EU News
Monthly Journal

Number 131
August 2014

ČESKÁ SPOŘITELNA

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Dear readers,

While in July schoolchildren and students enjoyed the first month of a well-deserved vacation, we commentators on European integration affairs were very busy. We will start with a key event, although it is one which we do not comment on at all in the other pages of our Monthly Journal. It does not concern the economy or politics, but rather the sports sector in Brazil which was elevated to a religion. In the World Cup, despite the excellent performance of a series of South American teams, Germany, which had been waiting for the top position since 1990, dominated. I watched almost all the matches and unfortunately I had to admit that the absence of our representation in Brazil was fair, and that our traditional performance in the championship was just short of shameful, though certainly not as much as the home team, Brazil :)

The well known saying "when two fight, the third laughs" could be successfully applied to the process of selecting a new Czech EU Commissioner. Contrary to previous assumptions, neither Pavel Telička nor Pavel Mertlík were nominated, but instead the third candidate – the Minister for Regional Development Věra Jourová. If in addition, she manages to obtain the regional policy portfolio in the EU executive, it would be the most important policy area a Czech representative in the European Commission has managed since our accession in 2004.

Speaking of cohesion policy, in July the government approved all operational programmes and the so-called Partnership Agreement, which is the key document for drawing EU funds in the Czech Republic. Potential applicants for EU grants do not have reason to celebrate quite yet, however. Now everything has to be approved by the European Commission, and thus the first calls for grant applications will not be announced before the beginning of next year.

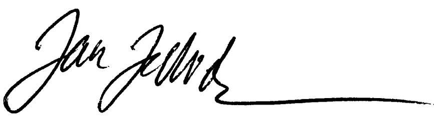
The European Commission - its composition and formation run like a red thread through this newsletter. This is demonstrated by the fact that two separate chapters are devoted to it, the Commission's Column and the Microscope section.

A topic that was raised at the end of July, but whose effects will be fully apparent only in the longer term, concerns the newly established sectoral sanctions imposed on the Russian Federation due to its policy in eastern Ukraine. The sanctions should cut off a significant part of the Russian banking sector from access to the European financial market and reduce the supply of European weapons, mining technology and so-called dual-use goods (for the military and civilian sectors) in the Russian market.

The main topic of the current issue of the Monthly Journal was prepared this time by the recent University of Economics (VŠE) graduate David Kursa based on his thesis. His article is about the newly implemented Macroeconomic Inbalance Procedure (MIP), which is one of the pillars of macroeconomic policies in the European Union whose role – at least in my personal opinion - will grow increasingly in the future. As part of the procedure member states with significant macroeconomic imbalances are identified. For example, this year the member states are Croatia, Italy and Slovenia, and last year Spain and Slovenia.

We wish you nice and relaxing holidays that will fully replenish your physical and intellectual strength for the coming months.

Jan Jedlička



The new President of the European Commission will be former Luxembourg Prime Minister and previous head of the Eurogroup Jean-Claude Juncker. - The Czech candidate for the position of European Commissioner is the current Minister for Regional Development Vera Jourová. – In late July, the EC published the results of the last standard Eurobarometer survey from spring 2014. The survey shows positive development in the perceptions of European Union citizens. - Italy calls for greater flexibility in the application of budgetary rules.

POLITICS

Juncker will be the new head of the European Commission

Already at their second plenary meeting, MEPs confirmed the former Prime Minister of Luxembourg and former head of the Eurogroup **Jean-Claude Juncker**, as the new President of the European Commission. The votes of 422 deputies were cast in his favor while 250 European Parliament (EP) representatives voted against him.

Juncker, a candidate for the most powerful political group in the Europarliament, the European People's Party, was **nominated for the post of Commission President by 26 member states** at the end of June. Only two countries disagreed with this selection, Great Britain and Hungary.

For British Prime Minister David Cameron, this political veteran with experience in domestic Luxembourg politics and Brussels represents an insurmountable obstacle to reforming the EU. In his speech, Juncker tried to dispel Downing Street's concerns. The EP and Commission **will cooperate more closely** according to him, but not against the Heads of State in the European Council.

Juncker's confirmation as the head of the EU executive immediately brings several "firsts". There is no example in history when member states have **ignored the opinion of a large state**, such as the United Kingdom at present, when filling high and important positions.

And for the first time there was a seperate vote for the President of the Commission. It has never happened before that the EP had so much say in the selection of the chief executive as after this year's May elections. Juncker was also **approved as President of the European Commission by the member states at the European Council Summit**. You can read more about this topic in the "Microscope" section on page 8.

http://www.europarl.europa.eu/news/en/news-room/content/20140714IPR52341/html/Parliament-elects-Jean-Claude-Juncker-as-Commission-President

The Czech candidate for EU Commissioner is Věra Jourová

After weeks of obstructed negotiations, the Czech candidate for the post of European Commissioner the **Minister for Regional Development Věra Jourová** was selected. This was agreed by the coalition council. According to the Prime Minister, the Czech Republic should seek stronger economic policy, for example in the areas of transport, industry and **regional development.**

V. Jourová would be the most suitable person to work in these areas. She has dealt with European funds not only in the public sector as Minister and Deputy Minister in the Ministry of Regional Development, but also in the private sector as a consultant.

She will compete for the post with the existing Austrian Commissioner **Johannes Hahn**, who worked in this Directorate General the last term.

In the Commission, however, it is not usual that its members continue in the same departments; generally they move on to more prestigious ones. You can read more about Věra Jourova's candidacy for the position of European Commissioner in our "Microscope" section on page 8.

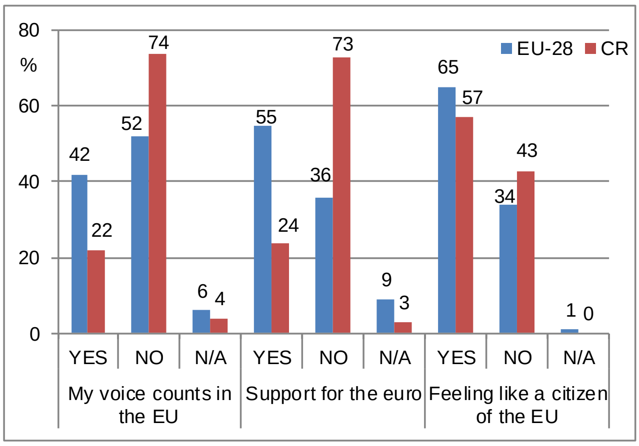
http://www.vlada.cz/cz/media-centrum/aktualne/ministryne-jourova-je-kandiatkou-cr-na-post-eurokomisarky-121075/

ECONOMY AND EURO

Eurobarometer - Spring 2014

In late July, the Commission published the results of the last standard **Eurobarometer survey from spring 2014**. It is part of the public opinion survey carried out after the May Europarliament elections.

Eurobarometer Survey - Spring 2014



Source: European Commission

The survey shows positive development in the perceptions of EU citizens. For example, after the elections the number of people who think that their **voice counts in the EU** increased.

Compared to November 2013, when only 29% of respondents agreed with this statement, 42% of Europeans

now share this view which is the highest percentage in 10 years when this question was first included in the survey. In the Czech Republic, however, only 22% of respondents share this view. In this survey **65% of Europeans feel they are citizens of the EU**, while last year only 59% felt this way. Other questions relate to the economic situation and the future of the European Union.

For the first time since the financial crisis, more Europeans believe that in the next 12 months **the economic situation will improve** and almost ¾ of people do not expect adverse economic developments. Also, more Europeans now believe that the impact of the crisis on the labor market has already reached its peak compared to those who think that the worst is still ahead of us.

Eurobarometer Survey - Spring 2014

	How would you judge the current situtation of the national economy in your country?		
	Good	Bad	Don´t know
EU-28	34%	63%	3%
CR	26%	73%	1%
	What do you think are the three most important issues facing the EU at the moment?		
	Economic situation	Unemployment	Public finances
EU-28	39%	34%	25%
CR	28%	24%	30%
	Which of the two statements is closer to your opinion?		
	The impact of the crisis on jobs has already reached its peak	The worst is still to come	Don´t know
EU-28	47%	44%	9%
CR	51%	46%	3%
	How do you see the future of the EU?		
	Optimistically	Pessimistically	Don´t know
EU-28	56%	38%	6%
CR	55%	43%	2%

Source: European Commission

Among other things, **support for the euro is increasing** and overall people see **the future of the EU more optimistically**. The survey also shows that the two issues that Europeans are currently most concerned about in the EU are the economic situation (39% of respondents) and unemployment (34% of respondents). Czechs are most concerned about the issue of public finances.

http://europa.eu/rapid/press-release_IP-14-861_en.htm

http://ec.europa.eu/public_opinion/archives/eb/eb81/eb81_first_en.pdf

BUDGET

Loosening of budgetary rules? The Czech Republic does not support Italy at present

The Italian Prime Minister Matteo Renzi passionately advocates greater **flexibility in the application of budgetary rules** in the EU. In late June, the Dutch Eurogroup chairman Jeroen Dijsselbloem acknowledged the possibility of adjusting the budgetary rules, **the so-called Stability and Growth Pact**, which aims to maintain the fiscal responsibility of member states. In his message, he also appealed to the International Monetary Fund for a simplification of the regulations.

The Italian presidency wants to **omit some state investments which have a pro-growth character** when calculating national defecits and debt. Support for this can be found in the left-wing French government of Francois Hollande, which has been violating the rules a long time. The German Christian Democrats of Chancellor Angela Merkel do not want to change the rules, but the Social-Democratic Minister of Economy and Energy Sigmar Gabriel said that member states should put more time into regulatory compliance.

Any prospective change in legislation would have to come from the European Commission. Moreover, the next Commission President Jean-Claude Juncker is **not inclined to a loosening of fiscal restrictions.** Before the European Parliament elections he declared that he sees no reason to give France another exception when the rules are broken.

For now the Czech government will not join the campaign of Italian Prime Minister Mattea Renziho for benevolent fiscal rules in the EU.

Meanwhile, the planned budget certainly exceeds the limits. If the Czech government wants to adopt the fiscal pact and its rules without the consequences of violating it, it will have to find support from the Communist deputies.

http://www.europarl.europa.eu/news/en/news-room/content/20140702STO51216/html/Future-of-Europe-MEPs-debate-Italian-Council-presidency-priorities

According to the EC, energy consumption in the EU should be decreased by a third by 2030. - The EC published a new list of industries at risk. Czech chemical and metallurgical plants will therefore receive free allowances. – The Union adopted tougher sanctions against Russia. These concern financial services, the oil industry, the arms trade and suppliers of advanced technologies for example. - The Czech government has approved the final version of the Partnership Agreement. - The government has agreed to all nine new OP´s for the 2014-2020 period.

ENERGY AND TRANSPORT

According to the EC, EU energy consumption should decrease by a third by 2030

The European Union should achieve **30% energy savings** by 2030. The proposal came from the European Commission, but member states will have the final word. They will be able to comment on the proposal at the October summit on energy and climate policy. The Czech Republic has not committed to this. The published programme complements the January proposal from the Commission, that **by 2030 the EU will reduce greenhouse gas emissions by 40%** compared to 1990 levels. At the EU level there should also be a commitment to 27% of energy from renewable sources.

According to the Commission, **a commitment to energy savings of 25% would be enough to meet the 40% emissions reduction**. However, where investments will be needed most will depend on the specific decisions about how to achieve the common goals - whether through efforts to reduce the consumption of fossil fuels in transport or for example reductions in the energy necessary for operating buildings. The topic of energy efficiency and conservation in the EU has become more important in the context of the Ukrainian crisis. **The Union is considering how to reduce dependence on imports from Russia**.

The Commission stated that each percentage point of energy savings on the European side will reduce the need for gas imports by 2.6%. The Czech Republic does not believe however, that establishing such a binding target is in the interests of the Union or the Czech Republic.

http://europa.eu/rapid/press-release_IP-14-856_en.htm

Czech chemical and metallurgical plants to receive free allowances

The Commission has published a new list of **industries at risk**. The **metallurgical and chemical industries** are on it. For Czech companies that do business in these fields, this is good news. They will get an exemption from the emission system. Basically they will receive emission allowances free of charge, but only up to the amount that is determined by Brussels. This will be based on the previous year's consumption and regional emission averages.

http://www.euractiv.cz/energeticka-ucinnost/clanek/ceske-chemicky-a-hute-dostanou-povolenky-zdarma-emisni-politika-eu-jim-ale-vadi-012025

EXTERNAL RELATIONS

The EU has adopted tougher sanctions against Russia

At the end of July the EU adopted **tougher sanctions against Russia**. These relate to **finance, the oil industry, the arms trade, and provision of advanced technologies for example**.

The sanctions also affect trade in dual-use goods for the civilian and military sectors. They were selected to fundamentally affect the Russian economy and on the contrary, cause the least damage to the European Union economy.

Regarding financial services, there is a **ban on transactions with shares, bonds and other financial instruments** that have a maturity longer than 90 days. The sanctions concern five Russian banks in which the state owns a majority share, namely Sberbank, VTB, Gazprombank, Vněšekonombank (VEB) and Rosselchozbank.

In the area of arms trading, the embargo **applies to the import and export of weapons** and related material, military vehicles and equipment, which are part of a common EU list. The EU sanctions affect only future business contracts however, thus they will not apply to the sale of French Russian Mistral helicopter-carrying assault ships **The sanctions also hit the Russian oil sector**, but not the production of natural gas, as Europe is largely dependent on Russian supplies.

The European Union decided to extend sanctions after the shooting down of a Malaysian aircraft in eastern Ukraine. After three months, the Union will evaluate the impact of the sanctions.

http://www.european-council.europa.eu/home-page/highlights/additional-restrictive-measures-against-russia?lang=en

COHESION POLICY

The Czech government has given its blessing to the Partnership Agreement, it will wait for the Commission's approval

The Cabinet of Prime Minister Bohuslav Sobotka discussed the **final version of the Partnership Agreement**, which is the basis for drawing money from EU funds in the period 2014-2020. The document was sent to the European Commission for approval.

The Czech Republic managed to deal with almost ninety substantive and technical comments from the European Commission.

The Commission, for example, did not like the Czech Republic's approaches to addressing Roma social inclusion or insufficient capacity in nursery schools. The two sides also agreed together to **support waste management, regional transport infrastructure** and on the possibility of supporting restoration of monuments related to tourism.

Some controversial issues, including firstly the **unimplemented Civil Service Act**, are still on the table. The Czech Republic agreed with Commission officials that Brussels will not make the adoption of the Civil Service Act a condition for the approval of the Partnership Agreement.

On the other hand, the Czech Republic will be required to guarantee that this will actually happen, and that the law will be adopted in the appropriate form. The Partnership Agreement should be approved by the Commission no later than September of this year.

https://apps.odok.cz/djv-agenda?date=2014-07-21

The Czech government has approved all nine new operational programmes for the 2014-2020 period

At its July meetings, the Cabinet of Bohuslav Sobotka gave the green light to all nine operational programmes, through which billions of euros will flow into the Czech Republic in the next seven years.

The programmes are as follows: Integrated Regional Operational Programme, OP Environment, OP Research, Development and Education, OP Transportation, OP Employment, OP Prague – Growth Pole of the Czech Republic, Rural Development Programme for 2014-2020, OP Enterprise and Innovation for Competitiveness and Technical Assistance.

Individual Operational Programmes will now be under the control of the managing authorities together with the European Commission. The Czech government envisions that **the programmes should have final approval in autumn of this year**.

The Prime Minister confirmed that the first calls for the new operational programmes should be announced directly from the regions next year.

Operational programmes in the Czech Republic for the 2014-2020 period	Preliminary allocation * (in EUR)
OP Enterprise and Innovation for Competitiveness	4.3 billion
OP Research, Development and Education	2.8 billion
OP Employment	2.1 billion
OP Transportation	4.7 billion
OP Environment	2.6 billion
Integrated Regional Operational Programme	4.6 billion
OP Prague – Growth Pole of the Czech Republic	0.2 billion
Technical Assistance	0.2 billion
Rural Development Programme	2.3 billion

*Source: Partnership Agreement for the 2014-2020 Programming Period; note: * The final allocations for individual operational programmes are still to be approved by the European Commission*

http://www.jihovychod.cz/eu-2014/narodni-uroven

http://www.vlada.cz/cz/media-centrum/aktualne/operacni-programy-pro-cerpani-penez-z-eu-jsou-komplet-schvaleny-120821/

http://strukturalni-fondy.cz/getmedia/3471bed1-8a29-484e-bcdf-65444cf99f08/Dohoda-o-partnerstvi_17-4-2014.pdf

The European Commission Representation in the Czech Republic has been adding regularly to the Monthly with contributions in the Commission's Column section. In the August issue, it focuses on the topic of the complex process of creating a new EC. From which candidates will the newly elected EC President Jean-Claude Juncker choose? Which policy areas will be allocated to them? The political affiliation of individual candidates and their expertise will definitely play a major role, as will the importance of the given portfolio, the size of the state and the gender of the candidate.

THE COMPLICATED PROCESS OF FORMING THE NEW EUROPEAN COMMISSION

In the May elections, voters decided who will defend their interests in the European Parliament during the next five years. However, the election results also affect the makeup of other key institutions, notably the European Commission.

While previously the votes cast only decided the representatives of national governments, today they influence the balance of power in the European Parliament, although agreement on the interpretation of the relevant sentences in **the Lisbon Treaty** was not easy.

The selection of the new Commission President now requires the construction of a majority in the European Parliament on one hand and of the Heads of State and Government on the other. Quite a heated debate took place about who should make the decision about the President and in the end the majority of member states opted for the European Parliament's position.

The interpretation of the relevant provision of the Treaty of Lisbon which talks about **"taking into account the elections to the European Parliament"** when selecting the President is that the President should be a candidate from the group which won the European elections. In mid-July, the European Parliament should confirm **Luxembourg's Jean-Claude Juncker to the post of President**. He is from the European People's Party, whose group is strongest in the new Parliament.

His task now is to build the entire Commission from candidates nominated to him by the member states. At the national level reaching agreement on a candidate may be difficult, as evidenced by the case of the Czech Republic, whose political representation was unable to agree on the name of a candidate for a long time. In the end, **Věra Jourová's name was sent to Brussels**. Her nomination is far from the last to arrive; at the time of this article, 14 member states have not yet decided on their candidates for the post of Commissioner.

Upon receipt of all nominations, the President must distribute the individual portfolios among the candidates. In a complex puzzle to create the College of 28 Commissioners who will manage an institution with more than thirty thousand civil servants, a number of factors play a role - **the political affiliations of candidates, their expertise**, the importance of the portfolios and the size of their countries of origin. Gender is also important because during his campaign Jean-Claude Juncker announced that he will endeaver to create a Commission **with 40% representation of women**.

After the Commission is assembled, the next step is that the European Parliament must approve it. However before the plenary session votes on the Commission as a whole, all of the future Commissioners must go through hearings in their respective committees. These challenging meetings where candidates face a number of questions from MEPs including questions not related to their portfolios, have thus been given the name **"barbecue"**.

Due to the increasingly strong position of the European Parliament, it is expected that in the hearings MEPs may proceed with even greater vigor and confidence than in the past, and will not hesitate to express critical opinions. The scenario could then be repeated that the President of the new Commission **must modify the team he has laboriously assembled**.

This happened before in cases when MEPs expressed so much criticism in advance that to attempt to change their opinions at the hearings did not make sense.

Thus in assembling the previous Commission, some candidates who were initially announced such as those from **Latvia and Romania were replaced**. In 2009, during the ongoing hearings in the European Parliament the Bulgarian candidate Rumiana Jeleva, who according to MEPs could not convincingly demonstrate sufficient expertise nor eliminate doubts about her financial affairs, withdrew.

Perhaps the best known case of a nomination which MEPs opposed was the Italian nominee **Rocco Buttiglione**. The European Parliament Committee on Civil Liberties, Justice and Home Affairs expressed a lack of confidence in him due to this conservative opinions and Italy was forced to propose another candidate.

The Committee hearings will take place in late September or early October. **The new College of Commissioners should take up its duties on 1 November.** If the formation of a new Commission is delayed, the current Commissioners will remain in office during the necessary period, albeit in a **"caretaker mode"**, which would probably mean the avoidance of submission of major legislative proposals.

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://italia2014.eu/it/

Meeting of the key EU institutions

28 - 29 August 2014	**Milan, Italy**
- Informal meeting of the Ministers of European Affairs	
30 August 2014	**Brussels, Belgium**
- Special meeting of the European Council	
9 - 10 September 2014	**Milan, Italy**
- Informal meeting of the Ministers of Defence	
12 September 2014	**Brussels, Belgium**
- Eurogroup	
13 September 2014	**Milan, Italy**
- Informal meeting of the Economics and Finance Ministers	
15 - 18 September 2014	**Strasbourg, France**
- European Parliament Plenary Session	
16 - 17 September 2014	**Milan, Italy**
- Informal Meeting of the Ministers of Transport	
22 - 23 September 2014	**Milan, Italy**
- Informal meeting of the Health Ministers	
24 September 2014	**Turin, Italy**
- Informal Meeting of the Culture Ministers	
25 - 26 September 2014	**Brussels, Belgium**
- Competitiveness Council	
28 - 30 September 2014	**Milan, Italy**
- Informal Meeting of the Agriculture and Fisheries Ministers	
29 September 2014	**Brussels, Belgium**
- General Affairs Council	
8 - 9 October 2014	**Brussels, Belgium**
- European Parliament Plenary Session	

Source: www.europa.eu, http://italia2014.eu/it/, access as of 29th July 2014

In the August "Microscope" section, our colleague Tomáš Kozelský focuses on the topic of the newly elected President of the EC Jean-Claude Juncker. The former Prime Minister of Luxembourg and previous head of the Eurogroup was selected for the position on 15 July 2014. What are the main priorities of the new President for his term and what awaits him in the upcoming days? Who does the Czech Republic propose for the position of Commissioner and which policy area could our country manage? You can read about this and more in the article that follows.

EUROPEAN COMMISSION´S NEW COMPOSITION

The European Commission will undergo personnel changes in the autumn. Current European Commission Chairman José Barroso will be replaced **by the newly elected Chairman Jean-Claude Juncker, 59.** Besides the Chairman's position, the team of European Commissioners for the next five years will also change.

Jean-Claude Juncker will not be a newcomer to the European political scene, because he has long had an active **European career**. This politician from Luxembourg has served as Governor of the World Bank, the IMF and the European Bank for Restoration and Development. He chaired ECOFIN from the position of Luxembourg's minister of finance when Luxembourg held the EU presidency.

For a period of eight long years, from 2005 to 2013, he also held **the position of permanent chairman of meetings of Eurozone finance ministers.** However, Jean-Claude Juncker will not be the first European Commission Chairman from Luxembourg. The position has already been held previously by Gaston Thorn and Jacques Santer.

Jean-Claude Juncker is a pro-European oriented politician, who has set several priorities for himself as European Commission Chairman.

- He has set as his first priority **growth and job creation policy**. He wants to make use of the opportunities on the digital market and digital technology without boundaries.
- Another priority point will be **an effort to transform energy policy into a new European Energy Union**. It will be necessary to diversify energy sources and thus reduce member states' energy dependence. (Note: from the EU Office – especially development these days is given this a further dimension). Increasing the share of renewable resources in the energy mix will be another step, which will be taken to help the EU become number one in the world in use of renewable resources.
- During his tenure as Commission Chairman, Juncker wants to agree upon **a reasonable and balanced trade treaty with the USA**, mainly focused on eliminating customs requirements between the EU and the USA.
- Another priority will be **Monetary Union reform**, which, however, will be carried out in a way that does not harm the European social situation. The Chairman also wants to balance out the relationship between the powers of elected politicians and the European Central Bank in everyday management of the Eurozone. Besides balancing the method of guaranteeing support for Eurozone states that have ended up in financial difficulties, he also wants to boost the influence of the Monetary Union abroad.
- The last priority for him will be **a bilaterally acceptable resolution of the British question**. As Chairman of the European Commission, he wants to do everything in his power to ensure that the British specifics are accepted and that further EU integration will be possible.

However, before his tenure in the position begins in November, the new Chairman will have **to select 28 Commission members** from a list presented by EU states and to specify the areas for which they will be responsible. For Czech Republic, **Czech Minister for Regional Development Věra Jourová** was nominated on 21 July for one of the 28 European Commissioner positions. The first ever Czech European Commissioner was Pavel Telička, who after half a year in his position was replaced by Vladimír Špidla, who served as European Commissioner for Employment, Social Affairs and Equal Opportunities from November 2004 to February 2010.

The current Czech European Commissioner is **Štefan Füle**, who is responsible for EU enlargement and policy related to relations among member states. Věra Jourová could become the first female European Commissioner representing the Czech Republic. If the new Commission is to win majority support, it should have at least nine women in it. Some member states have not yet announced their candidates, so the composition was still not known when this publication went to press. Věra Jourová will seek the post responsible for regional development. More will be clarified by her planned meeting with Jean-Claude Juncker at the beginning of August.

The opportunity to become **European Commissioner for Regional Policy** is open and likely. Since the European Commission is an EU body independent of member states, each European Commissioner must act in the EU's general interest and may not promote the interests of the Commissioner's own state. Time will tell how well the new Commission will manage to implement individual priorities and promote the interests of the EU as a whole.

Tomáš Kozelský, EU Office ČS

The Topic of the Month for the August Monthly Journal was prepared by David Kursa. His article is about the Macroeconomic Inbalance Procedure (MIP) which is associated with the European crisis of recent years. Among other things, this procedure points to the need for changes in the system of European economic governance. The current measures in the form of the MIP bring economic governance, a new element which should in the future not only detect adverse economic developments in the European area, but also facilitate effective solutions.

MACROECONOMIC IMBALANCE PROCEDURE: A NEW PART OF THE EU´S ECONOMIC GOVERNANCE

INTRODUCTION

At the end of the last decade, one of the most serious economic crises since the EU (EC) was established hit Europe. The crisis revealed **the need for a change in the system of European economic governance**, which until then had not included any tool for closer cooperation in macroeconomic areas.

The aim of this concise analysis is to describe a relatively new measure – the **Macroeconomic Imbalance Procedure (MIP)**, which will bring to the management of economic affairs a completely new element, which in the future should not only uncover unfavourable economic developments in Europe, but also help resolve them effectively.

EUROPEAN ECONOMIC GOVERNANCE AND THE CRISIS

Prior to the arrival of the crisis, the system of European economic governance was relatively complicated and difficult to understand and was analysed mainly at the academic and professional levels.

Today it still consists of coordination processes and mechanisms in various areas, which differ from each other for example **in the extent of powers of EU institutions** or the existence of forcing measures or a lack thereof. One of the responsibilities that stood before the European Union during the crisis was to reform this non-transparent arrangement and transform it into **a system as transparent and easy to understand as possible.**

This resulted in the European Semester, within which the economic policies of individual member states are coordinated through a series of until then not mutually related tools and entirely new tools. One problem was entirely apparent across almost all of the EU.

This problem amounted to the long-term **budget deficits of member states** and the resulting rise in public debt. This paradoxically is an area on which European economic governance has focused perhaps the most during its historical development (though without major results over the long-term horizon).

As became apparent during the crisis, long-term deficits and **the negative development of government debt** were not the cause of the problems in all of the countries affected by the crisis. Rather than irresponsible government financing being the cause, it is apparent instead that the crisis had a significantly negative effect on public finances.

This was pointed out several times during the crisis, and it was noted that a more serious problem than the growth of government debt was **the rise in private debts and an increase in the imbalances of payment balance accounts** across member states in the Eurozone.

MIP IMPLEMENTATION

However, the EU lacked in its mechanisms any effective measures that would enable attention to be drawn to the unfavourable developments in individual member states beyond the extent of budget indicators. And even if **signs of a pending economic collapse** were revealed, which threatened the smooth functioning of the EU, no means existed for agreeing with individual member states on a further approach to solve the crisis.

The EU responded to this situation with **a package of six reform measures**, known colloquially as the "Six Pack". The package can be divided into three parts – **reform of the Stability and Growth Pact** (preventive and corrective parts), **supervision over macroeconomic imbalances** (again preventive and corrective parts) and **domestic budget requirements.**

The MIP is addressed specifically by Regulation No. 1176/2011 (preventive part) and Regulation No. 1174/2011 (corrective part).

The respective regulations set as the aim of the Macroeconomic Imbalance Procedure **"to achieve perfected administration of economic matters in the**

Union." It is clear from this that the MIP should not address only members of the Eurozone, but all EU member states.

The regulations describe the supervision so far only in relation to budget development in member states (as regulated by the Stability and Growth Pact) as sufficient and emphasise that **in order to prevent additional crises, it is necessary also to take broader macroeconomic factors into consideration**.

One important step was to select within which indicators these broader macroeconomic factors would be examined (including boundary values indicating a risk of imbalance), and in view of the previous unwillingness of member states to adhere to the agreed measures it was also necessary to set up an effective forcing mechanism.

MONITORED INDICATORS AND THEIR DEVELOPMENT

The authority to select specific indicators was assigned by the Regulations to the Commission, which should consult the Council and European Parliament regarding them. The Commission was supposed to ask the **European Systemic Risk Board (ERSB)** to comment regarding the indicators related to the situation on the financial market. The overview of indicators is labelled directly in the Regulation as **a scoreboard**, and besides the values of selected indicators, threshold values are also set in it, which if exceeded could indicate macroeconomic imbalance. The word "could" in this case is of great importance, since determination of whether there is an imbalance should be based on additional aspects of real economic development.

Indicator	Treshold value
Indicators of an external (im)balance	
Three-year average payment balance account (% of GDP)	< -4%, >6%
Country's net investment position (% of GDP)	>-35%
Indicators of competitiveness	
Change in REER value adjusted according to inflation for three years (in %)	± 5% in the Eurozone's case ± 11% for non-members
Change in the value shares on export markets during a period of five years (in %)	>-6%
Change of unit costs for labour during a three-year period	± 9% in the Eurozone's case ± 12% for non-members
Indicators of an internal (im)balance	
A year-to-year change in the prices of real estate with use of consumption as a deflater (in %)	>6%
Private sector lines of credit (in % of GDP)	>14%
Total private sector debt (in % of GDP)	>133%
Total public sector debt (in % of GDP)	>60%
Three-year average unemployment level (in %)	>10%
Year-to-year change of overall financial sector obligations (in %)	>16.5%

Here we can see one of the differences between the principles on which **the Stability and Growth Pact and the MIP Procedure** are based. Exceeding of the boundary value does not automatically mean that the member state would end up under the European Commission's microscope and would have to arrange a correction of the situation and accept recommendations under the threat of sanctions. Indication of an imbalance depends to a great extent on the Commission's stance. It can be quite flexible (as was apparent in the case of Germany and its

excessively high payment balance account surplus values, which received a lot of media attention).

The monitored indicators, including threshold values, are shown in the following table.

The construction of the scoreboard is based on the requirement **to reflect both internal and external types of imbalances**.

The scoreboard itself may undergo updating not only in relation to setting of boundary values, but also in relation to potential addition of a new indicator. The purpose of this analysis is not to describe the development of all monitored indicators. For each group of indicators, only one was selected, but even so it is relatively easy to understand the purpose and significance of the entire procedure.

Balance of payment balance account (external imbalance)

The payment balance is a statistical report of all economic transactions between residents and non-residents of the particular country. One of its parts is a current account, which includes trade balances (goods export and import).

The payment balance can serve for identification of problems in economies, during which repeatedly high current account deficits can culminate into an unsustainably high foreign debt. However, the problem will not necessarily only be the current account deficit, but its high surplus could indicate weakening domestic demand.

Therefore, this indicator does not have only a unilateral limit set within the MIP, since a macroeconomic imbalance can be indicated even due to a current account surplus. The Commission clearly states that **current account surpluses do not prompt as many concerns about the condition of the monitored economy as long-term deficits**, but for the Economic and Monetary Union to function smoothly, they need to be taken into consideration.

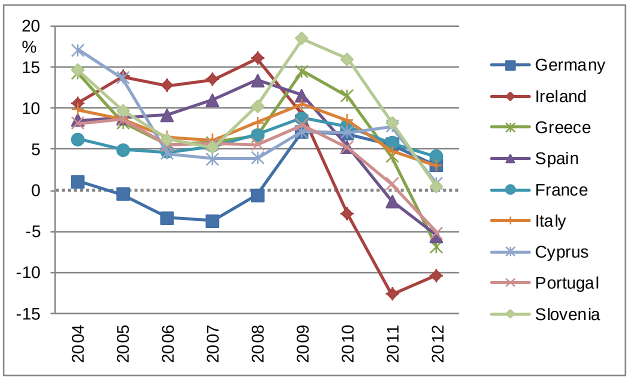
Doubts about examination and potential sanctioning of states with high current account surpluses were among the two criticisms that the Czech government at the time presented in its opinion regarding the draft regulation.

Something relatively well known is the fact that within a current account deficit indicator there are **major differences between southern and northern states**.

Unit labour costs (competitiveness)

The average labour costs per unit of output are one of the indicators of price competitiveness. Due to frequent volatility of unit costs, a change of unit work costs is included in the scoreboard for a period of three years.

Unit Labour Costs (3-year Δ, selected Eurozone states)



Source: Eurostat, Macroeconomic Imbalance Procedure, Nominal unit labour cost index

This indicator in combination with consideration for development of what is known as the **Real Effective Exchange Rate** demonstrates the development of price competitiveness by highlighting the development of the cost of labour and productivity.

If, for example, we register a high rise in wages and at the same time negative development of the Real Effective Exchange Rate, then this means that the particular country is producing its product for a higher price and that it is unable to compete on international markets.

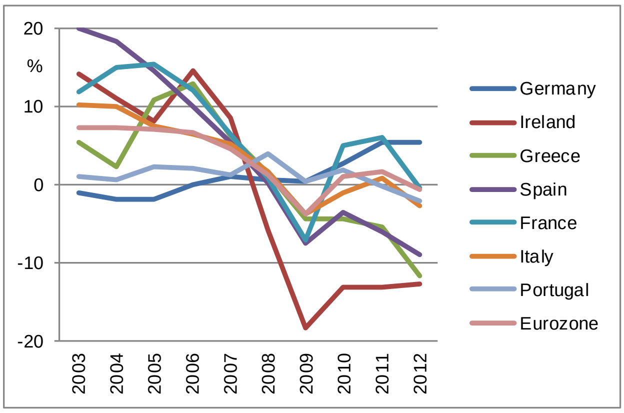
The following graph shows how different the development was in the area of unit labour costs in selected Eurozone states. The only state that was able to reduce labour costs prior to the crisis was Germany, and the other economies enjoyed a noticeable rise.

With consideration for the development of the Real Effective Exchange Rate, the major loss in price competitiveness can be attributed mainly to Spain and Greece. Although Ireland has experienced the biggest changes in unit labour costs, in view of the development of the Real Effective Exchange Rate it can be stated that the rise in costs has been accompanied by more productivity.

Real estate price change (internal imbalance)

In view of the initial cause of the crisis on the U.S. mortgage market, it seems appropriate **to monitor the development of real estate prices**, the sudden growth of which could indicate a bubble forming in the real estate market.

Real Estate Prices (y-to-y Δ, selected Eurozone states)



Source: OECD; OECD Economic Outlook 2013

This indicator can provide us with one of the possible explanations, according to which **the causes of Ireland's economic decline** can be highlighted at least partially.

In the period right before the crisis, some of the highest year-to-year rises in real estate prices were recorded, but their sharp decline during the crisis is significant.

Since the drop in the prices of Irish real estate is unprecedented compared to the situation in the rest of the monitored countries, the guide to solving the Irish puzzle can be looked for on the mortgage market. A less severe **burst of the real estate bubble** could be observed also in Spain. It should not be ignored that France has been through a similar development.

MIP IMPLEMENTATION PROCESS

Like with the **Stability and Growth Pact**, the arrangement of supervision over the macroeconomic imbalances is divided into what are referred to as **preventive and corrective parts**. Both branches of supervision are clearly defined in terms of time and are part of the European Semester process.

The MIP start dates back to November, when the Commission along with the Annual Growth Survey (AGS) also published the Alert Mechanism Report (AMR). The analysed **scoreboard** is part of the AMR in the previous part. The scoreboard always includes the current values of monitored indicators, which the Commission partially examines when evaluating the situation in the particular country in terms of occurrence of macroeconomic imbalances.

Exceeding of the values set in the scoreboard leads to more detailed analysis of the situation in the particular state with consideration for a number of other partial indicators, which are summarised in the AMR annexe. This approach ensures that exceeding of the limits is not interpreted mechanically as an imbalance.

Based on this qualitative analysis, primarily originating from the scoreboard, the Commission will create a list of the member states in which **more thorough examination is necessary for confirming or refuting the existence of imbalance.**

The Commission will take this approach in cooperation with the member state for preparing an in-depth review (IDR). Three potential situations could be arrived at from the findings of the IDR:

- First the Commission could state based on the IDR that in the particular state **there is no macroeconomic imbalance**. In such case, no additional steps will be taken in relation to the member state as part of the Macroeconomic Imbalance Procedure.
- Another possibility is that the Commission may state based on the IDR that in the particular member state there is a macroeconomic imbalance. An imbalance shall be understood as **"any direction towards a macroeconomic development, which unfavourably affects (...) the economy of a member state or of the EMU or EU as a whole."**
- A situation when, for example, indicators worsen, but in view of the development of the state and its surroundings this situation cannot be considered a threat, can also be described as an imbalance. The Commission will subsequently issue recommendations

to the Council regarding the approach the member state should take to eliminate the imbalance.

These recommendations will then become part of the recommendations within the European Semester, which the Commission will prepare during May and which the Council will approve in June.

- The third result of the in-depth research could be a statement regarding the existence of an excessive imbalance, which can seriously threaten the smooth functioning of the European Monetary Union. An excessive imbalance is specifically a situation in which **"a serious imbalance threatens or could threaten the proper functioning of the EMU."**

  The Commission will then make recommendations to the Council, which the member state could accept, in order to eliminate the excessive imbalance.

  The corrective part of the **Excessive Imbalance Procedure (EIP)** will be applied only of it is stated that there is an excessive imbalance. If an excessive imbalance is discovered, the particular member state must present a **Corrective Action Plan (CAP)** based on the Council's recommendations.

  This plan must include definition of measures for correcting the discovered imbalance, including a specific time framework for carrying out these measures. Based on the Commission's recommendations, the plan will then be evaluated by the Council, and two potential situations could arise.

- The Council could evaluate the plan as insufficient and in such case at the Commission's request could issue additional recommendations and call on the member state to present a new Corrective Action Plan.
- If the plan is deemed to be sufficient, the Council will approve it by issuing recommendations.

  The member state could move to implement the recommendations defined in the corrective plan. The implementation will then be ensured by regular submission of reports to the Commission and the Council.

If a breach of the Excessive Imbalance Procedure rules by a particular member state is discovered, political sanctions could be imposed. In the case of Eurozone member states, the votes of an **overwhelming qualified majority** can impose financial sanctions in the following situations:

- In the event of insufficient implementation of CAP (after its approval by the Council) a member state can receive **financial sanctions in the form of an interest-bearing deposit placed with the Commission at the rate of 0.1% of the GDP of the particular state**.
- In the case of two consecutive negative evaluations of the Corrective Action Plan or its implementation, the particular member state can receive a **yearly fine of 0.1% of Gross Domestic Product of the particular state**.

Such fine will be renewed each year (paid repeatedly by the member state), until the Council at the Commission's request accepts the Corrective Action Plan or determines that sufficient progress has been made in the implementation of the proposed measures.

PROCEDURE RESULTS

In 2014, the Commission prepared detailed re-examinations of IDR for a total of 17 member states. As shown by the attached table, **in the previous year 13 countries were subjected to the IDR**, compared to only 12 states in the first year of functioning of the Macroeconomic Imbalance Procedure.

This finding does not fully correspond to the findings indicated by the Commission in the introductory summary of this year's AMR. In this case, it can be deduced that **"European Union member states' economies are continuing to eliminate external and internal imbalances."**

Although the situation among certain member states has improved in terms of the selected indicators, it cannot be assumed that an entirely positive development would occur in the macroeconomic area in the European space as a whole. **The Commission has identified excessive imbalances based on IDR in three states: Italy, Croatia and Slovenia.** So far none of these states has been included under the corrective branch of the procedure. This can be attributed to factors such as the fact that states that received a loan from the European Stabilisation Mechanism are adhering to a special programme and therefore are not included under the procedure.

Results stemming from individual reports within the MIP (2012-2014)

		2012	2013	2014
Member states for which IDR was not processed - no risk of macroeconomic imbalances		Czech Republic, Germany, Estonia, Lithuania, Latvia, Luxembourg, Malta, Netherlands, Austria, Poland, Slovakia	Czech Republic, Germany, Estonia, Lithuania, Luxembourg, Austria, Poland, Slovakia	Czech Republic, Lithuania, Estonia, Poland, Slovakia, Austria
Member states for which IDR was processed	Risk of imbalance not confirmed	-	-	Denmark, Luxembourg, Malta
	Imbalance exists, but is not excessive	Belgium, Bulgaria, Denmark, Spain, France, Italy, Cyprus, Hungary, Slovenia, Finland, Sweden, Great Britain	Belgium, Bulgaria, Denmark, France, Italy, Hungary, Malta, Netherlands, Finland, Sweden, Great Britain	Belgium, Bulgaria, Finland, France, Ireland, Hungary, Germany, Netherlands, Spain, Sweden, Great Britain
	Excessive imbalance	-	Spain, Slovenia	Croatia, Italy, Slovenia
Member states included under the EIP		-	-	-

Source: European Commission

CONCLUSION

From the division of competencies among individual European institutions, where in the preventive part the Commission plays the main role and in the corrective part the Council (an inter-governmental body) does, it is apparent that **policy implementation remains up to member states**, since they are responsible for the final form of applied policies.

Nothing about this is changed by the fact that member states can be sanctioned. Nonetheless, with the adoption of two regulations regarding Macroeconomic Imbalance Procedure, an entirely new area of coordination of macroeconomic and social policies, the absence of which has been pointed out many times, has been added to the system of European economic governance.

The process involving areas falling under coordination can be expanded at any time at the Commission's mere discretion.

From this point of view, the Macroeconomic Imbalance Procedure not only introduces a new area of coordination, but in the future can be **a tool for advancing to even closer coordination.**

The de facto effectiveness of the procedure cannot yet be evaluated, but one of the objectives by which a discussion was launched about the seriousness of macroeconomic imbalances across the European space is already starting to be fulfilled.

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 Netherlands.

NETHERLANDS

Official name	Kingdom of the Netherlands
Population	16 779 575 (2013)
Area	41 543 km^2
Currency	Euro (EUR)
Official language	Dutch, Frisian

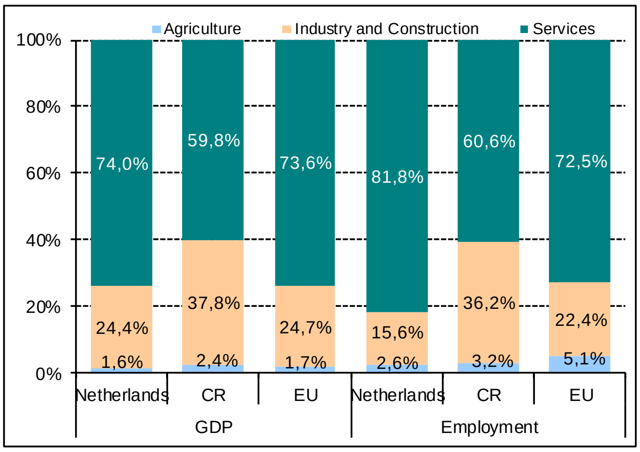
Source: Eurostat

The Kingdom of the Netherlands is located between Germany and Belgium with access to the North Sea. It consists of four regions, which are divided into 12 provinces, plus overseas territories in the Caribbean Sea, some of which have their own autonomy. The provinces are overseen by commissioners appointed by the monarch. The Netherlands is a parliamentary democracy with a bicameral parliament within a constitutional monarchy. Since October 2010, the prime minister has been conservative politician Mark Rutte from the People's Party for Freedom and Democracy, who defended his position in 2012. King Willem Alexander has been the Dutch Head of State since 30 April 2013.

Structure of economy and foreign trade

Agriculture makes up 1.6% of GDP in the Netherlands and employs 2.6 % of the labour force, which is almost 50% lower than the EU average. The percentage of the labour force working in industry is only 15.6%, although this is almost identical to the EU average. The dominant sector is the service sector, which makes up 74% of the country's GDP and employs more than 81.8% of the country's workers.

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



Source: Eurostat, data as of 2013

The Netherlands' main export partners are Germany (26.5%), Belgium (13.7%) and France (8.8%). The country mostly imports from Germany (13.8%), China (12%) and Belgium (8.4%). The country's main export and import commodities are machines, equipment, chemicals and fuel.

Macroeconomic outlook

The economy of the Netherlands in the last quarter of 2013 grew by a full 1%, but immediately in the first quarter of 2014 it fell by 1.4%. Nonetheless, the country is expected to finish this year in positive numbers (+1.2%). It is expected to achieve even better results in 2015, but growth will not exceed 1.5% of GDP. According to the European Commission's outlook in 2014, the Dutch economy will be driven mainly by investments, followed a year later by much stronger household demand.

Inflation was high in 2013 thanks to higher energy prices and a VAT rate increase from 19% to 21%, which occurred as of October 2012. In 2014, together with slow growth of wages and initially slower domestic demand, the country's inflation level will be one of the lowest in the EU. Long-term positive trade balances and positive payment balance accounts are characteristic for the land of tulips and windmills. Both are expected to grow in the future.

The European Commission anticipates a public budget deficit of under 2% of GDP in 2015 thanks to higher savings and better tax collection accompanied by economic growth. Total government debt should remain stabilised at around 73.5% of GDP.

Basic indicators (in %)	2012	2013	2014^e	2015^e
GDP Growth	-1.2	-0.8	1.2	1.4
Unemployment rate	5.3	6.7	7.4	7.3
Inflation	2.8	2.6	0.7	0.9
Current account saldo	7.7	7.8	8.2	8.6
Public debt	71.3	73.5	73.8	73.4

Source: European Commission; ^{e} - estimate

Labor market

In 2014 the unemployment level in the Netherlands is expected to peak at 7.4%, followed by a start of decline. Work productivity for an hour worked has long been above the EU average, but as of 2008 (when it was the second

highest in the EU) it fell by just under 10% to 129%. However, it is still the fourth highest in the EU.

The price ceiling is higher in the Netherlands than in the Czech Republic, which is also reflected in higher average labour costs in individual sectors, which are generally more than three times higher than in the Czech Republic.

Basic indicators of labor market		
Unemployment rate (April 2014)	7.2%	
Minimum monthly wage (2014)	1 485.6 EUR	
Ø monthly labor costs in sectors	**Netherlands**	**CR**
Manufacturing (2013)	5 028 €	1 473 €
Wholesale and retail (2013)	4 102 €	1 519 €
Accommodation. food … (2013)	2 736 €	984 €

Source: Statistical Offices of Netherlands and CR

Labor law basics

An employment contract is usually in writing. Under certain conditions, an employer and an employee may enter into a verbal agreement. An employment contract can be for a definite or an indefinite period. The work period must not exceed 9 hours per day or 45 hours per week, 2,080 hours per year (which is based on a 40-hour average work week). Rest is required at least one day per week. Employees are usually given two 15-minute breaks and a half hour for lunch, but if these breaks are not taken, then it is normal for an employee to leave an hour early.

Employees are entitled to at least 20 days of leave, and employers often grant an additional 5 days. The rate for overtime is not set by law, but it is usually 125%, 150% or 200% higher than the employee's regular hourly wage.

Commercial law basics

Even just one person can establish a limited liability company in the Netherlands within four days, but must pay a relatively high amount to a local notary. At least one shareholder (whether an individual or a legal entity) is necessary to establish a joint-stock company, along with registered capital of at least 45,000 euros. If a company has at least 100 employees and capital exceeds 13 million euros, it must establish a Supervisory Board.

Form of Company	Minimum Capital
Public Company (VOF)	-
European Company (SE)	120 000 EUR
Limited Liability Company (BV)	1 EUR
Joint Stock Company (NV)	45 000 EUR

Source: Ministry of Economy

Main taxes and additional labor costs

For progressive individual income taxes, four tax brackets exist in the Netherlands based on annual income. Up to 19,645 euros the tax rate is 5.1%, between 19,645 and 33,363 euros the rate is 10.85%, for income between 33,363 and 56,531 euros the rate is 42% and above 56,531 euros it is 52%. The corporate tax rate in the Netherlands is 20% for profit up to 20,000 euros, and profit above that amount is taxed at a rate of 25%. The basic VAT rate is 21%. The reduced rate of 6% is applied to goods such as food, press and public transport. A 0% rate is applied to insurance and financial services.

The health insurance and social security system in the Netherlands is very complicated. There are various rates and deductions, which are applied only to certain persons. The highest possible deduction for an employee is 31.15% (calculated in a complicated manner together with income taxes) up to 51,414 euros per year. The Employer may deduct up to 18.81% of the employee's wages to contribute to the system.

Tax/payment	Rate
Corporate Tax	20% / 25%
Individual Income Tax	5.1% / 10.85% / 42.0% / 52.0%
Social insurance (employee)	up to 31.15%
Social insurance (employer)	up to 18.81%
VAT (basic /1st lower/2nd lower)	21% / 6% / 0%

Source: Ministry of Finance

Energy

Electricity prices in the Netherlands do not fluctuate much. The sharpest decline was registered in 2010, when the prices fell year-to-year by 10%. At the end of 2013, electricity was being sold to large customers for 9.4 euro cents per kilowatt hour. Natural gas prices were more stable until 2013, but at the beginning of the year they rose by 10%, followed by a drop to a two-year low. At the end of 2013, natural gas was being sold for 10.1 euros per GJ.

The Netherlands relies 63.5% on natural gas, 19% on fossil fuels and 11% on renewable resources. Nuclear power, petroleum and other energy sources make up less than 10%. The Netherlands is 30% dependent on energy imports, which makes it one of the least dependent EU states.

In the area of customs, harmonized indirect taxation and the fight against fraud in the EU, the EC has created 4 action programmes – Customs, Fiscalis and Pericles 2020 and Hercule III. These programmes are part of Heading 1a: "Competitiveness for growth and jobs" in the multiannual financial framework of the EU for the 2014-2020. What are the main objectives of each programme and how much money has the Union allocated for their operation and further development? This and more information can be found in the current August "Dating with MFF" section.

CUSTOMS, FISCALIS AND PERICLES 2020, HERCULE III

The European Union has been making efforts to facilitate and enhance cooperation between customs authorities in the EU for a long time. The **"Customs 2020"** programme will provide help for this sector during the 2014-2020 period. It focuses primarily on the proper functioning and modernization of the Customs Union, strengthening the competitiveness of enterprises and coordinating the measures of EU countries to protect their financial and economic interests in order to fully take advantage of the internal market and world trade.

To achieve these main objectives the EU will use **special computer technology** and will also seek to strengthen the functioning of the customs authorities and reduce the administrative burdens and costs associated with compliance with customs regulations. Furthermore, it wants to concentrate on the modernization and harmonization of approaches to customs controls and procedures. Setting up and ensuring the quality of information exchange between national customs administrations is also important.

For **"Customs 2020"**, **€ 522.9 million in current prices have been allocated in the EU budget for the seven year period**. This amount is intended primarily for various seminars and studies related to strengthening the Customs Union, project groups and analysis of customs procedures, infrastructure development, administrative assistance and equipment. The funds will also be available for expanding the capacity of the customs administrations in the EU and the development, maintenance, operation and quality control of customs information systems in the Union.

The **"Fiscalis 2020"** programme supports the operation of taxation systems in the EU. It applies to taxes that are harmonized at the EU level (e.g. VAT, excise duties on alcohol, excise taxes on tobacco products and taxes on energy products and electricity). It focuses on the fight against tax fraud, tax evasion and aggressive tax planning.

The aim of the programme is **secure information exchange between tax administrations, support of knowledge sharing and creation of quality information networks** among the officials of tax authorities in EU countries. One of the objectives is also to supplement the capacities of tax authorities while simultaneously reducing their administrative burden and costs. Importance is given to cooperation between countries, tax authorities and their officials in the area of taxation.

Among the main priorities through which the objectives of the programme should be fulfilled during the upcoming programming period are: **the establishment, improvement and operation of quality information systems in the area of taxation**, ensuring higher qualifications and skills of tax officials plus enhancing their understanding of the laws.

The total allocation for the "Fiscalis 2020" programme for the next 7 years is **€ 223.4 million in current prices**. The funds will go primarily to various seminars, meetings of experts in the field, various controls and other activities related to cooperation in the field of harmonized taxes.

The **"Pericles 2020"** programme focuses on combating euro counterfeiting and related fraud both in Europe and around the world. Its objective is to **increase the competitiveness of the EU economy** and to ensure the sustainability of public finances. Individual member states, national authorities and the EU institutions should collaborate more with each other (and also with third countries) to exchange best practices in order to protect euro banknotes and coins against counterfeiting.

In total "Pericles 2020" has the amount of **€ 7.3 million in current prices** for the 2014-20 period. This will finance exchanges, assistance and training for authorities, banks and other bodies involved in the protection of euro coins and banknotes. The funds can be also used for the operation of databases and early warning systems, various analyses and tools used to detect counterfeiting with computer support.

The **"Hercule III"** programme is designed to combat fraud, corruption and any other illegal activities detrimental to or threatening the financial interests of the EU, including the fight against cigarette smuggling and counterfeiting. This programme helps national authorities in their fight against illegal cross-border activities, enhancing the competitiveness of the EU economy and ensuring the protection of taxpayers' money.

For the seven year period the system has at its disposal **a total of €104.9 million at current prices**. This will help to fund specific projects, for example the purchase of special scanners to combat tobacco smuggling and other technical and operational equipment to eradicate smuggling and other crimes committed in the European Union.

Various educational activities such as seminars and conferences dedicated to the topic of preventing corruption in public procurement will also be funded through the programme. In addition, training will be given to employees of public authorities with the goal of providing the latest information from the field and building capacity in the fight against fraud, corruption and smuggling.

The Statistical Window displays the selected economic indicators of all 28 EU Member States. It includes comparable data from the labour market (the unemployment rate, 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

	Inflation (YoY)				Unemployment rate				Labor costs to Ø EU			
in %	III-14	IV-14	V-14	VI-14	Q2-13	Q3-13	Q4-13	Q1-14	2010	2011	2012	2013
Belgium	0.9	0.9	0.8	0.7	8.4	8.4	8.5	8.5	146.3	148.5	148.6	149.6
Bulgaria	-2.0	-1.3	-1.8	-1.8	12.9	12.8	13.1	13.1	12.8	13.4	14.2	14.4
CR	0.3	0.2	0.5	0.0	6.9	6.9	6.7	6.7	43.6	44.0	44.6	44.8
Denmark	0.2	0.5	0.3	0.4	6.8	7.2	6.8	n/a	151.0	152.8	152.5	151.5
Germany	0.9	1.1	0.6	1.0	5.3	5.3	5.2	5.1	122.5	121.5	121.9	122.8
Estonia	0.7	0.8	0.6	0.4	8.2	8.3	8.6	n/a	35.8	34.6	35.3	36.8
Ireland	0.3	0.4	0.4	0.5	13.7	12.8	12.2	11.9	124.9	120.4	115.9	116.1
Greece	-1.5	-1.6	-2.1	-1.5	27.4	27.6	27.4	n/a	81.3	79.1	72.6	n/a
Spain	-0.2	0.3	0.2	0.0	26.2	26.1	25.8	25.4	90.3	89.3	89.4	88.4
France	0.7	0.8	0.8	0.6	10.3	10.3	10.2	10.4	131.7	133.3	134.1	134.1
Croatia	-0.1	-0.1	0.4	0.5	16.9	17.6	17.4	17.4	39.5	38.1	38.1	38.1
Italy	0.3	0.5	0.4	0.2	12.1	12.3	12.5	n/a	111.9	112.8	112.3	112.1
Cyprus	-0.9	-0.4	-0.1	0.0	15.7	16.4	16.9	16.9	72.4	72.5	71.8	70.4
Latvia	0.3	0.8	0.8	0.8	11.7	11.7	11.6	n/a	27.7	26.4	26.6	27.1
Lithuania	0.4	0.3	0.1	0.3	12.1	11.5	11.0	11.2	25.2	23.7	23.7	24.2
Luxembourg	0.8	0.9	1.4	1.2	5.8	5.9	6.0	6.1	146.4	147.0	147.6	147.8
Hungary	0.2	-0.2	0.0	-0.1	10.4	10.1	9.2	n/a	37.2	36.3	37.3	38.6
Malta	1.4	0.5	0.4	0.7	6.5	6.5	6.7	6.8	55.1	55.3	55.5	56.2
Netherlands	0.1	0.6	0.1	0.3	6.7	7.0	7.0	7.2	134.4	134.3	133.4	133.1
Austria	1.4	1.6	1.5	1.7	4.7	4.9	5.0	n/a	124.5	123.7	124.8	127.5
Poland	0.6	0.3	0.3	0.3	10.5	10.2	10.0	9.7	35.4	35.2	35.7	36.0
Portugal	-0.4	-0.1	-0.3	-0.2	17.0	16.1	15.4	15.2	53.4	53.7	52.8	49.1
Romania	1.3	1.6	1.3	0.9	7.3	7.3	7.3	7.2	21.9	22.6	23.5	24.4
Slovenia	0.6	0.5	1.0	1.0	10.5	9.8	9.7	9.7	60.8	61.2	60.9	60.0
Slovakia	-0.2	-0.2	0.0	-0.1	14.3	14.3	14.2	13.9	34.8	34.7	35.2	35.3
Finland	1.3	1.3	1.0	1.1	8.1	8.1	8.3	8.4	123.2	122.8	122.6	125.1
Sweden	-0.4	0.3	0.1	0.5	8.0	7.9	8.0	n/a	152.3	152.6	152.6	155.3
UK	1.6	1.8	1.5	1.9	7.7	7.5	7.1	n/a	114.9	115.5	114.7	113.8
EU	0.6	0.8	0.6	0.7	10.9	10.8	10.7	10.5	100.0	100.0	100.0	100.0

	Productivity to Ø CR				Average interest rate on mortgages				Price electricity to Ø EU			
in %	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