



EU News

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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
<http://www.csas.cz/eu>

Jan Jedlička
Head of EU Office
+420 956 718 014
jjedlicka@csas.cz

Iva Dlouhá
+420 956 718 015
idlouha@csas.cz

Jana Majchráková
+420 956 718 012
jmajchrakova@csas.cz

Tomáš Kozelský
+420 956 718 013
tkozelsky@csas.cz

under the auspices of Pavel Kysilka
CEO of ČS

Dear readers,

Although we finished preparing this April issue of the EU Monthly on 1 April, please do not understand the information contained herein as an April Fool's joke. All of the described events related to the European integration process really happened.

We will start off with the most important topic, which for me personally is the change of the Czech government's position regarding the EU fiscal pact. When it was signed by most other EU states two years ago, our government at the time refused to sign it for quite unclear reasons. This was even despite its description of itself as a government of budget responsibility. The situation was even more unusual given that the Czech Republic and Great Britain were the only EU member states that refused to sign it. In international policy, and especially in EU policy, the rule that generally applies is that you have to be on board, because a position in isolation equals defeat. Members of the new government expressed the Czech Republic's new stance regarding the pact, and in March a team of ministers headed by Prime Minister Sobotka decided that the Czech Republic would sign the treaty after all. However, fans of budget discipline should not rejoice just yet! Since we are not in the Eurozone, the principles enshrined in the pact intended to tackle debt, which involve a maximum permitted structural deficit of public finances, will not apply to the Czech Republic (or to our politicians' decisions) for now.

We have prepared something sweet as the main topic of the April Monthly. It is part of our complete study, which under the heading of the parent Erste Group we have published in the media regarding the entire region of Central and Eastern Europe. The study and the main topic focuses on the EU's cohesion policy for 2014-2020 and its financial instruments, investment and structural funds. Besides the EU Office, our colleague Katarzyna Rzentarzewska from our research section also contributed to it. Did you know, for example, that nearly half of European resources for cohesion policy are directed to Central and Eastern Europe (CEE)? You did not? You can read about this and other interesting facts in the section starting on page 8.

Something also especially interesting in this issue is our Microscope section. We highly appreciate that our boss Pavel Kysilka has contributed to it. In his comments, he examines the reasons for Germany's current economic success and concisely and clearly lays out the main obstacles stalling further prosperity for the Czech economy. Of course, the contribution also has a European dimension, and according to the author, in relation to the EU the Czech Republic should more... Do you want to read more? You can read more on page 7.

In the final section Dating with MFF, we will familiarise you with the Galileo programme, which is being implemented by the European Global Navigation Satellite System (GNSS) and has a strong connection to Prague. What kind of connection? Read more about it on page 17.

Dear Readers, we wish you happy reading and the quickest start of spring!

Jan Jedlička



The Czech Republic has approved joining the EU fiscal pact. - The German Constitutional Court has decided that the European stabilisation mechanism, which helps Eurozone states cope with the effects of the economic crisis, does not conflict with the German constitution. - MEPs would like to see the introduction of a universal charger for mobile phones. - Roaming will soon end in Europe. - The Council of the EU has approved a regulation, which will determine how European vehicle manufacturers should achieve CO₂ emission reduction objectives by 2021.

POLITICS

Government has it clear: CR wants to sign EU Fiscal Pact

The Czech government has approved **joining the EU Fiscal Pact**. The Czech Republic plans to incorporate EU regulations for monitoring budget discipline into its legislation. However, the budget restrictions will take effect only after **the Czech Republic adopts the euro**. That is not expected to happen during the current election term. The decision still needs to be approved by both houses of parliament.

The Fiscal Pact requires states that join it to adopt within one year of signing the pact a legal regulation, which ensures that **the structural state budget deficit** does not exceed 0.5% of GDP, or 1.0% of GDP for states with debt significantly below 60%. Countries whose debt exceeds 60% of GDP must reduce it by at least 5% annually.

The body responsible for verifying whether states have enshrined the budget rules in their national legislation will be the **Court of Justice of the EU**. Any state that does not comply could receive a fine of up to 0.1% of GDP. In the Czech Republic's case, this year's structural deficit is expected to reach approximately 2.5%.

The Czech Republic and **Great Britain** are so far the only EU states that have not yet signed the Fiscal Pact. https://apps.odok.cz/djv-agenda?p_p_id=agenda_WAR_odokkpl&p_p_lifecycle=2&p_p_state=normal&p_p_mode=view&p_p_resource_id=downloadAttachment&p_p_cacheability=cacheLevelPage&p_p_col_id=column-2&p_p_col_count=1&agenda_WAR_odokkpl_attachmentPid=VPRA9HLD2G2P

ECONOMY AND EURO

Berlin can still help indebted Eurozone states

The European stabilisation mechanism (euroval), which helps Eurozone countries cope with the consequences of the economic crisis, does not conflict with the German Constitution.

This was decided by the German Constitutional Court. **Euroval** finances, for example, **loans to counties**, which have found themselves having problems meeting their financial obligations.

Berlin is now the largest contributor to this rescue fund, which has at its disposal a total of **700 billion euros**.

Germany contributes to the ESM **190 billion euros**, which is more than CZK 5 trillion.

Although last year Czech President Miloš Zeman signed an amendment to the Lisbon Treaty, which enables the creation of the ESM, **for now the Czech Republic still can neither draw money from the ESM or contribute any money to it**.

The obligations set by the amendment will not apply to the Czech Republic until after it adopts the euro. The same verdict was reached for the **fiscal pact**. German judges also ruled that it is not unconstitutional.

<https://www.bundesverfassungsgericht.de/pressemitteilungn/bvg14-023>

INTERNAL MARKET

MEPs would like to see the introduction of a universal charger for mobile phones

Members of the European Parliament **have approved an amendment to rules regarding radio equipment**. It will harmonise rules for consumer goods on the EU market, such as mobile phones, vehicle remote controls and modems. The lawmakers are reacting to the growing number and variations of this equipment.

As part of this legislation, MEPs will call on manufacturers to produce **a universal charger for all mobile phones**.

The aim is not only to make life easier for EU citizens, but also to reduce waste. The directive should help tackle the yearly electronic waste **volume of 51,000 tonnes**.

An agreement had been in place among the largest mobile phone manufacturers, in which they agreed to harmonise standards for chargers. However, it expired at the end of 2012.

The proposed directive has already been approved by the Council, and member states will be required **to implement it by 2016**. Lawmakers have also supported provisions, which should help **more effectively discover radio equipment**, which does not comply with the new safety requirements.

The European Commission intends **based on information from member states** to stipulate which categories of equipment will need to be registered before their introduction onto the market. A similar database already exists in the United States of America.

<http://www.europarl.europa.eu/news/en/news-room/content/20140307IPR38122/html/MEPs-push-for-common-charger-for-all-mobile-phones>



Roaming will soon end in Europe

The end of mobile phone roaming in the EU is a step closer again. This will reduce the cost of calling in the EU. The European Parliament's committee for industry, research and energy, at its meeting in mid March, approved **cancellation of fees for mobile phone roaming** within the EU.

If the measure get the green light from the European Parliament's plenary session in April and is subsequently approved by member states, roaming could end by the end of next year.

Therefore, **as of 15 December 2015**, Europeans will no longer need to worry about high phone bills from business trips or vacations and will also be able to use the internet via their mobile phones without any concerns.

<http://www.europarl.europa.eu/news/en/news-room/content/20140318STO39202/html/Industry-MEPs-call-it-a-day-on-roaming-charges>

ENERGY AND TRANSPORT

Manufacturers to cut CO₂ emissions from vehicle exhaust, consider alternative fuels

After months of negotiations, the Council of the EU has approved a regulation, which will specify how European vehicle manufacturers should achieve the goal for **reduction of CO₂ emissions by 2012**. It has been set as **95 g of CO₂** per travelled kilometre. That is the average, which will apply during conversion of emissions from all vehicles produced by individual companies.

Personal vehicles' share of CO₂ production is low (only 0.2%), but nevertheless, vehicle manufacturers are taking the problem seriously. The operation of a vehicle reportedly most influences the creation of CO₂ emissions and is responsible for about **77% of them**.

Vehicle manufacturers also want to manage the challenge with alternative fuels. One of the available options is **compressed natural gas (CNG)**, which is also cheaper than traditional fuels and releases 25% fewer emissions than gasoline.

However, according to the Ministry of the Environment, there are several obstacles standing in the way in the Czech Republic, such as **insufficient infrastructure**. On the D1 motorway from Prague to Brno, there is not even a service station offering CNG. There is one nearby, but it is not directly located along the motorway.



Another problem is with restrictions on storage of CNG vehicles in garages.

The Ministry of the Environment wants to support clean mobility during the next programme period of **European funds (2014-2020)**. Unlike during the last period, the new Environment Operation programme does not directly refer to clean mobility.

The European money should support, for example, **acquisition of vehicles using alternative fuels** and the development of necessary infrastructure. Financing can be requested by local governments, legal entities, research institutions and state bodies.

http://www.consilium.europa.eu/uedocs/cms_data/docs/pres_sdata/en/envir/141422.pdf

Until 2020, the Czech Republic will invest up to 240 billion to save on energy costs

Until 2020, the Czech Republic will have to **save on end consumption of energy** approximately as much as the Temelín nuclear power plant produces annually. The savings will be divided among households, industry and the service sector. The Czech Republic has set for itself a goal of **47.84 PJ (13.29 TWh) by 2020**.

This is based on a requirement that the new directive regarding energy efficiency has imposed on it and other member states. It was approved by EU states and the Parliament in 2012, and EU member states must implement it by **5 June of this year**.

The Czech Republic could fulfil the goal, if each year it saved **1.5% of the energy it sells to end customers annually**. This is a measure that the directive directly requires member states to implement.

Therefore, the Ministry of Industry and Trade has determined what is necessary in order to fulfil this requirement.



Until 2020, the Czech Republic will invest up to 240 billion to save on energy costs. - Czech authorities will try to rescue unused billions from EU funds for 2007-2013. - A delegation of MEPs visited the Czech Republic in March to examine the current situation with EU funds. - Ukraine's prime minister and EU leaders have signed the political part of the Association Treaty. - EU foreign ministers in Brussels have approved sanctions against 33 people from Russia and Crimea.

The government wants to save the largest share of energy (44%) in industry. The energy efficiency of production technology is expected to be increased, along with the efficiency of the buildings in which industrial firms have their headquarters. Households should achieve 29% savings, thanks to better efficiency in buildings.

The service sector would be responsible for the remaining 27%. By 2020, all of this is expected to cost **150 to 240 billion invested Czech crowns**. Two thirds of that amount will be ensured by private investments, and one third will be ensured by investments from state and European money.

http://ec.europa.eu/energy/efficiency/eed/doc/reporting/2013/cz_2013report_cs.pdf

COHESION POLICY

Czech authorities will attempt to rescue billions not drawn from EU

Czech authorities will attempt to rescue **24 billion euros**, which are prepared for the Czech Republic in EU funds, but which the country has not yet been able to draw. Czech cabinet ministries have prepared a crisis plan with a set of measures, which the government is expected to approve at the beginning of March.

According to Minister for Regional Development Věra Jourová, these measures, on which individual ministries and regions have been working, include quick launching of certain transport products and releasing of approximately **CZK 3 billion for heating public buildings**.

Another possible way to rescue certain resources from EU funds is to **shift them to more successful priorities** within individual operational programmes. This will apply, for example, to the Environment OP.

For large projects, the option of **phasing** can be used, meaning their division into specifically defined parts and transferring of the final ones to the new period after 2015.

<http://www.euractiv.cz/regionalni-rozvoj/clanek/jourova-predstavila-krizova-opatreni-jak-zachranit-nevyucerpane-miliardy-z-fondu-eu-011620>

EXTERNAL RELATIONS

Ukraine's prime minister and EU leaders sign political part of the Association Treaty

Ukrainian Prime Minister **Arseniy Yatsenyuk**, European Commission Chairman **José Manuel Barroso**, European Council Chairman **Herman Van Rompuy** and leaders from the EU 28, including Czech Prime Minister **Bohuslav**

Sobotka have signed part of the Association Treaty with Ukraine at a summit of EU leaders in Brussels.

It is focused on political dialogue, **support during reforms and defence and security cooperation**.

According to Rompuy, this part of the treaty will help Ukraine with its reform process and give the country's citizens hope for the European lifestyle that they deserve.

The signed treaty is interim. The signatories agreed in it that they want to complete negotiations regarding other parts of the treaty. **So far the key trade part of the treaty does not apply**, and it is not expected to be signed until after the May presidential elections. It is expected to eliminate customs between the EU 28 and Ukraine.

However, the European Commission has proposed **unilateral cancellation of customs fees for Ukrainian products**, while for the time being Ukraine could maintain its customs fees on EU products. Former Ukrainian president Viktor Yanukovich's refusal to sign the Association Treaty was what triggered the mass demonstrations in Ukraine that led to a change of power.

http://www.consilium.europa.eu/uedocs/cms_data/docs/pres_sdata/CS/ec/141719.pdf

EU and USA impose sanctions on Russia

EU foreign ministers in Brussels have approved **sanctions against 33 people from Russia and Crimea** considered responsible for the Russian military's occupation of the Crimean peninsula and the holding of the referendum regarding Crimea joining the Russian Federation. The United States has also imposed sanctions on 11 people.

The EU already previously **suspended negotiations regarding cancellation of visa requirements** and preparations to sign a new partnership and cooperation agreement. However, the EU wants to toughen the sanctions. Therefore, **it will stop issuing visas to selected officials from Russia and Crimea and will freeze their European accounts**. The reactions from the EU and the United States follow a referendum in which inhabitants of the Crimean peninsula decided it should become part of Russia.

http://www.consilium.europa.eu/uedocs/cms_data/docs/presdata/EN/foraff/141603.pdf

http://www.consilium.europa.eu/uedocs/cms_data/docs/presdata/EN/foraff/141741.pdf

The European Commission Representation in the Czech Republic has been adding regularly to the Monthly with contributions in the Commission's column section. The April issue focuses on the tenth anniversary of the Czech Republic's accession to the EU. The Czech Government Office, the European Commission Representation in the Czech Republic and the European Parliament Information Office in the Czech Republic in cooperation with other partners has planned a number of important events intended both for the general public and the professional community to mark the occasion.



10 YEARS IN THE EUROPEAN UNION

Ten years ago, 1 May 2004, the Czech Republic became a member of the EU. Another nine countries joined the Czech Republic in entering the EU in the largest ever EU enlargement. The CR's accession to the EU represented a successful culmination of a process, which had been started more than eight years before with an official application for membership and which until its final phase Czech citizens were directly involved in, when they voted in favour of the country joining the EU in a 2003 referendum.

The Czech Government Office, the European Commission Representation in the Czech Republic and the European Parliament Information Office in the Czech Republic in cooperation with other partners has planned **a number of important events** intended both for the general public and the professional community to mark the occasion. The purpose of these activities is not only to commemorate this year's anniversary in various ways, but also to provide room for discussion both about experiences with membership so far and about the future direction of the Czech Republic in the EU and about the EU as a whole.

Commemoration of the occasion at the highest levels will be the focus of the day-long conference entitled "**Czech Republic through the Eyes of Europe, Europe through the Eyes of the Czech Republic**", which will be held under the auspices and with the participation of Czech President Miloš Zeman at Prague Castle on 11 April. Speeches will be given by European Parliament Chairman Martin Schulz, Czech Senate Chairman Milan Štěch, Czech Chamber of Deputies Chairman Jan Hamáček, Czech Prime Minister Bohuslav Sobotka, European Commissioner Štefan Füle and several other officials.

The public will commemorate the tenth anniversary of the Czech Republic's EU membership at the two-day festival **10let.eu**, which will be held on 29 and 30 April on Střelecký Island in Prague. Admission to the event will be free of charge, and the event will include besides musical performances on the main stage, also information stands of embassies of EU member states, the European Global Navigation Satellite Systems Agency (GSA), the Czech Ministry for Regional Development (which will present selected projects jointly financed from EU structural funds) and other partners. There will even be a tent with presentations of documentary films.

The festival will include a floating vessel with a presentation by the European initiative **Youth in Motion**. Students from secondary schools and universities will be able to become

familiar with programmes and tools for supporting education, professional preparation, employment, business activities and mobility of young people.



Both the past decade and outlooks for development of the EU in the future for entrepreneurs will be the main topics of an event called **the Business Forum: 10 years of the Czech Republic in the EU**. At an event which will be held at Lichtenstein Palace in Prague on 30 April under the auspices of the Czech Republic's prime minister, participants will discuss issues related to economic integration, innovation, the Czech Republic's competitiveness in the EU, the Czech Republic's priorities in the internal market and cohesion policy.

The international conference **Five years of Eastern Partnership: time for a new strategy?** to mark the occasion of the establishing summit of Eastern Partnership in Prague will be held under the auspices of the Czech president on 24 and 25 April by the Czech Ministry of Foreign Affairs and the Association for International Affairs.

It will be possible to discuss our membership in the EU, for example, at an event entitled "**Interest in the EU from the Czech media and public - how much does it interest us?**", which will be held in the European House on 21 May by the European Institute for European Policy.

Several cultural events will also be devoted to the tenth anniversary of the Czech Republic's EU accession, such as the **Concert for Europe**, at which the enlargement of the EU will be commemorated on 1 May at Rudolfinum in Prague by the Czech Philharmonic Orchestra, the Czech Philharmonic Choir and soloists directed by the head conductor of the Czech Philharmonic Orchestra, Jiří Bělohlávek.

The last decade as well as the developments that preceded the Czech Republic's accession to the EU will be presented in an exhibit of photographs from the archives of the Czech News Agency (ČTK) entitled **10 years of the Czech Republic in the EU**, which can be viewed as of mid April at Sova's Mills at Kampa and subsequently from mid May at the Piazzeta of the National Theatre.

A complete list of the planned events that will be held in different regions can be found during April on the website www.10let.eu.

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://gr2014.eu/events/>

Meeting of the key EU institutions

1 - 2 April 2014	Athens, Greece
- Informal Meeting of Ministers for Economic and Financial Affairs (ECOFIN)	
2 - 3 April 2014	Brussels, Belgium
- European Parliament Plenary Session	
4 - 5 April 2014	Athens, Greece
- Informal Meeting of Ministers for Foreign Affairs (Gymnich)	
14 April 2014	Luxembourg
- General Affairs Council	
14 - 15 April 2014	Luxembourg
- Agriculture and Fisheries Council	
14 - 15 April 2014	Luxembourg
- Foreign Affairs Council	
14 - 17 April 2014	Strasbourg, France
- European Parliament Plenary Session	
15 April 2014	Luxembourg
- Meeting of the Foreign Affairs Council (FAC) (Defence)	
24 - 25 April 2014	Athens, Greece
- Informal Meeting of Ministers for Cohesion Policy	
28 – 30 April 2014	Athens, Greece
- Informal Meeting of Ministers for Employment, Social Policy, Health and Consumer Affairs	
5 May 2014	Brussels, Belgium
- Eurogroup	
6 May 2014	Brussels, Belgium
- Economic and Financial Affairs Council	
8 May 2014	Brussels, Belgium
- Foreign Affairs Council	

Source: www.europa.eu, <http://gr2014.eu/events/>, access as of 27th March 2014

The pro-export Czech economy essentially needs for the years to come four decisive things in terms of internal policies: a fundamental change to the contents and structure of education, limitation of regulation and audits, a flexible labour market and an energy policy that ensures enough affordable energy. You can read more about this in our April "Microscope" section. This contribution, which was published in *Hospodářské noviny* in the Leader's Voice section, was provided to us by Pavel Kysilka, Chairman of the Board of Directors of Česká spořitelna.



CZECH REPUBLIC WILL NOT BENEFIT OUTSIDE EU INTEGRATION CURRENT

Only one factor has kept the Czech economy afloat in the last four years. **Exports.** The industrial character of our economy and its strong tie to the German economy have had very favourable results. Export currently makes up nearly **80% of our GDP**. That is a fascinating number. For a comparison, in Poland it makes up 47% of GDP, 30% in Italy, 27% in France, 13% in the USA, 31% in Great Britain, 57% in Austria, but 97% in Slovenia.

A third of our exports go to Germany. Of our total exports to Germany, a third (mainly investment goods) are re-exported **to China, India, Russia, Latin America and North America**. If we include among the Czech-German re-exports our growing direct exports to these dynamic regions, we can see how strongly the Czech Republic differs from the majority of EU countries, with no outlook.

Germany itself has long been a truly non-textbook rarity. It is such a large economy, that in terms of demand it should and to a great extent could be self sufficient. Nonetheless, for many decades we have noticed its strong export-import openness. Today it exports more than half of its GDP.

For a comparison, an export power such as **Japan** has this share at only approximately 15%, and China has 30%. This German paradox can be attributed to influences outside of the economy, linked to two engrained characteristics, work productivity and consumer hesitance (savings), which is a combination, which already since the last quarter of the 19th Century has created enormous export pressure in Germany. In view of the 100th anniversary of the outbreak of World War One, it makes sense to remind readers that the colonial imperial barriers applied **by Britain and France against German exports** (together with restricted access to raw materials) were not possible to overcome by regular diplomacy and politics and unfortunately became one of the causes of the destructive conflict.

Internal politics in Germany in the second half of the 20th Century deviated from the existential needs of the export industry very seldom (current excesses in energy policy will become an insignificant episode and will be abandoned). Germans themselves have been adopting reforms without problems, which have boosted their global competitiveness, and which would not succeed in most European countries, due to local politics. Their aim and intended effect is **wage austerity and work discipline**. This enables flexibility in the labour market, which in most European countries certainly is not routine and is not currently imaginable.

Germany's active foreign-policy concept, particularly its strong support for integration and globalisation, will have a much better effect on the country's export capabilities than internal reforms. Germany has benefited most and continues to benefit from the creation of the Eurozone; the euro is **a 40% weaker currency** than the German mark would be today if it were still used.

The pro-export devaluation exchange rate policy, which in the interest of exporters has been implemented by central banks in countries including China and the Czech Republic, supplements in the Eurozone the "successful" existence of their economically and therefore also currency-related weakening links, such as Spain, Greece, Portugal, Italy and France. It is no wonder that President Gauck two weeks ago in his opening address at a security conference in Munich spoke very openly about globalisation and integration not as abstract and in intellectual Europe fashionable values, but as existential and very practical national interests.

What effect will this have on us? We know that without economic prosperity we will have to reduce our ambitions significantly and over the long term in all key social areas, such as population health, care for socially needy, protection of cultural heritage, including landmarks, and care for the environment and well as development of science, art and sport. In the Czech Republic's case, economic prosperity is clearly pulled by export competitiveness of industry. It essentially needs four decisive things in terms of internal policies: a fundamental change to the contents and structure of education, limitation of regulation and audits, a flexible labour market and an energy policy that ensures enough affordable energy.

In external policies, it needs abandonment of poses standing aside from main integration and globalisation debates and tendencies and adoption of their active and even activist participation, which through effective coalitions and alliances will push and defend our existential economic and community interests. **These include the following four:** the original roots of European integration (free movement of goods, services, work and capital), all essentially linked through not entirely popular steps and measures (adoption of the euro, entry to the banking union, etc.), a European energy policy stripped of ideological dogma, which will ensure sufficient affordable energy, and significant reduction of Brussels bureaucracy and regulations, which strain business, reduce employment and result in massive wasting of economic resources.

Pavel Kysilka, Chairman of the Board of Directors of ČS



Main topic

In the main topic of the April Monthly, we focus in detail on the cohesion policy in the EU. The European Commission, during its multi-year financial framework, has made public its allocation of financial resources for the cohesion policy for individual member states for 2014-2020. The specific amounts of financial resources, which will be allocated to states, is not much of a surprise. From a detailed examination, we can find a number of interesting facts.

EU COHESION POLICY 2014-2020: WILL EUR 167bn OF EU FUNDS GIVE CEE A BOOST?

1. ANALYSIS OF TOTAL ALLOCATION FOR 2014-2020

The European Commission has just published the final figures for allocation of the cohesion policy 2014-2020 for individual member states. In general, the released figures have not brought too much of a surprise, although the more detailed insight brings some interesting outcomes.

The financial assistance from EU structural and investment funds for CEE could become a **stimulus similar to the Marshall plan** for Western Europe after World War II. The total budget for the cohesion policy 2014-2020 which is implemented by the European structural and investment funds was already fixed in December 2013. The amount for 2014-2020 reaches **EUR 351.9 bn** in current prices and is **1.3 % higher** than in 2007-2013.

CEE-6 (Croatia, Czech Republic, Hungary, Poland, Romania and Slovakia) with earmarked EUR 167.1 bn. will **get about half of the total cake**. Comparing with 2007-2013 period it is **11 % more**. In the best case scenario the effective utilisation of this huge amount of money will **raise the economic and social potential** of CEE countries on the completely upper level, and the difference between the Western and Eastern member states in the EU will slowly come close to the end.

The satisfying absorption level in CEE should lead to the faster convergence. If the European funds are used effectively for investments that spur the growth, the pace of development should accelerate. We estimate that in 2014-2020 budgeting period EU funds should contribute to growth figure from 0.3pp to as much as 0.8pp on average, depending on the amount of funds allocated and the current stage of country's development. As one can expect, the EU funds should have bigger impact on less developed countries (such as Romania) and smaller influence on more developed countries (such as Czech Republic). If the countries are successful in utilization of EU funds, the

differences in stage of development between the countries should steadily diminish and distinction into the developed and emerging economies of the EU will no more follow the former Iron Curtain.

As of 2012, it was only the **Czech Republic** and **Slovakia** from CEE-6 that beat some of the old member states (namely Greece and Portugal) in terms of economic performance. If the potential of EU funds is fully utilised, we can estimate that other CEE countries (especially **Poland** and **Hungary**) have potential to surpass the struggling economies of the southern periphery of the Eurozone by 2020 as well. **Romania** and **Croatia** have the longest path ahead on their convergence trip. If they overcome all the obstacles from the 2007-2013 period in utilizing money from EU funds (this is especially the case of Romania) they will by 2020 achieve the same level of economic performance as the current leaders among the CEE-6.

To fully utilize the potential of money from the European structural and investment funds, lots of work needs to be done. In order to increase the absorption capacity of CEE-6, we recommend a set of measures. Most of them will need to be adopted on the national level: a significant **decrease of bureaucracy**, a more **transparent process of projects selection** to avoid (a suspect) of corruption, higher **quality of performance of public administration**, **simplification of the implementation system** with a smaller number of operational programmes and shorter deadlines in accessing and contracting the projects, wider cooperation with pre- and co-financing commercial banks. But we can identify some proposals for absorption improvement also on the cross-border level (more intensive cooperation between countries in the region) and the EU level (more public information on the absorption rates in individual member states).

2. WINNERS AND LOSERS OF THE EU FUNDS ALLOCATION BATTLE

Poland could be named as the main winner of tough negotiations over the billions of euros from the EU funds. The biggest economy in the CEE will welcome EUR 77.6 bn between 2014 and 2020, which is the largest amount among all the EU member states.

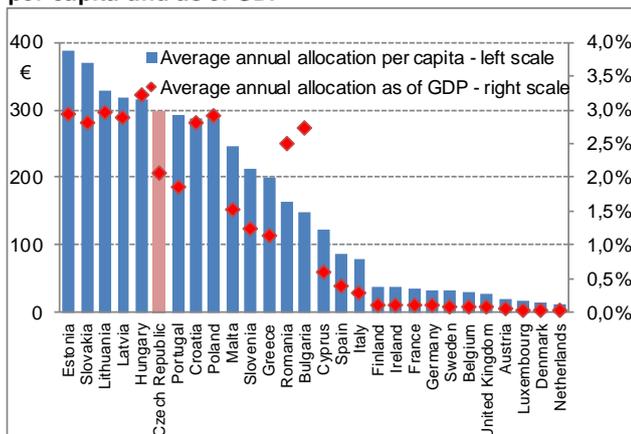
Moreover, **Poland** is one of the few countries that will receive an increased amount of financial means compared to the allocation for the European cohesion policy in the 2007-2013 period.



Since the absolute amount of money from the EU funds reflects the size of the economy and population, the amounts expressed as of the number of citizens could be a more appropriate indicator for judging the success of individual member states in the EU funds negotiation battle. In the category average annual allocation per capita, the winner is **Estonia** (roughly 387 EUR per capita per year) followed by **Slovakia** and **Lithuania**.

An interesting view is also offered by the total allocation divided by the total size of the economy expressed by the total GDP in current prices. From analysing the indicator of the annual average allocation as of GDP, it is clear that the most money from EU funds in relative terms will go to **Hungary** (3,2 % of GDP per year), ahead of **Lithuania** and **Estonia**.

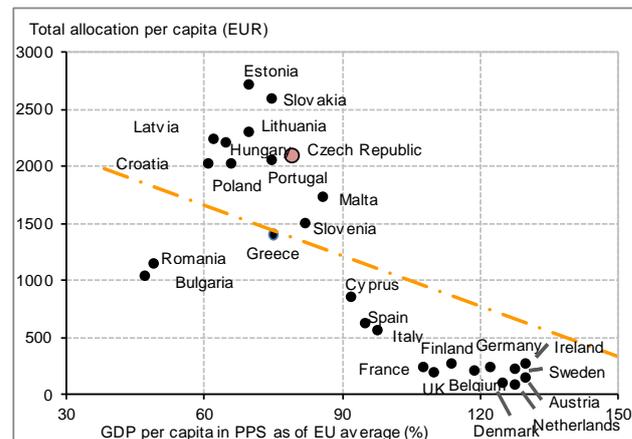
Average annual allocation in 2014-2020 in relative terms - per capita and as of GDP



Source: EC, Eurostat; GDP for 2012, population as of 1.1.2013

From comparing the cohesion policy allocation per capita with the economic development (in GDP per capita as of EU average), in the all 28 member states we can confirm or reject the **basic principle of the cohesion policy**, which is to start up and speed up the convergence process in the

Efficiency of cohesion policy 2014-2020



Source: European Commission, Eurostat

under-developed member states. In general we can conclude that the more developed a country's economy is, the less money it will receive from EU structural and investment funds. But beside this general pattern, we can identify some deviations.

Romania and Bulgaria, both the least developed members of the EU, receive fewer subsidies – expressed per capita – from EU funds than they should. On the other hand, most CEE countries (especially **Estonia** and **Slovakia**) will welcome more money within the EU cohesion policy in 2014-2020 than corresponds to their actual economic performance.

One explanation is that the CEE countries were more successful in the negotiations in the EU. Another explanation is that we should take into account not only the funds within the cohesion policy, but also the financial assistance from other European programmes – mainly from the Common Agriculture Policy.

And in this policy, both Balkan countries with a high share of agriculture receive sufficient amounts of subsidies.

3. IMPACT OF EU FUNDS IN 2014-2020 ON ECONOMIC PERFORMANCE

Since transition, CEE countries have been growing dynamically. Before the crisis, the average rate of growth for **CEE-6 was 3.8%**, while EU15 expanded **by 2.3%** on average. In consequence, CEE economies have been steadily converging to the European level.

Throughout that time, the level of GDP as a percentage of EU27 visibly increased across CEE region. For example, Hungarian and Polish GDP levels **were close to 50% of**

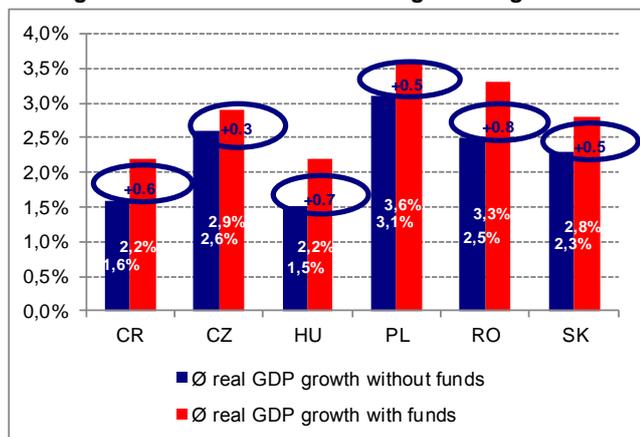
total EU27 in the middle of nineties, and, twenty years later, it is almost as high as 70% of total EU27. Further, Czech Republic and Slovakia are already categorized as developed or advanced economies.

Moreover, we believe that CEE-6 has potential to outperform the “old Europe” and we expect these economies to grow twice as fast as Eurozone this year. Moreover, the growth should become more balanced, driven



Main topic

Average contribution of EU funds to growth figure



Source: European Commission, Eurostat

not only by net exports, but also by increasing private consumption and investment. This year, for the first time since crisis, we expect positive investment dynamics in all CEE countries and the upward trend should remain in following years as well.

In our view, one of the reasons to be optimistic in this category is the upcoming inflow of EU funds. In our view, **investment undertaken thanks to EU funds** (either in physical or human capital as well as building the appropriate institutional framework) supported the economic development throughout the last decade and fostered the convergence of CEE countries. We expect that the upcoming budgeting period should be no different.

Majority of CEE-6 countries plan to spend a considerable share of allocated EU funds on development of infrastructure network. Building road and railway network should have positive influence not only on the growth figure itself (through higher investment level), but also on the attractiveness of the country as investment destination.

Well-developed connections between major cities may contribute to development of the region long after the EU funds are gone, for example by attracting investors or increasing the mobility of labour force.

Another factor worth highlighting is that CEE countries will face the opportunity to boost the **R&D and spending on education**. Although CEE-6 are still catching-up, the long term and sustained development requires the economic growth to become knowledge and innovation based. The support in form of EU funds may occur to be a unique chance to help the CEE economies to become more innovative that should support long-term growth potential.

All in all, we estimate that all CEE-6 should benefit from EU funds, to a different degree however. **Czech Republic** as most developed economy among all CEE-6 should enjoy economic growth, on average, higher, by roughly 0.3pp due to inflow of EU funds.

The average contribution coming from utilizing EU funds for **Poland and Slovakia** should be around 0.5pp, slightly less than for **Croatia**, for which our estimate point to 0.6pp positive contribution to growth figure. **Hungary and Romania**, in our view, should enjoy the biggest positive impact of additional 0.7pp and 0.8pp respectively.

4. OVERVIEW OF DRAWING OF EU FUNDS IN CEE IN 2007-2013

A quick proxy of ability of EU member states to effectively use the money from EU funds in 2014-2020 could be the

result of **drawing the EU money in 2007-2013**. Here are the figures for CEE-12 countries.

State of EU funds implementation in 2007-2013 in CEE-12

Member state	Allocation (EUR bn)	Payments (EUR bn)	Absorption rate	Member state	Allocation (EUR bn)	Payments (EUR bn)	Absorption rate
1. Estonia	3.4	2.8	81.3%	7. Hungary	24.9	14.8	59.3%
2. Lithuania	6.8	5.3	78.8%	8. Slovakia	11.5	6.0	52.6%
3. Poland	67.2	45.6	67.9%	9. Czech Republic	26.5	13.6	51.1%
4. Latvia	4.5	3.0	66.0%	10. Malta	0.8	0.4	50.3%
5. Slovenia	4.1	2.6	62.9%	11. Bulgaria	6.7	3.3	49.5%
6. Cyprus	0.6	0.4	61.3%	12. Romania	19.1	7.2	37.8%
TOTAL	176.1	104.9	59.6%	-	-	-	-

Source: European Commission, data for ERDF, CF and ESF as of December 2013; absorption rate equals payments divided allocation



The champions at EU funds utilisation among the CEE-12 countries are all the **Baltic states**. Only **Poland** at the 3rd place with a 67.9 % payment rate ranked among them. **Hungary** with a 59.3 % utilisation rate was 7th.

The **Czech Republic** has been suffering from too complicated of an implementation system with too many programmes and with half of utilised EU funds (as of December 2013) occupied 9th place.

Its eastern neighbour Slovakia registered a slightly higher payment rate (52.6 %) and 8th place among CEE-12 countries.

At the last place there is **Romania**, the newcomer to the European Union from 2007. The provisional poor result could stem from the shortage of experience and weak performance of public administration. Until December 2013 Romania received only a bit more than a third of the allocation for 2007-2013.

We have to admit that all the above mentioned figures are only provisional. Due to the rule “N+2” the countries have two more years, meaning until the end of 2015, to spend the money from EU coffers devoted to the 2007-2013 period. For **Slovakia** and **Romania** applies the “N+3”.

5. LESSONS LEARNT FROM 2007-2013 AND PROPOSALS FOR IMPROVEMENT

To utilize the full potential of the EU funds in 2014-2020 the CEE countries should learn the lessons from the past programme period of 2007-2013 and adopt some changes and measures:

- **Blame and shame** – The European Commission should more practise the “blame and shame game” in EU cohesion policy. Although the EC gathers all the relevant information regarding the absorption in individual member states, there is no regular assessment report on this policy being published.

If the EC on a monthly basis produced a report on EU funds absorption in all EU member states, the countries with the poorest results could be more under public pressure to eliminate their obstacles and improve their absorption.

- **More intensive cooperation** – The CEE countries need to tackle similar problems, and therefore they should benefit from higher cross-border cooperation in the region through methods as more frequent sharing of experience, sharing of best practices and benchmarking (i.e. comparing their absorption rates and outcomes with the best outcomes among CEE countries).
- **Simple implementation system** – More often means less. This same applies for the situation in the implementation system among some CEE countries (especially the Czech Republic).

Too many operational programmes run by the too many managing authorities make the whole system too complicated to final recipients and discourage some potential applicants from applying for a subsidy.

- **Decrease general bureaucracy** – This recommendation is closely linked to the previous one, as too complicated of an implementation system often equals high and widespread bureaucracy. Therefore, in some countries the low absorption is linked to the high bureaucratic burden associated with the projects (e.g. Slovakia, Poland).

Complicated bureaucratic procedures are probably the most common disincentive to start the application process in the first place.

- **Increase transparency** – In some countries there appeared serious doubts about the fairness of EU subsidies allocation to final recipients and somewhere (the Czech Republic) even some criminal activities regarding the distribution of EU funds. Making the project selection process more transparent and fair will improve the image of all EU cohesion policy instruments in individual member states and will lead to realising only the best projects.
- **Time matters** – The long periods of time spent on project assessment and contracting is another challenge for some CEE countries (mainly Romania) for the future programme period 2014-2020. It could be achieved by higher performance of relevant state authorities.
- **Consult the banks** – The private banks play an important role in the whole process of implementation because they provide the EU subsidy recipients with bank pre- and co-financing. If the projects do not receive bank financing they will not be realised. The EU subsidies should be granted only to the subjects with viable projects from the private banks' perspective.

6. PREFERRED AREA OF SUPPORT FROM EU FUNDS IN CEE-6 IN 2014-2020

After the final decision of cohesion policy allocation for individual member states, the negotiations between the states and European Commission over the preferred areas of financing could start. Since the process is at the very beginning, we cannot comment on the decided outcomes.

Therefore, we will rather make a recommendation regarding which areas in the CEE countries should be preferably supported from the European structural and investment funds.

Czech Republic

The total allocation from EU structural and investment funds in 2014-2020 for the Czech Republic is **EUR 22.0 bn**, which amounts to EUR 299 per capita annually and 2.1% of GDP.

The biggest share of subsidies from European structural and investment funds in 2014-2020 should go to **infrastructural projects**, mainly in the area of transport, with earmarked almost 30 % of the allocation. Projects supporting **R&D and all kinds of education** should receive approximately one fifth of the Czech allocation for 2014-2020).

Roughly the same amount of money from EU funds should flow into the projects focusing on low carbon economy, climate change issues and **environmental protection**. One tenth of the total financial allocation should be invested into **business sector support** (mainly to SMEs) and ICT development.

Around 15 % of the total allocation should be invested in the labour market, social inclusion issues and work & life balance topics. The rest 5 % of total allocation should finance the administration capacity building and technical assistance.

Slovakia

The total allocation from EU structural and investment funds in 2014-2020 for Slovakia is **EUR 14.0 bn**. It means annually 369 EUR per capita and 2.8 % GDP.

The number of operational programmes is likely to decrease to nine during the new programme period, and funds are likely to be redistributed in order to improve the drawing (which has been rather poor).

Education and research have been among the least drawn programmes and are likely to lose a portion of the allocation in favour of other programs - especially infrastructure.

Infrastructure will be the main priority for 2014 - 2020, as the highway network is still far from complete. This is perceived as a major obstacle to attracting foreign investors to the eastern part of the country. Hence, as much as 26 % out of the total EU funds allocated for Slovakia will be used for infrastructural projects.

Apart from that, programmes concerning the **labour market** (especially those concerning the long-term and youth unemployed) are likely to get more funding, as the country has the 6th highest unemployment rate in the EU. Hence, the Human resources program should get 13 % of the funds. Other priorities include **Research and innovation** (14.5%) and **Environment** (20.6%).

Hungary

The total allocation from EU structural and investment funds in 2014-2020 for Hungary is **EUR 21.9 bn**. It means annually 316 EUR per capita and 3.2 % GDP.

The largest (indicative) target areas for improvement according to a document by the Planning Office of National Economy are fostering **employment and mobility** (about 18%) and **improving competitiveness of SMEs** (similar amount). The government communicates that about 60% of EU funds should directly support economic development and employment.

On the other hand, while above 10% is planned to **foster R&D and enhancing innovation**, only about 7% is planned for **education, improving skills of the labour force** and fostering **life-long-learning** altogether. Given that one of the largest bottlenecks for Hungary's economy is the inability to employ large numbers of people due to inadequate skills and education, this area should deserve higher attention.

Against this backdrop, while it is appreciated that the government wants to allocate huge amounts of money to foster employment and remove mobility burdens, we think that the latter problems can also be helped by other measures (eg. weakening the incentives for home ownership, or supporting commuting and transport of the employed).

Romania

The total allocation from EU structural and investment funds in 2014-2020 for Romania is **EUR 23.0 bn**. It means annually 164 EUR per capita and 2.5 % GDP.



Main topic



The biggest share of this amount will go to **environment** and **transport** (more than 20%, each), but less than 8% to education. In our view, **education** and **health** are two key areas where much more funds should be allocated in the upcoming years as those two sectors are heavily under-financed.

Medical services are in poor shape (lack of medical equipment in public hospitals, obsolete hospitals and medical units, doctors' fleeing to western countries). As for the education, an increasingly higher number of primary schools in the rural areas have been shut down, making it difficult for children to reach school, while the dropout rate is worrisome.

Higher and more efficient funding for these two sectors – health and education – should be considered also from the perspective of Romania's need to **increase its R&D spending**, from 0.5% of GDP in 2012 to 2% of GDP by 2020.

Croatia

The total allocation from EU structural and investment funds in 2014-2020 for Croatia is **EUR 8.6 bn**. It means annually 289 EUR per capita and 2.8 % GDP.

Several segments where to put the money from European structural and investment funds could be identified as the key ones. But according to our analysis we would like to highlight investment into the transport infrastructure, most notably **railways** and **ports**. Another big topic in Croatia for the programme period 2014-2020 will be **energy efficiency** and **renewable sources of energy**.

We see huge potential also in support of ICT, especially in **development of IT infrastructure** such as extending the

broadband Internet coverage or projects such as e-Healthcare or e-School, i.e. public services upgrades to produce a more competitive environment.

The last but not least area deserving investment from EU funds involves the broad topic of **competitiveness & employment**, i.e. supporting SME, promoting R&D, education and active employment policies.

Poland

The total allocation from EU structural and investment funds in 2014-2020 for Poland is **EUR 77.6 bn**. It means annually 288 EUR per capita and 2.9 % of GDP.

The money from EU structural and investment funds in 2014-2020 flowing to Poland will be divided among a few categories such as infrastructure and environment, development, R&D, education and digitalisation of the country.

The biggest share of subsidies, i.e. slightly more than a third of all funds, will be invested in **infrastructure and environmental projects**.

For example, Poland shall continue building the S7 road between Cracow and Warsaw and further to Gdansk, for which around EUR 1.7 bn in a subsidy was planned in the previous budgeting period. This and other infrastructure projects, which will be able to utilize as much as EUR 19 bn in a subsidy, shall finally result in an express road and railway network connecting all major cities.

Development and education are next in the queue as there are around 15% of all subsidies planned for projects in these two categories. Development program sets ambitious goal that aims at increasing the amount of funds that are spent on R&D. The new, bottom-up approach should encourage the entrepreneurs to take advantage of roughly EUR 8.6 bn to increase their investment in R&D.

These projects can help the economy to transform from a catching-up stage to balanced growth based on innovation. Another EUR 4.1 bn, among all, should be investment in education and training in order to promote employment, as improvement of labour market conditions, especially to support unemployed youth (where the unemployment rate exceeds 25%) is another priority in 2014-2020.

Apart from operational programmes realised at the national level, there are 16 programmes that will introduced **at the regional level**. Regional government will be managing around 40% of all funds.



Main topic

Total allocation of the EU cohesion policy for 2014-2020

	Total allocation (mil. €)	Total allocation per capita* (€)	Average annual allocation (mil. €)	Average annual allocation per GDP**	GDP per capita as of EU average***
Belgium	2 283.9	204.6	326.3	0.1%	119%
Bulgaria	7 588.4	1 041.7	1 084.1	2.7%	47%
Czech Republic	21 982.9	2 090.4	3 140.4	2.1%	79%
Denmark	553.4	98.8	79.1	0.0%	125%
Germany	19 234.9	234.5	2 747.8	0.1%	122%
Estonia	3 590.0	2 709.8	512.9	2.9%	70%
Ireland	1 188.6	258.9	169.8	0.1%	130%
Greece	15 521.9	1 403.1	2 217.4	1.1%	75%
Spain	28 559.5	611.5	4 079.9	0.4%	95%
France	15 852.5	241.5	2 264.6	0.1%	108%
Croatia	8 609.4	2 020.0	1 229.9	2.8%	61%
Italy	32 823.0	549.9	4 689.0	0.3%	98%
Cyprus	735.6	849.6	105.1	0.6%	92%
Latvia	4 511.8	2 229.4	644.5	2.9%	62%
Lithuania	6 823.1	2 295.9	974.7	3.0%	70%
Luxembourg	59.7	111.2	8.5	0.0%	262%
Hungary	21 905.9	2 210.8	3 129.4	3.2%	65%
Malta	725.0	1 720.6	103.6	1.5%	86%
Netherlands	1 404.3	83.7	200.6	0.0%	128%
Austria	1 235.6	146.2	176.5	0.1%	130%
Poland	77 567.0	2 013.0	11 081.0	2.9%	66%
Portugal	21 465.0	2 046.8	3 066.4	1.9%	75%
Romania	22 993.8	1 148.5	3 284.8	2.5%	49%
Slovenia	3 074.8	1 493.5	439.3	1.2%	82%
Slovakia	13 991.7	2 585.9	1 998.8	2.8%	75%
Finland	1 465.8	270.1	209.4	0.1%	114%
Sweden	2 105.8	220.4	300.8	0.1%	128%
United Kingdom	11 839.9	185.3	1 691.4	0.1%	110%
EU 28	351 854.2	693.7	50 264.9	0.4%	100%
CEE-6	167 050.6	1 884.4	23 864.4	2.7%	n/a

Source: European Commission; *) population as of 1st January 2013, **) GDP for 2012, ***) GDP/cap in 2012 in purchasing power standard, not FX



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 Greece.

GREECE	
Official name	Hellenic Republic
Population	10 772 967 (2013)
Area	131 957 km ²
Currency	Euro (EUR)
Official language	Greek

Source: Eurostat

Greece is located in the south part of the Balkan peninsula and on adjacent islands. It consists of 13 regions. It is bordered by Albania, Macedonia, Bulgaria and Turkey.

Supreme power is held by the country's parliament, comprised of 300 members elected for four-year terms. The country's parliament elects the president in three rounds. The current Greek president is Karolos Papoulias. Supreme executive power is in the hands of the prime minister, currently Antonis Samaras.

Structure of economy and foreign trade

Agriculture makes up 3.4% of GDP in Greece and employs 12% of the labour force, which is about twice as many people as in the EU as whole.

The situation in industry is different. Only 15.6% of the country's workers work in that sector, producing just over 16% of GDP, two times less than in the Czech Republic. The dominant sector is the service sector, where 72.2 % of the labour force works and which comprises 80.2 % of GDP.

Greece's main export partners are Turkey (10.9%), Italy (7.8%) and Germany (6.5%). The country exports mainly

food and beverages, petroleum products, chemical products and textiles. It imports mainly machines, transport equipment, fuel and chemicals.



The country's main import partners are Russia (12.1%), Germany (9.5%) and Italy (8.3%).

Macroeconomic outlook

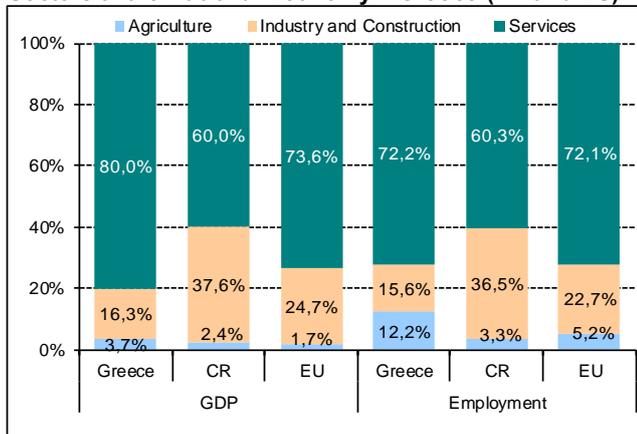
The first half of 2013 showed that the decline of GDP is slowing, and according to the latest prognosis whole-year GDP in Greece is expected to decline "only" by 3.7%. This is due mainly to the strong growth of summer tourism together with increased confidence and financial indicators (ESI, PMI and revenues from government bonds).

Absorption of resources from EU and EIB funds should help renew large projects, such as roadway construction, and boost overall investment in 2014. With the help of exports and investments, GDP is expected to grow this year by 0.6%. However, domestic demand is expected to continue to decline along with available income.

The Greek economy is expected to pick up strength in 2015. Investments are expected to be the main engine of its growth, followed by exports to Eurozone countries, tourism and an end to the negative impact of consumption. Real GDP is expected to grow by 2.9% in 2015.

Greece's overall indebtedness is expected to exceed 175% of GDP in 2014, after which reduction is expected, and in 2015 the European Commission in its prognosis expects debt totalling 171.9% of GDP. Even so, Greece will have the highest debt in the EU.

Sectors of the National Economy – Greece (CR and EU)



Source: Eurostat, GDP as of 2013, Employment as of 2012

Basic indicators (in %)	2012	2013 ^e	2014 ^e	2015 ^e
GDP Growth	-6.4	-3.7	0.6	2.9
Unemployment rate	24.3	27.3	26.0	24.0
Inflation	1.0	-0.9	-0.6	0.2
Current account saldo	-5.3	-2.3	-1.9	-1.6
Public debt	156.9	177.3	177.0	171.9

Source: European Commission; ^e - estimate

Labor market

The unemployment level at the end of 2013 hovered at around 27% due to a decline in aggregate demand.



Doing business

Following wage reforms, which strengthened cost competitiveness, unemployment is expected to fall to 26% in 2014 and 24% in 2015.

Consumer prices were expected to fall by 0.9% in 2013 and 0.6% in 2014 due to weak domestic demand, declining labour costs and implementation of reforms on the product market. Together with economic growth in 2015, prices are also expected to start growing by 0.2%.

The lowest labour costs in the country remain in the sectors of accommodation, dining and hospitality (1,066 euros), and some of the highest in Greece are in the electric power and distribution industry (3,510 euros).

Basic indicators of labor market		
Unemployment level (December 2013)	27.5%	
Minimum monthly wage (2014)	683.8 EUR	
Ø monthly labor costs in sectors	Greece	CR
Manufacturing (2012)	2 199 €	1 445 €
Transport and storage (2012)	2 980 €	1 488 €
Accommodation, food ... (2012)	1 066 €	917 €

Source: Statistical Offices of Greece and CR

Labor law basics

Employment contracts are entered into in writing and only for an indefinite period. An employment contract for a definite period can be entered into only in certain specific situations. The notice period for termination of an employment contract entered into for an indefinite period depends on the number of years worked (up to 28 years) and can last up to four months. Compensation can equal to 24 months of wages. The work period is 40 hours per week. The minimum monthly salary is 684 euros. Overtime work must be rewarded with a 20% to 80% surcharge.

Commercial law basics

Greece offers investors the option of forming several types of companies (a joint-stock company – AE, a limited liability company – EPE, a public company – OE, a limited partnership – EE, a cooperative – S, business activities as an individual, a branch, a joint venture or a European company – SE).

For a limited liability company (EPE), the minimum registered capital is 4,500 euros. Partners are liable for the company's obligations only up to the amounts of their unpaid investments. For a joint-stock company, the minimum registered capital is 60,000 euros. Subscription shares are possible only in a range of 0.3 to 100 euros per

share. The number of shareholders is unlimited, and companies are subject to an audit obligation by law.

Form of Company	Minimum Capital
Public Company (OE)	-
European Company (SE)	120 000 EUR
Limited Liability Company (EPE)	4 500 EUR
Joint Stock Company (AE)	60 000 EUR

Source: Ministry of Economy

Main taxes and additional labor costs

The basic corporate tax rate is 26%, and companies not using a system of double-entry accounting with income higher than 50,000 euros are taxed at a 33% rate.

There are three progressive tax brackets for individuals with the following rates: 22% up to 25,000 euros, 32% up to 42,000 euros and 42% above that amount. The basic VAT rate is 23%, and the reduced 13% rate applies mainly to food and pharmaceutical products. A 6.5% rate applies to hotel accommodation, books and newspapers. Education, insurance, legal services, healthcare and other areas are excluded from the VAT system. Each employee contributes to social security and health insurance 16.5% of his/her wages, and the employer contributes 28%.

Tax/payment	Rate
Corporate Tax	26% / 33%
Individual Income Tax	22% / 32% / 42%
Social insurance (employee)	16.5%
Social insurance (employer)	28%
VAT (basic /1 st lower/2 nd lower)	23% / 13% / 6.5%

Source: Ministry of Finance

Energy

In recent years, electricity prices in Greece have been rising by about 10% year-to-year, and this trend is expected to continue. In the first half of 2013, a kilowatt hour of electric power from a large Greek consumer cost 12.5 euro cents, which is 22% higher than in the Czech Republic.

Investment incentives

Greece attracts investors to the sectors of tourism, energy, IT, genetics and environmental management. In exchange for investment, the country offers tax relief, subsidies, lines of credit with advantageous terms and advantageous loans from the National Fund for Business and Development.

In the April "Dating with MFF" section, we will present another of the programmes financed from the European budget for 2014-2020, the Galileo programme. Its purpose is the implementation of an independent satellite navigation system, which will be compatible with the American GPS system and the Russian GLONASS system. The European Commission has earmarked just over 7 billion euros for the further development, operation and completion of the satellite infrastructure over the next seven years. The system should be fully functional in 2020.



GALILEO

The Galileo programme is another of the programmes the EU's multi-year financial framework for 2014-2020. It is financed from section 1a, Competitiveness for Growth and Employment, and for a seven-year period, just **over 7 billion euros** (in regular prices) has been allocated for it.

The Galileo satellite navigation system is a European Global Navigation Satellite System (GNSS), which is intended to become an independent satellite navigation system in Europe, but which will also work in conjunction with the **American GPS and Russian GLONASS** systems. However, unlike those systems, Galileo will be operated by civil bodies, rather than military bodies. It will provide very precise and guaranteed information. The fully functional system will consist of 30 satellites and related ground-based infrastructure.

The financial resources earmarked as part of the 2014-2020 European budget will serve mainly for further development, the operation of the system and completion of satellite infrastructure.

The idea for the Galileo system originated in 1990, when the EU realised that in order to ensure its independence and competitiveness it would need its own satellite navigation system. The project is named after an Italian scientist, who is often referred to as the father of modern Astronomy, Physics and Science, **Galileo Galilei**. He focused on problems such as those related to marine navigation.

The original plans for putting the Galileo navigation system into operation, which were published in 1999, were created as a public project which would be financed by both the EU and private investors through a partnership between the public and private sectors (PPP). The estimated budget for the project at the time was **1.8 billion euros**, and its launch was expected in 2008. However, since the plan for investors was linked to huge risks, it was not realised.



Nevertheless, Europe did not want to give up its navigation and satellite project, and therefore the European Commission proposed that it be financed with **about 3 billion euros from the EU budget during 2007-2013**. Galileo was supposed to be launched in 2012. However, it was not, and now the European Commission expects the system to be fully functional at the turn of 2019 and 2020.

The European Galileo programme represents an important step for the further development of European space policy. The EU expects the system to reduce dependence on the widely used American GPS system. Galileo should be more **precise** and **flexible** and use more **frequencies**. Other advantages include the ability of European Galileo satellites to broadcast as well as capture signals. This could become useful for various search and rescue operations. Galileo should enable more precise and reliable determination of positions even in cities with tall buildings, where buildings could prevent the quality transmission of signals.

The EU expects the system to have a major impact on the European economy, including mainly on the ability to create new jobs and technological knowledge. It will become possible to develop numerous applications based on services provided by the Galileo system.

What types of services are involved?

Galileo will provide a total of 5 basic services. The first three of them should be in operation by the end of 2014 or the beginning of 2015.

- **Basic service - Open Service (OS):** This service will provide a basic signal available to everyone free of charge.
- **Search and Rescue service (SAR):** This is a search and rescue service within the worldwide satellite rescue network COSPAS/SARSAT. Its advantage is the option of bilateral communication.
- **Public Regulated Service (PRS):** PRS, a public encrypted service, will assist countries' armed forces and security services.
- **Commercial Service (CS):** The encrypted Commercial Service will be made available for a fee and will be more accurate than the Open Service.
- **Safety-of-Life (SoL) Service:** This is an encrypted services, which places an emphasis on integrity and safety. It will be beneficial for purposes such as air traffic control.



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 labor costs compared to the EU average in the business sphere B-N, 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.

Key microeconomic indicators

in %	Inflation (YoY)				Unemployment rate				Labor costs to Ø EU			
	XI-13	XII-13	I-14	II-14	Q1-13	Q2-13	Q3-13	Q4-13	2010	2011	2012	2013
Belgium	0.9	1.2	1.1	1.0	8.3	8.4	8.4	8.4	148.5	148.6	149.6	150.4
Bulgaria	-1.0	-0.9	-1.4	-2.1	12.9	12.9	12.8	12.9	13.4	14.3	15.1	15.4
CR	1.0	1.5	0.3	0.3	7.2	6.9	6.9	6.8	44.0	44.6	44.9	44.7
Denmark	0.3	0.4	0.8	0.3	7.2	6.8	7.2	6.8	152.8	152.5	151.5	151.5
Germany	1.6	1.2	1.2	1.0	5.4	5.3	5.3	5.1	121.5	121.9	122.8	123.7
Estonia	2.1	2.0	1.6	1.1	9.2	8.2	8.5	n/a	34.6	35.3	36.7	39.1
Ireland	0.3	0.4	0.3	0.1	13.7	13.7	12.8	12.2	120.4	115.9	116.1	115.1
Greece	-2.9	-1.8	-1.4	-0.9	26.7	27.4	27.6	27.6	79.1	72.6	67.0	n/a
Spain	0.3	0.3	0.3	0.1	26.5	26.4	26.5	26.1	89.3	89.4	88.4	87.5
France	0.8	0.8	0.8	1.1	10.8	10.8	10.9	10.8	133.3	134.2	134.0	132.4
Croatia	0.7	0.5	0.4	-0.2	17.1	17.1	17.8	18.6	97.2	97.3	97.2	97.9
Italy	0.7	0.7	0.6	0.4	11.9	12.1	12.3	12.6	73.6	73.4	73.1	73.7
Cyprus	-0.8	-1.3	-1.6	-1.3	14.7	15.8	16.5	17.1	28.6	28.4	27.8	26.4
Latvia	-0.3	-0.4	0.5	0.5	12.8	11.5	11.9	11.5	25.9	26.0	26.5	27.4
Lithuania	0.5	0.4	0.2	0.3	12.6	12.1	11.5	11.0	123.7	123.7	126.3	133.8
Luxembourg	1.1	1.5	1.5	0.8	5.6	5.8	6.0	6.1	37.9	38.1	38.2	38.8
Hungary	0.4	0.6	0.8	0.3	10.9	10.4	10.1	9.2	54.2	55.7	57.6	57.8
Malta	0.3	1.0	0.9	1.6	6.4	6.5	6.5	6.7	134.8	134.7	135.5	137.4
Netherlands	1.2	1.4	0.8	0.4	6.2	6.7	7.0	7.0	121.5	120.7	120.4	122.1
Austria	1.5	2.0	1.5	1.5	4.9	4.7	5.0	n/a	34.9	35.2	36.0	36.6
Poland	0.5	0.6	0.6	0.7	10.6	10.5	10.2	10.1	53.9	54.8	55.3	56.4
Portugal	0.1	0.2	0.1	-0.1	17.5	17.0	16.1	15.5	20.4	20.0	18.6	18.0
Romania	1.3	1.3	1.2	1.3	7.2	7.3	7.3	7.3	68.6	71.1	74.0	75.7
Slovenia	1.2	0.9	0.9	0.2	10.5	10.6	9.8	9.9	34.7	34.5	34.0	33.1
Slovakia	0.5	0.4	0.0	-0.1	14.2	14.3	14.3	14.0	121.6	123.7	124.4	125.9
Finland	1.8	1.9	1.9	1.6	8.1	8.1	8.1	8.3	152.6	152.3	155.4	156.2
Sweden	0.3	0.4	0.2	0.1	8.1	8.0	7.9	8.0	119.4	119.4	121.5	121.7
UK	2.1	2.0	1.9	n/a	7.8	7.7	7.5	n/a	42.1	41.8	41.5	41.4
EU	1.0	1.0	0.9	0.8	11.0	10.9	10.9	10.8	100.0	100.0	100.0	100.0

in %	Productivity to Ø CR				Average interest rate on mortgages				Price electricity to Ø EU			
	2010	2011	2012	2013	2010	2011	2012	1H-13	2010	2011	2012	2013
Belgium	259.6	257.1	266.6	282.3	n/a	n/a	n/a	n/a	121.0	122.1	116.1	111.5
Bulgaria	33.3	35.2	38.2	40.0	9.7	8.8	8.3	7.8	45.2	43.5	43.9	42.5
CR	100.0	100.0	100.0	100.0	5.2	4.5	4.0	3.6	118.9	119.0	113.2	109.4
Denmark	286.5	283.0	295.4	313.5	3.7	4.0	3.4	n/a	164.5	167.6	160.6	153.3
Germany	204.8	204.5	211.0	224.3	3.8	4.0	3.2	2.8	146.2	143.2	140.7	149.2
Estonia	83.5	85.4	91.1	98.8	3.9	3.7	3.1	2.9	55.2	53.0	55.2	65.4
Ireland	279.5	283.2	293.2	n/a	3.1	3.5	3.3	3.4	118.2	125.3	131.8	135.9
Greece	156.9	151.0	156.0	159.4	3.8	4.7	3.6	3.2	57.2	56.5	61.2	67.7
Spain	184.1	181.7	190.4	n/a	2.6	3.5	3.4	3.2	111.7	116.4	120.5	114.4
France	237.2	235.3	244.0	258.5	4.3	4.4	4.4	3.9	82.7	81.7	78.4	80.8
Croatia	97.1	95.7	100.5	104.8	n/a	n/a	n/a	n/a	62.2	60.8	68.8	69.6
Italy	211.2	207.5	210.5	222.6	2.8	3.6	4.3	3.9	89.2	86.8	94.3	93.2
Cyprus	147.2	145.7	153.9	157.6	4.6	5.3	5.5	5.4	106.1	114.9	138.5	122.5
Latvia	70.4	75.4	83.3	89.2	7.4	4.7	3.8	3.8	57.6	61.1	61.6	59.3
Lithuania	73.9	79.5	84.9	91.6	6.0	4.2	3.3	2.7	66.5	65.2	62.9	66.0
Luxembourg	599.0	599.5	614.3	n/a	2.2	2.5	1.4	2.2	105.5	95.7	92.2	87.2
Hungary	84.7	83.6	82.2	85.2	10.5	10.5	11.9	10.2	94.3	87.4	80.8	69.1
Malta	130.8	128.2	131.3	138.4	3.7	3.6	3.6	3.5	110.0	103.2	97.5	94.0
Netherlands	229.6	225.4	230.6	n/a	4.6	4.6	4.3	3.9	52.9	55.0	56.1	55.3
Austria	n/a	n/a	n/a	n/a	3.1	3.4	3.2	2.9	117.8	113.8	109.1	110.2
Poland	76.3	76.8	80.4	85.5	7.1	7.0	7.4	6.2	80.3	78.2	75.1	71.5
Portugal	115.6	112.9	116.0	124.6	3.4	4.8	4.8	4.2	100.7	102.6	110.2	109.3
Romania	43.6	45.2	45.6	51.8	11.7	9.5	8.0	8.3	57.6	56.8	53.4	62.3
Slovenia	122.4	122.4	122.7	n/a	3.5	4.0	3.6	3.4	92.7	87.1	85.8	90.8
Slovakia	94.6	95.9	100.4	106.0	5.6	5.2	5.2	4.5	97.7	98.1	95.1	89.9
Finland	239.6	241.7	251.3	266.6	2.1	2.6	2.2	2.2	94.1	100.7	95.7	94.2
Sweden	259.0	270.3	289.8	307.7	2.4	3.9	3.5	2.9	113.0	116.2	109.2	106.9
UK	198.6	195.6	215.2	n/a	n/a	n/a	n/a	n/a	83.9	84.1	92.4	90.5
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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