the situation on the market began quickly changing, and serious problems affecting several EU member states bubbled to the surface. The situation of 2012 and the European Commission's prognosis for 2014 are not very positive.

Since 2007, unemployment has increased in all EU member states, except Germany, Malta and Austria, where there has been a decline. In Germany, this can be attributed in particular to the controversial Hartz reforms, which are introduced in 2002. A special commission led by Peter Hartz at the request of then chancellor Gerhard Schröder prepared a concept of reforms, which were intended to help Germany reduce unemployment.

These measures included transformation of individual labour offices to more modern employment agencies, and other changes were made related to support during unemployment simplification of the system of payment of unemployment benefits.

While in 2008 the unemployment level exceeded 10% only in one member state, in 2012 it was the case already in 14 states. The situation in Greece and Spain was so bad that every fourth person was unemployed! According to the European Commission's estimates, unemployment is expected to exceed 20% in 2014 in besides Greece and Spain also in the new member state of Croatia.

Another danger related to such high unemployment is its structure. Not only is the unemployment level increasing, but also the long-term unemployment level, which represents the ratio of the number of unemployed persons for one year or more to the total work force expressed in percent.

Long-term unemployment results in besides loss of income also other effects on individuals as well as the economy as a whole. It has an effect on the state budget, economic growth as well as reduction of individuals' living standards, social exclusion, strains on family budgets and relations in families.



Development of unemployment in the EU (in %)

| | 2000 | 2007 | 2012 | 2014* |
|-----------------------|------------|------------|-------------|-------------|
| Austria | 3.6 | 4.4 | 4.3 | 4.7 |
| Luxembourg | 2.2 | 4.2 | 5.1 | 5.8 |
| the Netherlands | 3.1 | 3.6 | 5.3 | 7.2 |
| Germany | 8.0 | 8.7 | 5.5 | 5.3 |
| Malta | 6.7 | 6.5 | 6.4 | 6.1 |
| Czech Republic | 8.8 | 5.3 | 7.0 | 7.4 |
| Romania | 6.8 | 6.4 | 7.0 | 6.8 |
| Denmark | 4.3 | 3.8 | 7.5 | 7.6 |
| Belgium | 6.9 | 7.5 | 7.6 | 8.0 |
| Finland | 9.8 | 6.9 | 7.7 | 8.0 |
| UK | 5.4 | 5.3 | 7.9 | 7.9 |
| Sweden | 5.6 | 6.1 | 8.0 | 8.1 |
| Slovenia | 6.7 | 4.9 | 8.9 | 10.3 |
| Poland | 16.1 | 9.6 | 10.1 | 11.4 |
| Estonia | 13.6 | 4.6 | 10.2 | 9.0 |
| France | 9.0 | 8.4 | 10.3 | 10.9 |
| EU | 8.8 | 7.2 | 10.5 | 11.1 |
| Italy | 10.0 | 6.1 | 10.7 | 12.2 |
| Hungary | 6.3 | 7.4 | 10.9 | 11.5 |
| Eurozone | 8.4 | 7.6 | 11.4 | 12.1 |
| Cyprus | 4.8 | 3.9 | 11.9 | 16.9 |
| Bulgaria | 16.4 | 6.9 | 12.3 | 12.4 |
| Lithuania | 16.4 | 3.8 | 13.3 | 10.5 |
| Slovakia | 18.9 | 11.2 | 14.0 | 14.1 |
| Ireland | 4.2 | 4.7 | 14.7 | 13.7 |
| Latvia | 13.7 | 6.5 | 15.1 | 12.2 |
| Croatia | 15.8 | 9.6 | 15.9 | 20.1 |
| Portugal | 4.5 | 8.9 | 15.9 | 18.5 |
| Greece | 11.2 | 8.3 | 24.3 | 26.0 |
| Spain | 11.7 | 8.3 | 25.0 | 26.4 |

Source: Eurostat; European Commission; * estimate EC

Since the start of the economic crisis, long-term unemployment has grown in almost all EU states. In 2012, 4.6% of the work force was affected by long-term unemployment in the EU (45% of overall unemployment).

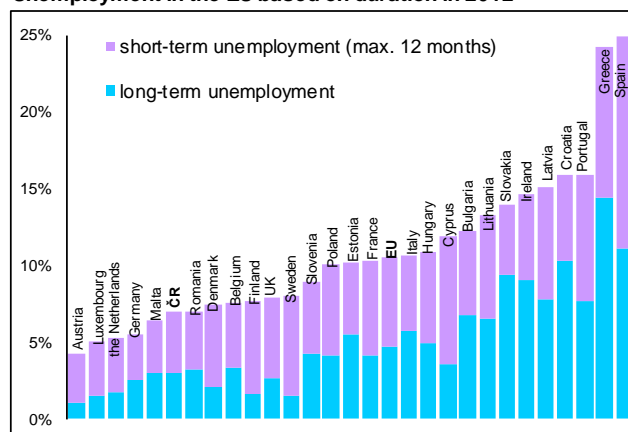
Unemployment of persons lasting more than one year is a problem mainly in Slovakia, where it represents two thirds of overall unemployment. Approximately 60% of overall unemployment is reported by states such as Greece, Ireland and Croatia.

Eurostat provides the latest unemployment data as of July 2013. In July of this year, there were a total of 26.6 million unemployed in the EU (which represents 11% of unemployed), and compared to the previous year this is a decline by 33,000, but year-to-year represents growth by nearly a million unemployed.

The lowest unemployment rate, 4.8%, is in Austria. The Czech Republic is faring more than very good compared to other states and is in sixth place with an unemployment level of just under 7%.

The highest unemployment is in Greece and Spain, which form a chapter of their own. With unemployment levels exceeding 26%, they exceed the third worst state, Cyprus, by nearly 10%.

Unemployment in the EU based on duration in 2012



Source: Eurostat

There are major differences not only among individual states, but also in individual regions of certain states. The lowest unemployment level in 2012 was in Austrian (Salzburg, Tirol - in both regions 2.5%) and German regions (Oberbayern, Trier - in both regions 2.7%).

Something interesting is that another NUTS 2 region with low unemployment, like Austria and Germany, is Prague with 3.1% unemployment, along with Dutch Zeeland.

It will probably come as no surprise that the regions with the highest employment include regions of Spain and Greece.

The Spanish region of Cueta has 38.5% or more unemployment. A surprising figure is French Réunion's position in the sixth worst place with 28.6% unemployment, while the average for France in 2012 was 10.3%.

Main topic

3. UNEMPLOYMENT OF YOUNG PEOPLE UP TO AGE 25 IN THE EU

Another very negative phenomenon of recent years is the high level of unemployment of young people up to age 25. According to the latest unemployment data from this July, the unemployment level of young people up to age 25 is nearly double the EU's overall unemployment level.

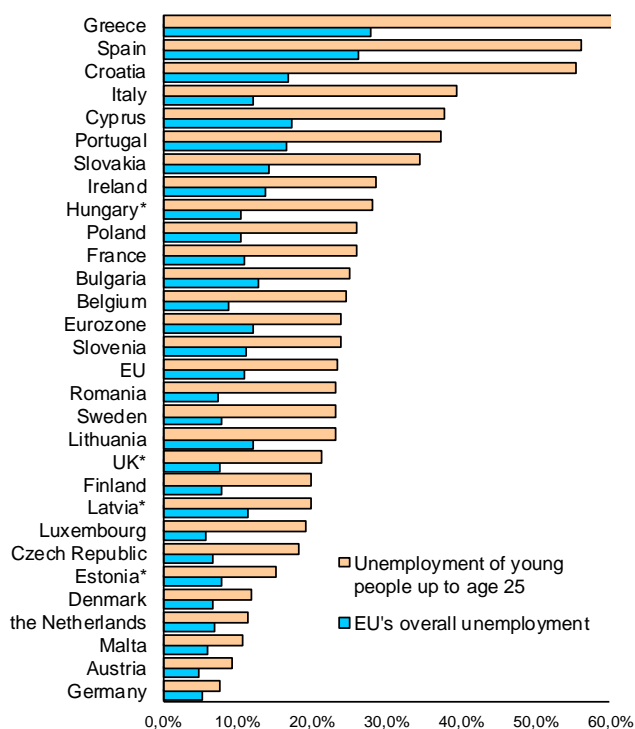
In three EU member states, even more than half of young people up to age 25 are unemployed. These states include the EU's newest member, Croatia, with 55.4%, Spain with 56.1% and Greece with a red figure of 61.5%.

In the EU, the level of monthly seasonally treated unemployment is 23.4%, which represents a decline by 0.1% compared to 2013 and year-to-year growth by half a percentage point.

The 18.3% unemployment level of young people in the Czech Republic is not at all rosy, but still places the country in the seventh best place. The only states with youth unemployment below 10% were Austria (9.2%) and Germany (7.7%).

In the case of youth unemployment, we can see a similar development in time like in overall unemployment.

Unemployment level in the EU in July 2013



Source: Eurostat, *data as of June 2013

Since 2000, youth unemployment in the EU grew slightly until 2004, but it had been gradually declining until the economic crisis erupted, and it reached its lowest levels in 2007 and in early 2008.

The Czech Republic had the highest unemployment in the monitored period of 2000 to 2012 in 2004 at the rate of 20.4% and the lowest in 2007 at the rate of 10.7%.

Unemployment of young people up to age 25 in the European Union (in %)

| | 2000 | 2007 | 2012 |
|-----------------------|-------------|-------------|-------------|
| Germany | 8.7 | 11.9 | 8.1 |
| Austria | 5.3 | 8.7 | 8.7 |
| the Netherlands | 6.1 | 7.0 | 9.5 |
| Denmark | 6.2 | 7.5 | 14.1 |
| Malta | 13.7 | 13.9 | 14.2 |
| Luxembourg | 6.6 | 15.6 | 18.0 |
| Finland | 21.4 | 16.5 | 19.0 |
| Czech Republic | 17.0 | 10.7 | 19.5 |
| Belgium | 16.7 | 18.8 | 19.8 |
| Slovenia | 16.3 | 10.1 | 20.6 |
| Estonia | 24.4 | 10.1 | 20.9 |
| UK | 12.2 | 14.3 | 21.0 |
| Romania | 17.2 | 20.1 | 22.7 |
| EU | 17.5 | 15.7 | 22.8 |
| Eurozone | 15.9 | 15.4 | 23.1 |
| Sweden | 10.5 | 19.2 | 23.7 |
| France | 19.6 | 19.8 | 24.6 |
| Lithuania | 30.0 | 6.8 | 26.4 |
| Poland | 35.1 | 21.6 | 26.5 |
| Cyprus | 9.9 | 10.2 | 27.8 |
| Bulgaria | 33.7 | 14.1 | 28.1 |
| Hungary | 11.9 | 18.1 | 28.1 |
| Latvia | 21.4 | 11.9 | 28.5 |
| Ireland | 6.7 | 9.1 | 30.4 |
| Slovakia | 37.3 | 20.6 | 34.0 |
| Italy | 26.2 | 20.3 | 35.3 |
| Portugal | 10.5 | 20.4 | 37.7 |
| Croatia | 37.0 | 24.0 | 43.0 |
| Spain | 22.9 | 18.2 | 53.2 |
| Greece | 29.1 | 22.9 | 55.3 |

Source: Eurostat. European Commission. * estimate EC



However, not all states have had similar developments. States such as Ireland, Denmark, Cyprus, Hungary and Luxembourg reached low unemployment at the turn of the millennium, and since then their unemployment levels among young people up to age 25 have been growing. In 2000 the highest youth unemployment level again like in the case of overall unemployment was in Slovakia.

In the years that followed, however, Slovakia managed to reduce that unemployment, and it is now among seven states with a lower youth unemployment level in 2012 than in 2000. The economic crisis affected young people up to age 25 much harder than other age groups. The youth unemployment level compared to the total unemployment level in the EU was 1.4 times higher in 2007 and 2.6 times higher in 2012.

High youth unemployment, even despite the huge problems that accompany it, do not necessarily reflect the actual situation. Many young people are preparing for future professions as part of their study or courses, and so these persons are not counted as part of the labour force.

A new term has begun being used (NEET (not in employment, education or training)), which was first used in the UK. This term basically refers to people between the ages of 15 and 24 who currently are not employed, are not participating in professional training or are not classified as studying.

According to Eurostat, in 2012 the percentage of these people in the EU was more than 13%, which represents about 7.5 million people. Like in the case of overall unemployment, there are also regional differences in youth unemployment levels.

German regions (Oberbayern, Freiburg) and Austrian regions (Steiermark) again had the lowest unemployment level among young people up to age 25 (5%).



Spanish and Greek regions are on the opposite end of the ladder. The region of Dytiki Makedonia registered the worst result, with a difficult to believe 72.5% youth unemployment rate.

4. EUROPEAN COUNCIL'S RECOMMENDATIONS AND PROPOSED MEASURES

Tackling unemployment is not only the responsibility of individual states, but is also addressed at the EU level. The especially dire youth unemployment situation is parking stormy debates. Even despite certain economic recovery, youth unemployment in certain EU states is at a very high level, and this is resulting in huge costs and social problems.

The European Council and states' senior officials have met several times to discuss how to solve the problem. The European Council has agreed on a comprehensive approach based on a few specific measures.

According to the European Council, it is necessary to make a maximum effort to ensure that young people who are neither employed nor participating in education or professional training return to the labour force, the education process or professional training within four months.

The EU will help member states finance systems of guarantees for young people through EU structural funds, particularly the initiative for supporting youth employment, thanks to which essential preparations should be carried out, so that this initiative is fully functional as of January



Main topic

2014, and the first amounts can be paid to recipients in EU regions with youth unemployment levels higher than 25%.

Senior EU officials have agreed to release six billion euros, so that the funds are available from 2014 to 2016, the first two years of the current multi-year financial framework.

As part of these measures, it has also been decided that funds from the multi-year financial framework not invested will be used primarily to support employment, particularly of young people, and for areas supporting growth, such as innovation and research.

The European Investment Bank will actively participate in the fight against youth unemployment by contributing through its Work for Youth initiative and the Investment into Skills programme. Efforts will also be made in the fight against youth unemployment for the purpose of promoting mobility of young people seeking employment, including through strengthening of the Your First Job programme via EURES.

Member states are being called upon to use their allocations from the European Social Fund to support cross-border mobility programmes. The Erasmus + programme, which also supports cross-border professional preparation, should fully function as of January 2014.

In July of this year, the activities of the European Alliance for Apprenticeships were commenced. This apprenticeship preparation represents a key part of the guarantee for young people, which last December was proposed by the European Commission as part of its package related to youth unemployment and was adopted by the European Council in April 2013.

It has the goal of improving the effectiveness and quality of offered preparation through an extensive partnership of key entities in relation to employment and education and

of helping solve the problem of youth unemployment in the European Union.

In this area, the most successful systems of apprenticeship preparation in the EU will be identified and applied in individual member states. Social partners will also be fully involved in the effort to reduce youth unemployment.



The European Council is also recommending that member states suffering from high youth unemployment strengthen their measures for active labour market policy. It is essential to get these groups of young people involved in the labour market.

The European Council recognises the authority of member states in this area and also reminds of the importance of shifting the tax burden from taxation of labour, including in appropriate cases with reduction of contributions for social security as well as possible ways of increasing employment and strengthening job creation and competitiveness.

5. CONCLUSION

According to the most recent figures from Eurostat, the level of unemployment in certain states is very high, which brings with it many problems, from loss of income and increasing of state budget expenditures to reduction of living standards for affected individuals and families.

However, the Czech Republic is doing well in this European comparison with approximately 7% unemployment, it is among the states that are the least affected by joblessness. Of course, there are regional differences. For example, Prague has very low unemployment ranging around 3% and is among the European regions with the lowest

unemployment levels. Contrastingly, the Northwest part of the Czech Republic suffers an unemployment rate of more than 10%.

Like in the case of overall unemployment, the Czech Republic is among the EU member states with the lowest youth unemployment levels.

However, at the end of October the Czech Republic will hold parliamentary elections. Their outcome can also have an effect on further developments. We hope that these developments will be for the better and will give a boost to the economy enabling sustainable growth.

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. In this issue we present Turkey.



TURKEY

| | |
|---------------|--|
| Official name | Republic of Turkey (Türkiye Cumhuriyeti) |
| Population | 74 724 269 (2012) |
| Area | 783 562 km ² |
| Currency | Turkish lira (TRY) |
| Ethnic groups | Turks 70-75%; Kurds 18%; others 7-12% |

Source: CIA World Factbook

The Republic of Turkey is bordered by the Black Sea, the Aegean Sea and the Mediterranean Sea. The country borders Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Iran, Iraq and Syria.

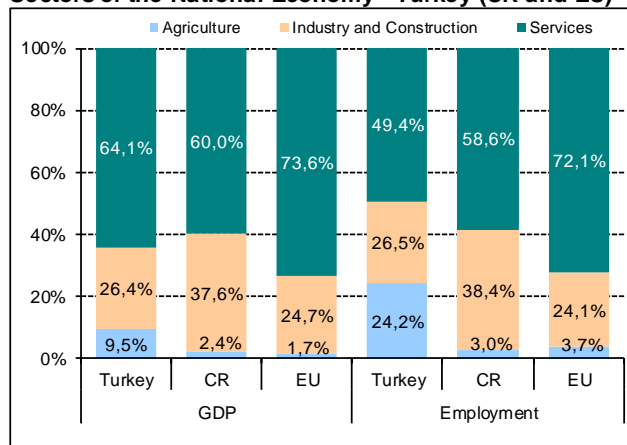
Supreme power is held by the country's parliament, comprised of 550 members elected for 4-year terms under a proportional system. The president is elected by parliament to a 5-year term. The Constitution allows the president to be re-elected once. The current president is former prime minister and foreign minister Abdullah Gül.

The highest executive power is in the hands of the prime minister, who is appointed by the president and approved by parliament. For 11 years already, Justice and Development Party Chairman Recep Tayyip Erdogan has served as Turkey's prime minister.

Structure of economy and foreign trade

The structure of the Turkish economy differs from the EU average. The share of agriculture in GDP is 9.5%, and nearly a quarter of the country's workers work in that sector, compared to 1.7% in the EU. The situation with industry in Turkey is much closer to the EU average – 26.5% of the

Sectors of the National Economy - Turkey (CR and EU)



Source: Eurostat (GDP - 2010), World bank (Employment - 2011)

country's work force are employed in the industrial sector, making up 26.4% of GDP. Nearly half of the work force works in the service industry, which makes up 64.1% of GDP.



Turkey's main export partners are Germany (8.6%), Iraq (7.1%) and Iran (6.5%). The country exports mainly clothing, food, textiles, metals and transport vehicles. It imports mainly machines, chemicals, semi-finished products and fuel. Its main import partners are Russia (11.4%), Germany (9%) and the USA (6%).

Macroeconomic outlook

Following declines during the years of the crisis, the Turkish economy has picked up the pace to an extent that European countries could be envious of it. In the first quarter of 2011, the Turkish economy grew year-to-year by 12.4%, and then "landed smoothly" at 1% growth and ended at an annual growth rate of 8.8%.

The slowing down also continued in 2012, which was reflected by the transformation of GDP structure from the dominant position of domestic demand to a pro-export oriented economy. The European Commission predicts that during the rest of 2013, the country's GDP will reach growth of 3.2%, following by 4.0% next year.

| Basic indicators (in %) | 2011 | 2012 | 2013 ^e | 2014 ^e |
|---------------------------|------|------|-------------------|-------------------|
| GDP Growth | 8.8 | 2.2 | 3.2 | 4.0 |
| Unemployment rate | 8.8 | 8.1 | 8.6 | 8.8 |
| Inflation | 6.5 | 9.0 | 6.6 | 5.6 |
| Balance of payments | -9.9 | -5.8 | -6.8 | -7.2 |
| Deficit of public budgets | 39.8 | 37.9 | 36.7 | 36.0 |

Source: European Commission; ^e - estimate

Labour market

In 2012, the unemployment level reached 8.1%, and by 2014 it is expected to reach nearly 9%, which would be 2% higher than unemployment in the Czech Republic. The lowest monthly salaries are traditionally in the sectors of accommodation, dining and hospitality. However, they are very high in the sectors of production and distribution of electricity, natural gas and heat.

Although average wages are about 40% lower than in the Czech Republic, in the electricity, gas and heat generation and distribution industries the gross wages in Turkey are actually 6% higher than in the Czech Republic.



Doing business

The largest difference can be found in construction, where the wages in Turkey are about half what they are in the Czech Republic.

| Basic indicators of labor market | | |
|-----------------------------------|-----------|---------|
| Unemployment level (2012) | 8.1% | |
| Labor productivity (2011) | 38.9% | |
| Minimum monthly wage (1H/2013) | 428.6 EUR | |
| Ø monthly wages in sectors (2010) | Turkey | CR |
| Manufacturing | 676 € | 998 € |
| Construction | 585 € | 1 073 € |
| Accommodation and food services | 638 € | 689 € |

Source: Statistical Offices of Turkey and Czech Republic

Labor law basics

Employment contracts entered into for one year or longer in Turkey should be in writing. An employment contract can be for a definite or indefinite period. A contract for an indefinite period can be terminated by either the employer or the employee. Both must respect the legally stipulated minimum termination notice period.

The work period is a maximum of 45 hours per week, and a maximum of 270 hours of overtime may be assigned per year. Each overtime hour is rewarded with either a 50% bonus or 1.5 hours of paid leave for each hour of overtime worked. Under the Labour Code, employees are entitled to vacation based on the number of hours worked (from 14 to 26 days). However, an employer may provide an employee with more days of paid leave based on a collective agreement or employment contract.

Commercial law basics

Since 1 July 2012, Turkey has had a new Commercial Code. Investors in Turkey can establish several forms of companies with their own legal subjectivity (such as a limited liability company, a joint-stock company), a representative office or a branch. Doing business is also possible via various contractual partnerships, such as joint ventures.

A joint-stock company may be founded by at least 1 individual or legal entity. The number of partners is not limited. The minimum required registered capital for an open joint-stock company, whose shares are publicly traded, is TRY 50,000 (about CZK 0.5 million). The minimum required registered capital for a closed joint-stock company, whose shares are not publicly traded, is TRY 50,000 (about CZK 1

million). Shareholders are responsible for their obligations up to the amounts of their investments.

For a limited liability company, the minimum registered capital has been set as TRY 10,000 (approximately CZK 100,000). The number of partners can be between 1 and 50. Partners are responsible for obligations only up to the amounts of their unpaid investments.

| Form of Company | Minimum Capital |
|----------------------------|-----------------|
| Limited Liability Company | 10 000 TRY |
| Open Joint Stock-Company | 50 000 TRY |
| Closed Joint Stock-Company | 100 000 TRY |

Source: web pages of Ministry of Economy in Turkey

Main taxes and additional labor costs

In Turkey, there is a 20% corporate tax rate. A 15% withholding tax is imposed on dividends for non-residents. The individual income tax rate is progressive, depends on the amount of annual income and ranges from 15% to 35%. The basic VAT rate is 18%, and there are reduced rates of 8% and 1%.

Each employee contributes to social security and health insurance 14% of his/her wages, and the employer contributes 19.5% to 25%. Additionally, the employer contributes 2% and the employee 1% of gross wages for unemployment insurance.

| Tax/payment | Rate |
|---|---------------------|
| Corporate Tax | 20.0% |
| Dividend tax for non-residents | 15.0% |
| Individual Income Tax | 15.0-35.0% |
| VAT (basic / 1 st lower / 2 nd lower) | 18.0% / 8.0% / 1.0% |
| Social insurance – employee | 15.0% |
| Social insurance – employer | 21.5-27.0% |

Source: web pages of Ministry of Finance in Turkey

Energy

Prices of natural gas and electricity in Turkey in the past 5 years have had a very similar trajectory, with fluctuations of around 20%. In the past year, there has been an apparent increase in prices of both electricity and gas.

Prices in December 2012 stabilised at €0.095 per kWh, €8.4/GJ. Last year electricity prices were on average €0.013 per kWh (12%) lower in Turkey than in the Czech Republic, and natural gas prices were €1.7/GJ (18%) lower.

A current topic in the EU is preparation and approval of the budget for 2014 and new financial perspectives for the period of 2014-2020. Therefore, we decided to publish in the "Journey into History" section information regarding the beginnings of the financing of the Community and to look at how budgets were first compiled and planned and how the area of financing within the Community developed over time. In this and the next two issues of our Monthly you can look forward to interesting reading.



DEVELOPMENT OF BUDGET FINANCING IN THE EU

Structure of EU budget

The form of the EU budget differs from the form of classic state budgets or international organisations' budgets. Classic state budgets consist exclusively of income from own sources, while international organisations' income consist only of membership contributions.

The EU budget is a combination of both of these approaches and consists of both income from own sources and contributions from member states.

European budget income and expenditures

EU income currently consists of "traditional own sources, such as customs, agricultural duties and sugar duties. Another source of budget revenue is formed by own sources derived from collection of value-added tax (VAT) in individual member states, and the last, and currently decisive, source of income is a percentage share of GDP of member states.

Approximately 1% of overall EU revenues are formed by other income, such as contributions from non-member states into certain EU programmes and fines imposed on companies from member states for breaches of economic competition rules.

The EU budget differs from other state budgets also in terms of expenditures. It does not contain typical categories such as expenditures for social services, healthcare, education, etc.

The Community's expenditures are divided over the long term into two main categories, which are the joint agricultural policy and the cohesion policy (financed from structural funds). The remaining expenditures go towards financing of internal policies, internal events, covering of EU administrative costs, etc.

Approval process

All EU bodies and institutions are required by 1 July of each year to submit to the European Commission estimates of their expenditures for the next year. From them, then the European Commission (and its Directorate General for Budget) prepares the draft budget.

It is subsequently submitted to the Council, which either adopts it by a qualified majority or may propose changes.



The draft and potential amendments are submitted by the Council to the European Parliament, no later than by 1 October of the particular year.

The Parliament within 42 days either approves the Council's proposal and the budget is considered valid, or with a majority of votes of all of its members it can amend it and send it back to the Council.

If the Council approves the changes proposed by Parliament within 10 days, the budget is considered valid. Otherwise, a negotiating committee is set up, and negotiations commence between the Council and Parliament regarding the budget.

The negotiating committee has 21 days to reach an agreement. If both parties agree on a joint proposal, Parliament and the Council have 14 days to approve the proposal. The Parliament Chairman subsequently signs the budget, and it is declared valid.

If the committee does not agree on a joint proposal or if the Parliament rejects the joint proposal, the European Commission may submit a new proposal. If the Council rejects the joint proposal, the Parliament nonetheless has the authority to decide about its final adoption.

Items for obligations and items for payments

Within the budget, budget headings and sub-headings of obligation items and items for payment are always specified.



History

Items (or expenditures) for obligations represent a legal pledge for investment of certain funds into specific areas.

Within certain areas (such as structural funds) this can involve financing of multi-year projects. Resources for it can be paid during the overall realisation of the project, but not all of them will necessarily be paid in the first year.

However, the total amount that will be drawn during the years will be included in the item of obligations always in the first year of project realisation. In the first year of project realisation, only the portion of financial resources that will actually be paid in that year will be included in the items for payments.

In subsequent years, they will be included in items for payments of the remainder of the multi-year project, which will be paid.

Multi-year financial framework

The EU budget is always prepared for a period of one year and applies from 1 January to 31 December. However, the Commission also prepares regular multi-year financial outlooks.

Based on the directive regarding the multi-year financial framework, these are always prepared for at least a five-year period (in recent years, a seven-year period has been applied), and they set the maximum yearly caps on what the EU can spend on financing various areas (policies).

The financial framework also sets the general limit for overall expenditures, meaning that during subsequent approval of the annual budget, expenditures must not exceed the cap imposed by the financial framework.

In each year's EU budget, revenues and expenditures must always be balanced. If there is a budget surplus, the remaining funds will be transferred to the next year. If the year ends with a deficit, the deficit must be covered from budget resources of the next year. The budget is prepared and calculated exclusively in euros.

Development of European budget

The first budgets were created already in the European Coal and Steel Community (ECSC) – the predecessor of today's EU. Based on Article 49 of the Treaty on the ECSC, the Community introduced its own revenues, which originated from coal and steel production duties.

For individual products, duties were set annually based on average product value. The total duty was not allowed to exceed 1% of the value of production. The budget was divided into administrative and operational parts and was approved by the Commission in accordance with Article 78

of the Treaty on the ECSC. After the European Economic Community bodies the EEC and EURATOM were established, the budget approval process was changed. Both organisations were first financed from contributions from member states, which were determined based on the GDP generated in individual countries.

However, it became clear that the budget could not continue to be determined this way over the long term. It became necessary for the Community also to think of creating its own revenues.

Preparing the budget in the EEC first involved proposing the budget to the Commission. Then the budget had to be approved by the Council and submitted to the Assembly (the predecessor of the European Parliament), which either had to adopt the budget or could propose amendments (but could not reject the budget). Budget issues were included in the Treaty on the EEC, and budgets were always prepared for a year.

The Commission first addressed the issue of creating its own revenues in the EEC in 1965. They were necessary mainly for financing agricultural policy. At the Commission's request, it was decided that its own revenues would be comprised of customs duties for industrial production and duties on agricultural imports.

At the end of the 1960s, these revenues became insufficient for the Community, and it became necessary to address the question of obtaining additional independent revenues.

The Commission came up with a proposal for the third revenue source to be duties collected from the VAT bases of individual member states.

Based on the Merger Treaty of 1965, which took effect on 1 July 1967, the individual budgets of the three Communities ECSC, EURATOM and the EEC) were combined into a single joint Community budget.

The first budget agreement (the Luxembourg Agreement) was signed on 22 April 1970 and confirm the Community's revenues in the form of customs and duties. It also imposed a 1% duty from member states' VAT, but it was decided that the duty would not begin being collected until the VAT collection system in member states was harmonised, meaning as of 1979.

Determining the base from which the duty would be calculated was a relatively complicated process. The budget differed in individual countries.

The budget according to the agreement was approved by the Council in cooperation with the European Parliament (the Parliament could propose amendments). Since the European Parliament had the opportunity to participate in



the budget approval process, the Community's expenditures were divided into mandatory and non-mandatory categories. Parliament could comment only regarding non-mandatory expenditures, which did not make up more than 10% of the overall budget. (Mandatory expenditures included expenditures for agricultural policy.)

Due to changes in the powers of individual Community institutions, on 22 July 1975 the second budget agreement was signed (the Brussels Agreement). The Agreement designated the chairman of the European Parliament (not the Council any longer) as the adopter (approver) of the budget and designated the European Court of Auditors as the independent budget auditing body.

As a result, Parliament as well as the Council could reject the budget as a whole.

Development of financing of the Community during the 1970s

During the 1970s there were increasingly problems during preparation of a joint budget, since the Community's expenditures grew and revenues were not sufficient. In connection with the preparation of a strategy for realisation of Economic and Monetary Union (EMU) and expansion of the Community to include other states, there was also a change in the structure of expenditures.

Immediately after the UK joined the Community in 1973, problems arose with resolving of financial contributions. Britain was supposed to contribute nearly the most out of all member states to the joint budget, even though in terms of GDP per capita it was among the poorer countries. Already upon accession, the country negotiated a transitional period for increasing contributions and a special form of compensation of payments via the European Regional Development Fund (ERDF).

Development of Community financing in the early 1980s

However, the British problem was not solved successfully at the beginning of the 1980s, since expenditures for agricultural policy continued to grow rather than be reduced, as had been originally planned.

In this manner, Britain attempted to resolve the issue of financing. The Community eventually pledged to reform the joint agricultural policy, and it was also decided to increase resources contributed to structural funds, and member states were supposed to increase their budget discipline.

The structure of the budget had to be changed, for exact definition of expenditures (inclusion into individual categories) and increasing of revenues. At the summit in Fontainebleau from 25- 26 June 1984, an increase in resources in the VAT base was approved as of 1986 from

1% to 1.4%. As part of the agreement, the UK negotiated a special discount on deductions to the joint budget.

The discount equalled 6% of the difference between overall financial resources that Britain contributes to the joint budget and resources that it gets back as part of EU policies.

This "British rebate" is returned to Britain always 4 years after the particular budget year, and the maximum amount that Britain can get back is limited by the EU.

Particularly during the second half of the 1980s, deepening of political and institutional instability occurred in relation to Community financing. Pressure was stepped up on creating a joint multi-year budget of the EC, since for member states it was still more difficult to agree on the amount of the budget each year.

The Single European Act (SEA), in which emphasis is placed mainly on social and economic solidarity, became an important agreement for financing of the Community. Also due to the planned expansion of the EU to include other states, agreeing to comprehensive reform of the method of financing the Community was an important step.





Statistical window

The Statistical Window displays the selected economic indicators of all 28 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 | | | |
|-------------|-----------------|-------|--------|---------|-------------------|-------|-------|-------|-----------------------|-------|-------|-------|
| | V-13 | VI-13 | VII-13 | VIII-13 | Q3-12 | Q4-12 | Q1-13 | Q2-13 | 2008 | 2009 | 2010 | 2011 |
| Belgium | 1.1 | 1.5 | 1.6 | 1.1 | 7.6 | 8.0 | 8.4 | 8.7 | 135.1 | 138.1 | 134.3 | 128.9 |
| Bulgaria | 1.0 | 1.2 | 0.0 | -0.7 | 12.3 | 12.5 | 12.9 | 12.8 | 11.1 | 12.7 | 12.6 | 13.1 |
| CR | 1.2 | 1.6 | 1.4 | 1.2 | 7.0 | 7.2 | 7.2 | 7.0 | 36.3 | 35.9 | 36.8 | 35.6 |
| Denmark | 0.6 | 0.6 | 0.4 | 0.1 | 7.4 | 7.3 | 7.1 | 6.8 | 160.0 | 166.1 | 163.5 | 155.0 |
| Germany | 1.6 | 1.9 | 1.9 | 1.6 | 5.4 | 5.4 | 5.4 | 5.4 | 137.5 | 138.5 | 137.3 | 132.2 |
| Estonia | 3.6 | 4.1 | 3.9 | 3.6 | 10.0 | 9.8 | 9.3 | 8.0 | 33.4 | 32.0 | 31.0 | 29.9 |
| Ireland | 0.5 | 0.7 | 0.7 | 0.0 | 14.7 | 14.2 | 13.7 | 13.9 | 108.1 | 107.1 | 104.6 | 99.0 |
| Greece | -0.3 | -0.3 | -0.5 | -1.0 | 25.4 | 26.1 | 26.6 | 27.5 | 55.5 | 62.5 | 66.2 | 47.4 |
| Spain | 1.8 | 2.2 | 1.9 | 1.6 | 25.6 | 26.1 | 26.4 | 26.4 | 77.2 | 81.4 | 80.2 | 76.1 |
| France | 0.9 | 1.0 | 1.2 | 1.0 | 10.3 | 10.6 | 10.8 | 10.9 | 111.5 | 115.0 | 112.8 | 108.1 |
| Croatia | 1.8 | 2.2 | 2.7 | 2.4 | 16.0 | 17.5 | 16.7 | 16.5 | n/a | n/a | n/a | n/a |
| Italy | 1.3 | 1.4 | 1.2 | 1.2 | 10.8 | 11.4 | 11.9 | 12.1 | 89.1 | 92.4 | 91.4 | 87.5 |
| Cyprus | 0.2 | 0.8 | 0.7 | 0.1 | 12.4 | 13.4 | 14.6 | 16.4 | n/a | n/a | n/a | n/a |
| Latvia | -0.2 | 0.2 | 0.5 | -0.1 | 14.5 | 13.9 | 12.6 | 11.5 | 26.9 | 27.9 | 26.6 | 25.8 |
| Lithuania | 1.5 | 1.3 | 0.6 | 0.5 | 13.0 | 13.2 | 12.5 | 12.0 | 24.6 | 23.2 | 21.9 | 21.0 |
| Luxembourg | 1.4 | 2.0 | 1.8 | 1.7 | 5.1 | 5.2 | 5.4 | 5.6 | 156.2 | 162.3 | 159.7 | 150.4 |
| Hungary | 1.8 | 2.0 | 1.7 | 1.6 | 10.7 | 10.9 | 11.1 | 10.4 | 30.8 | 29.3 | 29.5 | 28.3 |
| Malta | 0.8 | 0.6 | 0.9 | 0.7 | 6.3 | 6.4 | 6.3 | 6.1 | 55.7 | 57.7 | 58.1 | 59.4 |
| Netherlands | 3.1 | 3.2 | 3.1 | 2.8 | 5.3 | 5.6 | 6.2 | 6.7 | 143.3 | 149.6 | 146.4 | 138.4 |
| Austria | 2.4 | 2.2 | 2.1 | 2.0 | 4.5 | 4.6 | 4.9 | n/a | 123.7 | 127.5 | 124.6 | 118.4 |
| Poland | 0.5 | 0.2 | 0.9 | 0.9 | 10.2 | 10.4 | 10.6 | 10.5 | 31.9 | 27.2 | 29.3 | 28.2 |
| Portugal | 0.9 | 1.2 | 0.8 | 0.2 | 16.2 | 17.0 | 17.6 | 17.0 | 55.4 | 57.7 | 56.2 | 53.0 |
| Romania | 4.4 | 4.5 | 3.4 | 2.6 | 7.0 | 6.7 | 7.1 | 7.4 | 18.1 | 16.8 | 18.0 | 18.0 |
| Slovenia | 1.6 | 2.2 | 2.8 | 2.2 | 9.4 | 9.5 | 10.6 | 11.2 | 52.4 | 54.2 | 54.8 | 51.5 |
| Slovakia | 1.8 | 1.7 | 1.6 | 1.4 | 14.0 | 14.3 | 14.2 | 14.2 | 28.2 | 30.5 | 30.2 | 29.1 |
| Finland | 2.5 | 2.3 | 2.5 | 2.0 | 7.8 | 7.9 | 8.1 | 8.1 | 124.1 | 129.5 | 129.4 | 125.0 |
| Sweden | 0.3 | 0.5 | 0.8 | 0.8 | 8.1 | 8.1 | 8.1 | 8.0 | 121.7 | 114.9 | 125.0 | 125.4 |
| UK | 2.7 | 2.9 | 2.8 | n/a | 7.8 | 7.7 | 7.8 | 7.7 | 139.2 | 126.3 | 129.4 | 119.1 |
| EU | 1.4 | 1.6 | 1.6 | 1.3 | 10.6 | 10.8 | 11.0 | 11.0 | 100.0 | 100.0 | 100.0 | 100.0 |

| in % | Productivity to Ø CR | | | | Average interest rate on mortgages | | | | Price electricity to Ø EU | | | |
|-------------|----------------------|-------|-------|-------|------------------------------------|------|------|------|---------------------------|-------|-------|-------|
| | 2009 | 2010 | 2011 | 2012 | 2009 | 2010 | 2011 | 2012 | 2010 | 2011 | 1H-12 | 2H-12 |
| Belgium | 264.5 | 259.8 | 257.8 | 270.1 | n/a | n/a | n/a | n/a | 120.5 | 121.8 | 115.1 | 115.7 |
| Bulgaria | 33.0 | 33.8 | 36.1 | 40.2 | 10.9 | 9.7 | 8.8 | 8.3 | 45.1 | 43.4 | 42.1 | 45.2 |
| CR | 100.0 | 100.0 | 100.0 | 100.0 | 5.8 | 5.2 | 4.5 | 4.0 | 118.5 | 118.7 | 114.8 | 110.4 |
| Denmark | 280.2 | 286.6 | 283.1 | 294.2 | 4.4 | 3.7 | 4.0 | 3.4 | 163.9 | 167.2 | 163.7 | 155.7 |
| Germany | 207.1 | 204.8 | 203.1 | 211.5 | 4.3 | 3.8 | 4.0 | 3.2 | 145.6 | 142.8 | 140.7 | 139.0 |
| Estonia | 80.9 | 83.2 | 84.0 | 89.9 | 4.3 | 3.9 | 3.7 | 3.1 | 55.0 | 52.9 | 55.5 | 54.3 |
| Ireland | 290.9 | 279.5 | 283.2 | 296.4 | 3.1 | 3.1 | 3.5 | 3.3 | 117.8 | 125.0 | 129.5 | 132.4 |
| Greece | 168.1 | 156.9 | 151.0 | 158.0 | 4.1 | 3.8 | 4.7 | 3.6 | 57.0 | 56.4 | 61.0 | 60.8 |
| Spain | 190.8 | 185.3 | 184.6 | 196.4 | 3.4 | 2.6 | 3.5 | 3.4 | 111.3 | 116.1 | 120.0 | 119.5 |
| France | 246.3 | 237.2 | 235.3 | 246.7 | 5.0 | 4.3 | 4.4 | 4.4 | 82.4 | 81.5 | 77.6 | 78.3 |
| Croatia | 98.1 | 97.1 | 96.1 | 102.1 | n/a | n/a | n/a | n/a | 62.0 | 60.7 | 65.6 | 71.1 |
| Italy | 217.2 | 211.2 | 207.3 | 212.7 | 3.8 | 2.8 | 3.6 | 4.3 | 88.9 | 86.6 | 91.8 | 95.7 |
| Cyprus | 150.3 | 147.2 | 146.5 | 156.8 | 5.9 | 4.6 | 5.3 | 5.5 | 105.7 | 114.6 | 137.8 | 137.6 |
| Latvia | 66.0 | 63.7 | 75.3 | 83.2 | 10.5 | 7.4 | 4.7 | 3.8 | 57.4 | 60.9 | 64.8 | 57.9 |
| Lithuania | 66.2 | 68.4 | 72.4 | 85.4 | 9.9 | 6.0 | 4.2 | 3.3 | 66.3 | 65.0 | 63.8 | 61.3 |
| Luxembourg | 582.9 | 601.0 | 605.6 | 637.1 | 2.4 | 2.2 | 2.5 | 1.4 | 105.1 | 95.5 | 93.3 | 90.0 |
| Hungary | 85.0 | 85.0 | 84.3 | 83.7 | 14.6 | 10.5 | 10.5 | 11.9 | 93.9 | 87.2 | 80.5 | 78.0 |
| Malta | 130.4 | 128.7 | 126.2 | 131.7 | 3.8 | 3.7 | 3.6 | 3.6 | 109.6 | 102.9 | 99.0 | 95.0 |
| Netherlands | 236.1 | 229.6 | 225.4 | 233.1 | 4.9 | 4.6 | 4.6 | 4.3 | 52.7 | 54.9 | 57.2 | 54.4 |
| Austria | n/a | n/a | n/a | n/a | 4.0 | 3.1 | 3.4 | 3.2 | 117.4 | 113.5 | 109.9 | 107.1 |
| Poland | 68.9 | 76.3 | 76.8 | 81.3 | 8.0 | 7.1 | 7.0 | 7.4 | 80.1 | 78.0 | 74.5 | 74.8 |
| Portugal | 117.3 | 115.6 | 112.8 | 117.4 | 3.4 | 3.4 | 4.8 | 4.8 | 100.4 | 102.3 | 110.7 | 108.3 |
| Romania | 43.7 | 43.6 | 45.2 | 46.2 | 12.6 | 11.7 | 9.5 | 8.0 | 57.4 | 56.6 | 53.6 | 52.4 |
| Slovenia | 127.1 | 122.8 | 122.4 | n/a | 4.4 | 3.5 | 4.0 | 3.6 | 92.4 | 86.9 | 86.5 | 84.1 |
| Slovakia | 93.4 | 94.6 | 94.7 | 102.0 | 6.2 | 5.6 | 5.2 | 5.2 | 97.4 | 97.9 | 96.4 | 92.8 |
| Finland | 243.8 | 239.6 | 241.6 | 254.5 | 2.6 | 2.1 | 2.6 | 2.2 | 93.8 | 100.5 | 96.6 | 93.7 |
| Sweden | 230.0 | 258.3 | 270.8 | 293.5 | 2.1 | 2.4 | 3.9 | 3.5 | 112.6 | 116.0 | 109.5 | 107.6 |
| UK | 193.2 | 198.6 | 195.6 | 217.0 | 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

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