



# EU News

## Monthly Journal

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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](mailto:EU_office@csas.cz)  
<http://www.csas.cz/eu>

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

Tereza Hrtúsová  
+420 956 718 012  
[thrtusova@csas.cz](mailto:thrtusova@csas.cz)

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

Radek Novák  
+420 956 718 015  
[radeknovak@csas.cz](mailto:radeknovak@csas.cz)

under the auspices of Pavel Kysilka  
CEO of ČS

Dear readers,

From the viewpoint of European economic issues January can be characterized by many adjectives, not just the word "boring". The euro weakened to an eleven-year low against the dollar and we could observe unprecedented turbulence even in trading in Czech currency.

The main event on the foreign exchange markets was the decision of the European Central Bank, which followed its counterparts from the US, UK and Japan and decided to launch a policy of so-called quantitative easing. For non-economists this term means nothing more than purchases of government bonds by the central bank with the goal of increasing the amount of money (or liquidity) in the financial system. Falling inflation which is still moving away from the 2% targeted amount in combination with key interest rates approaching zero led the ECB to take out one of the last (and controversial) weapons that it has in the war with a weak economy full of deflationary pressures. Overseas and in the UK - it seems – quantitative easing worked. We will see what effects it will have in the eurozone. Meanwhile, the first one showed itself: the euro fell to an 11-year low against the dollar.

The fate of the fading exchange rate of the European currency unit has not been sealed only by the policy of additional monetary easing by the European Central Bank, but also by the results of the early Greek elections. In these the radical leftist previous opposition party Syriza, whose election programme aroused fans of saving and painful reforms from sleep, emerged as a winner with an unexpectedly strong mandate. Alexis Tsipras, the team party chairman and new Greek prime minister in one person, went on a road show shortly after the election to visit key eurozone politicians in order to convince them of the need for further restructuring (read reduction) of the Greek debt burden. Read about the scenarios that may happen in the Main Topic on page 8.

In the area of justice and security the main sad event was a major terrorist attack on the Paris editors of the satirical magazine Charlie Hebdo in early January. This condemnable act will certainly impact European security policy. The first result is the announcement of Denmark about its planned withdrawal from the permanent exception (i.e. opt-out) in the field of police cooperation which the Maastricht Treaty guarantees the Nordic country. The Dating the MFF section on page 15 partly concerns this topic. Our colleague Tereza acquaints you this time with the programmes under the Security and citizenship budget heading.

But let's get back to the economy, specifically to investment. We wrote about the Commission's new investment package in the Main Topic in the previous January issue. Now this conveniently links up with the Commission's Column (page 5) which examines other planned so-called EU financial instruments for the 2014-2020 programming period.

Entrepreneurs' attention should not overlook the article in the Microscope section on page 7. In it Tomas Pirkel, Permanent Delegate of the Confederation of Industry to the professional organization BusinessEurope, comments on the priorities of the European Commission for this year through the eyes of entrepreneurs.

Dear readers, I wish you a proper old-fashioned winter full of the joys of snow and long winter evenings perhaps digesting the EU News Monthly.

  
Jan Jedlička



Syriza has won the elections in Greece and Alexis Tsipras has therefore become the new prime minister. - The European Central Bank has begun to expand its programme of asset purchases - so-called quantitative easing. - European regulations as a target for arbitration? In the Transatlantic Trade and Investment Partnership we will guard your rights the Commission promises. – Wind turbines set a record due to storms. Power network operators are not rejoicing however.

## POLITICS

### Syriza has won the elections in Greece

On January 25 **early parliamentary elections** took place in Greece and their outcome was not surprising - the favored **leftist party Syriza** clearly won with **36.3%** of the votes. In the 300 member parliament it thus won 149 seats (therefore lacking two seats for a majority).

To form a governing coalition Syriza made a deal with the right-wing party **Independent Greeks**, which obtained **4.8%** of the votes in the election, which represents 13 deputies. The current government's right-wing **New Democracy** party ended up in second place in the elections. It won **27.8%** of the votes and thus 76 deputies.

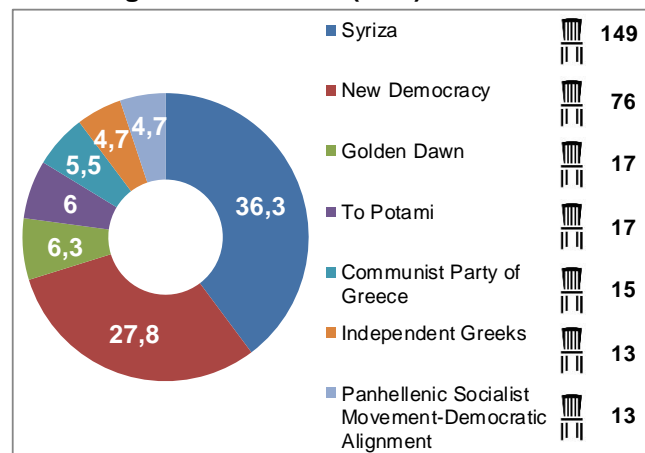
The new prime minister thus became **Alexis Tsipras** who promises to end Greek humiliation and pain. This means the budget cuts the country committed to in exchange for international assistance of 240 billion euros.

The common denominator uniting Syriza and the Independent Greeks party is their **opposition to the strict austerity measures** which Greece had to commit to in exchange for large loans. Greece received international financial assistance in two rounds.

In 2010 this amounted to 110 billion euros and then in 2012 another 130 billion euros. Both parties thus want to begin negotiations on easing the conditions provided by foreign financial assistance. At the same time the leader of Syriza pointed out that he does not want Greece to leave the eurozone.

For more on the elections in Greece see our Main Topic on page 8.

#### Greek legislative election (in %)



Source: Greek Ministry of Interior

## ECONOMY AND EURO

### The European Central Bank has begun quantitative easing

On 22 January 2015 the Governing Council of the European Central Bank (ECB) announced the **expansion of its asset purchase programme**, i.e. quantitative easing.

This is a **monetary policy instrument** which leads to printing of new money and purchase of government bonds. Thus until at least September 2016, the European Central Bank will purchase bonds issued by euro area national governments, agencies and European institutions in the secondary market to a total monthly amount of **60 billion euros**, using the newly printed money.

Considering the fact that each of the eurozone central banks will buy **bonds issued by their governments**, this takes a risk in the event that a government is unable to repay these bonds.

The purpose of this decision is to **increase inflation** to just below 2%, thus fulfilling the ECB's main objective which is to maintain price stability. The asset purchases will ease monetary and financial conditions (reducing long-term interest rates) thereby **making cheaper financing available** to businesses and households.

This will in turn support investment and consumption which will ultimately contribute to the growth of inflation to its target level. Our Main Topic on page 8 deals more with this.



[https://www.ecb.europa.eu/press/pr/date/2015/html/pr150122\\_1.cs.html](https://www.ecb.europa.eu/press/pr/date/2015/html/pr150122_1.cs.html)





## Events

### FOREIGN TRADE

#### European regulations as a target for arbitration?

The controversial **clause on investment protection and investor-to-state dispute settlement (ISDS)** in the Transatlantic Trade and Investment Partnership (TTIP) will be in the final stage of negotiations between the European Union and the United States if at all.



First, the European Commission wants to discuss the whole thing with Member States, MEPs, NGOs, businesses and trade unions and it even wants to start the consultation this quarter. It has become apparent that the European public views this clause with great suspicion.

Basically, the ISDS mechanism enables private companies to utilise arbitration tribunals to demand financial **compensation for loss of profits**, prepared on the basis of the regulations of a foreign country. Companies registered in the United States could thus challenge the laws and decisions of European countries.

Clauses on this type of protection exist in a series of international trade agreements. They are also contained in **1,400 agreements** concluded with EU Member States. This could thus now become one of the issues under discussion in the Transatlantic Trade and Investment Partnership.

Nevertheless the EU wanted to approach this issue in a new way – according to the Commission a more modern way than in most of the earlier agreements.

The Commission wanted to find out if the final agreement would awaken resistance across the Union, however. Because of this it announced an **online consultation**, which took place in the first half of 2014.

In it nearly 150,000 respondents' opinions expressed concerns about whether the EU has chosen an appropriate

approach and whether the proposed setup can achieve a balance between investor protection and the Union's ability to regulate in the public interest. In the results of the consultation, which the Commission published on 13 January 2015, it is clearly apparent **that the public is very skeptical about ISDS.**

<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1234>

### ENERGY AND TRANSPORT

#### Wind turbines set a new record due to storms. Power network operators are not rejoicing however.

Uprooted trees, standing trains, destroyed cars – this is the trail left behind in Germany by the **cyclones Felix and Elon.**

While others calculated the damage, operators of wind turbines counted profits. During the peak of the storm (9 January 2015) wind turbines attained aggregate **power of 30,700 megawatts** and thus set a new German record. For comparison about **25 nuclear power plants** achieve a similar power output.

While owners of wind turbines can be happy, operators of power networks have to deal with the fluctuations caused by unexpected overproduction. Such fluctuations in electricity generation are not unusual in recent times however.

The last record in the production of electricity from wind power did not even last a month; wind turbines set it during the December storm Billie.

Even the latest record probably will not last very long. Several wind farms are to be completed on the German coast this year and the power industry fears that this will increase the fluctuations in the grid.



<http://www.euractiv.cz/energetika/clanek/vetrniky-maji-diky-orkanum-rekord-energetici-se-ale-neraduji-012401>



Denmark has achieved global leadership in use of wind energy. - The attack on Charlie Hebdo causes the Danes to cancel their opt-out on EU police cooperation. – The Czech Republic saves billions of unspent EU funds. From the 2007-2013 programming period it can still draw more than 700 billion crowns. - Brussels has swept away the Czech Republic’s operational programmes for the 2014-2020 period. The European Commission requires that the evaluation of officials in the Czech Republic is conducted more transparently.

### Denmark has achieved global leadership in use of wind energy

According to the Danish Ministry of Climate and Energy, **39%** of total electricity consumption in 2014 came from wind power. As a result Denmark has become the **world leader in the use of wind energy**. In 2004, the share of wind electricity production in Denmark was only 18.8%. Within ten years, however, this number doubled. For example, in January 2014 61.4% of Danish electricity came from wind sources.

<http://www.euractiv.com/sections/energy/denmark-sets-world-record-wind-energy-311083>

## JUSTICE AND HOME AFFAIRS

### The attack on Charlie Hebdo causes the Danes to cancel their opt-out on EU police cooperation

"The Paris attack showed that we need to strengthen police cooperation between European countries and to improve the exchange of information on the movement of terrorists on our territory," said the Danish Social Democratic Prime Minister Helle Thorning-Schmidt.



The Danish Prime Minister was speaking in particular about the **proposed legislation (the Passenger Name Record)**, which has been on the table in the EU since 2011, and involves the collection of any personal data on airline passengers taken from reservation systems.

The Commission would like this data to be transmitted to border control authorities in the receiving countries. This would consist for example of contact information, completed and planned routes, electronic IP addresses, credit card information, hotel reservations and also eating habits.

According to Thorning-Schmidt, in order for Denmark to engage in this cooperation it is necessary to consider **permanent abolition of the current exemption in police cooperation** used by Denmark (along with three other opt-outs).

The Danish Prime Minister already raised the issue of possible cancellation of the opt-out from police cooperation last autumn.

In December, the Danish parliamentary parties thus expressed a desire to move from permanent exceptions to the so-called opt-in. This is an option in which a country may choose which specific things it wants to participate in from the legislation in a given area.

The ruling Social Democrats **have supported a referendum on cancelling the exceptions** for a long time. After the outbreak of the economic crisis, however, the Danes started to view European integration with greater skepticism and therefore the referendum project was postponed several times. This time it should be announced in spring of next year.

Along with Great Britain, Denmark is the EU Member State that has the **largest number of negotiated opt-outs**. These permanent exemptions from EU legislation were agreed upon during the approval of the Maastricht Treaty in 1993, which Denmark had initially rejected in the 1992 referendum.

The Danish opt-outs include **four areas**:

- The Common Security and Defense Policy;
- Police and Judicial Co-operation in Criminal Matters;
- The Common European currency;
- European citizenship.

[http://europa.eu/legislation\\_summaries/economic\\_and\\_monetary\\_affairs/institutional\\_and\\_economic\\_framework/l25061\\_en.htm](http://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/l25061_en.htm)

## COHESION POLICY

### The Czech Republic saves billions of unspent EU funds

Although it is not yet black and white, the Minister for Regional Development Karla Šlechtová estimates that in 2015 the Czech Republic will **not manage to exhaust more than nine billion crowns**. At the last summit in Brussels, Prime Minister Bohuslav

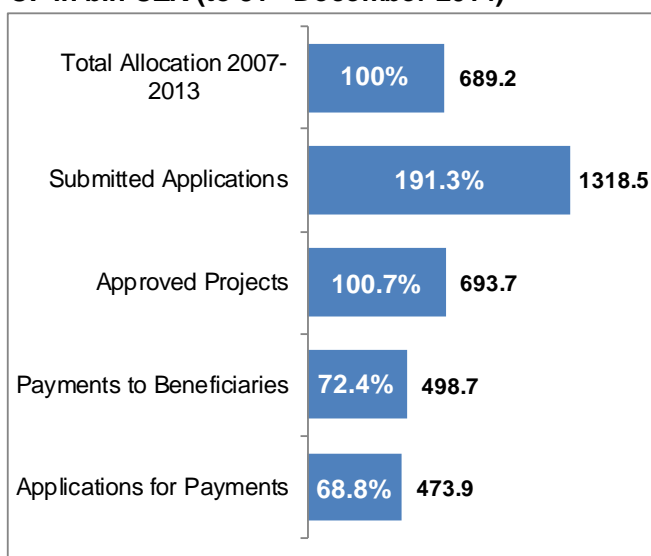




Sobotka obtained a European Commission promise that the institution together with the Czech side would seek ways to utilize the funds which threaten to remain unspent this year.

Meetings with representatives of the European Commission headed by the director of the Central European unit of DG REGIO took place on 26 January 2015.

### State of Implementation of the Structural Funds/ CF in bln CZK (to 31<sup>st</sup> December 2014)



Source: Ministry of Regional Development

One of the discussed ways to save resources is the **administrative division of projects into two parts**. One part would be paid from the old programming period and the second part from the new period.

Another way to reduce losses in risky operational programmes is to allow **moving of allocations between individual priority axes** within a single operational programme.

In the past Brussels has rejected the transfer of money between operational programmes.

Among **the high-risk operational programmes** that have failed to draw ideally are OP Environment, ROP Northwest, the Integrated Operational Programme and OP Research and Development for Innovations.

In 2013 the Czech Republic **did not manage to utilize 12 billion crowns** and in 2014 a total of 9 billion.

In the 2007-2013 programming period more than 700 billion crowns could be utilized and 2015 is the last year in which it is possible to drawdown the money from European funds.

<http://www.mmr.cz/cs/Ministerstvo/Ministerstvo/Pro-media/Tiskove-zpravy/2015/Namestkyne-Letackova-Efektivni-docerpani-prostredk>

### Brussels has swept away the Czech operational programmes for 2014-2020

The European Commission has **objections to the trio of Czech OP** for the new 2014-2020 programming period, and therefore now will **not approve** them in February.

The Czech Republic will have the possibility to pass a "retake" a few months from now, namely when a **second round** of approval is **held in June**.

In the prepared programmes "Entrepreneurship and Innovation", "Fisheries" and "Environment" the Commission particularly dislikes **the method of remuneration of officials**, which the Civil Service Act must try to resolve.

The Commission confirmed its objections to journalists and the State Secretary for European Affairs at the Office of the Government Tomáš Prouza.

According to him, Brussels requires that the evaluation of officials in the Czech Republic is conducted **more transparently**.

He also stressed that the Czech Republic does not want to repeat the mistakes of the past programming period and plans to start the calls for utilization of EU funds as soon as possible.

However, to do this the managing authorities of individual operational programmes must fulfil certain conditions. One of them is the need for **timely completion of guides** for applicants and recipients.



<http://www.mmr.cz/cs/Ministerstvo/Ministerstvo/Pro-media/Tiskove-zpravy/2015/Evropska-komise-pozaduje-pokrok-v-procesu-provaden>



The European Commission Representation in the Czech Republic provides contributions to the EU News Monthly Journal in the "Commission's Column". In the February issue this article deals with the financial instruments for the 2014-2020 programming period. These financial instruments should increase the amount of investments supported by ESIF funds as well as improve businesses' access to finance in areas in which they cannot obtain conventional bank loans. You can read more about these tools on the following lines.

## FINANCIAL INSTRUMENTS IN THE 2014-2020 PERIOD

Last December the European Commission adopted its **work programme for 2015**. Among the key priorities is the Investment Plan for Europe, which will activate public and private investment in the real economy over the next three years, in a volume exceeding 300 billion euros.

This investment "offensive" will be a trigger for **strengthening economic growth and reducing unemployment** in the European Union. In the aftermath of the financial crisis we see a strong drop in investment in many EU Member States. At present, the volume of investments in the EU as a whole is hovering at a level about **300 billion euros under the long-term "norm"**. Low investment is still strongly inhibiting growth - in the short term this has a negative impact on aggregate demand and in the long term a negative effect on labor productivity.

Of course the Member States, including the Czech Republic, are not all in the same situation. Lagging investment levels can have various causes, because countries differ for example in types of investment needs, fiscal positions (respectively the possibilities for national budgets to finance other investments), availability of European funds, health of the banking sector and functioning of capital markets. And therefore it is necessary to seek adequate solutions tailored to the individual Member States. For the Czech Republic it is highly relevant that the **European Structural and Investment Funds (ESIF)** may also make a significant contribution to fulfilling the objectives of the investment plan in the 2014-2020 period.

An important **novelty** is that, unlike classical grants and subsidies, ESIF funds in the 2014-2020 period can be **used as loans** (or equity participation or guarantees) for a wider range of projects. The **new rules** expand the scope for the use of financial instruments to all thematic objectives, while in 2007-2013 their use was limited to supporting small and medium-sized enterprises and interventions in the areas of urban development, energy efficiency and agriculture.

In the newly set rules the Commission has set a target of at least **double the amount of funding for financial instruments** in the 2014-2020 period.

The "new financial instruments" should not only multiply the amount of investments supported by ESIF funds, but also **improve businesses' access to finance** in areas where they cannot obtain conventional bank loans. These include for example companies supporting innovation and specific sectors (for example the biomedical sector).

Projects may also include the provision of loans to owners of flats to invest in energy efficiency and investment in broadband infrastructure, waste management and transport.



It is therefore important that Member States and their regional and local authorities begin to use these new and innovative financial instruments more for the 2014-2020 programming period.

Although **new financial instruments** such as loans, equity participation and guarantees are relatively new for many public authorities, they have a proven ability to support the real economy. The European Commission is ready to cooperate in implementing these innovative financial instruments and discuss the impact on each Member State.

So far, except for the **JESSICA** programme (low-interest long-term loans for the revitalization of residential buildings in deprived areas), **the Czech Republic** has demonstrated limited use of these financial instruments in the 2007-2013 period. The commission also pointed this matter out during the negotiations for the so-called Partnership Agreement for the 2014-2020 period, and therefore urged the Czech Republic to make greater use of these instruments.

Although positive experiences in the Czech Republic are essentially limited to the above-mentioned JESSICA instrument, even this one example can show the way forward.

After a slow start, **the programme made possible viable loans for the reconstruction** of residential houses and apartments managed by one of the major banks operating on the Czech market.

The aim of strengthening the innovative financial instruments within the ESIF funds is to contribute to more efficient use of funds and better allocation to the places where funding is needed.

Additional proposals from the "financial portfolio" in the European Commission's programme should also help economic growth in the European Union, whether they be the Investment Plan for Europe or efforts to strengthen the functioning of financial markets in the EU. Specifically, in February the European Commission will deliver an initiative aimed at the **introduction of the so-called Capital Markets Union**.



Our Information Service section outlines upcoming sessions of EU decision-making bodies accompanied by other significant events such as international summits with super powers. Often agendas for negotiations by these important bodies are not ready until a few days before the actual meetings so they can be as up-to-date as possible.

Agendas can be found at: <http://europa.eu/newsroom/calendar/>;  
<http://www.es2015.lv/en/>

## Meeting of the key EU institutions

<b>2 February 2015</b>	<b>Brussels, Belgium</b>
- European Parliament Committee Meetings	
<b>5 February 2015</b>	<b>Brussels, Belgium</b>
- European Parliament Committee Meetings	
<b>9 - 12 February 2015</b>	<b>Strasbourg, France</b>
- European Parliament Plenary Session	
<b>9 - 12 February 2015</b>	<b>Strasbourg, France</b>
- European Parliament Committee Meetings	
<b>9 February 2015</b>	<b>Brussels, Belgium</b>
- Foreign Affairs Council	
<b>10 February 2015</b>	<b>Brussels, Belgium</b>
- General Affairs Council	
<b>16 February 2015</b>	<b>Brussels, Belgium</b>
- Eurogroup	
<b>17 February 2015</b>	<b>Brussels, Belgium</b>
- Economic and Financial Affairs Council	
<b>23 - 24 February 2015</b>	<b>Brussels, Belgium</b>
- European Parliament Committee Meetings	
<b>25 February 2015</b>	<b>Brussels, Belgium</b>
- European Parliament Plenary Session	
<b>26 February 2015</b>	<b>Brussels, Belgium</b>
- European Parliament Committee Meetings	
<b>2 - 3 March 2015</b>	<b>Brussels, Belgium</b>
- Competitiveness Council	
<b>5 March 2015</b>	<b>Brussels, Belgium</b>
- Transport, Telecommunications & Energy Council	

Source: <http://www.europa.eu>, <http://www.es2015.lv/en/>, access as of 30<sup>th</sup> January 2015





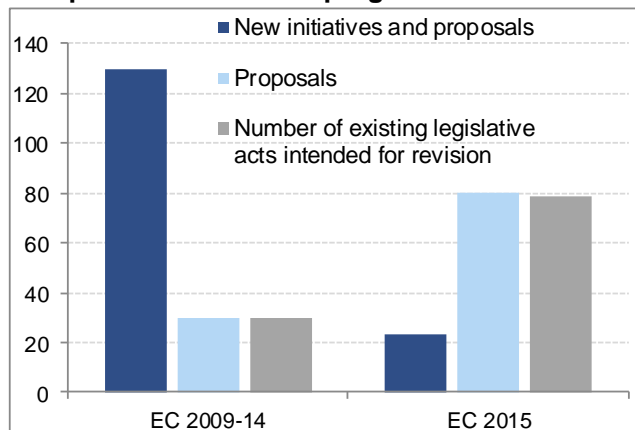
The new European Commission promises changes to the established order. It has shuffled portfolios, set new priorities and wants to change the style of work. Before Christmas, it thus presented a plan of specific reforms and initiatives that the EU plans for 2015. It was not surprising that here it also took a slightly different route than the previous Commission. Nevertheless only time will tell whether it will also lead to improvements in the quality of legislation, set the stuck economy into motion and reduce the burden on businesses.

## EU ON THE STARTING LINE - WISH OR REALITY?

### More with less?

First, a few figures. For 2015 Juncker's team set a goal of **23 new initiatives**. It analyzed the 450 currently pending proposals and suggested withdrawing 80 of them. This contrasts with 130 new initiatives and 30 proposals withdrawn on average per year by the old Commission.

### Comparison of the work programmes of the EC



Source: European Commission

**Less legislation** seems to be a good step, but do not rejoice prematurely. A number of this year's 23 new innovations will be issues with wide overlaps, which may require broader legislative packages.

### Energy priorities

Energy will be one of this year's priorities. It will need to be set up in a way that protects industries threatened by carbon leakage, draws on the base of the 2030 Climate and Energy Policy Framework and progresses in the **reform of the carbon emissions trading market**. This will affect the price of allowances and the costs for businesses. Among the proposals that the new body wants to withdraw are the Emissions Ceilings Directive and the Circular Economy Package, which is a set of laws concerning waste management.

However the Commission intends to do a new impact assessment, and not only for these two cases. As businesses warned, there is awareness that the existing proposals often operated with ambiguous data or data which did not exactly reflect reality.

Therefore a few sectors await investigation of the cumulative impacts of EU legislation this year: the chemical, wood as well as ceramics and glass sectors.

### A digital vision with a number of obstacles

Much attention in 2015 will be devoted to the **creation of a European digital market**. In the second half of the year we should await proposals in the area of copyrights. Before that, the Commission should present a plan on how it intends to move forward in other "digital" areas. It should embark on addressing the further **development of networks, European commercial law** and the use of **so-called big data**.

Furthermore the EU will want to conclude with a number of sensitive issues related to the digital economy. **Regulation of data protection**, which significantly affects not only companies conducting data analysis, but all businesses handling personal data including employee data; the Telecom Package for net neutrality; ending roaming charges and the politically hot reform of the "Safe Harbor".

### How to attract investment?

This Commission (and also the previous ones) has set itself the goal of **job creation and economic growth**. But it is well aware that this is not possible without increasing investments. Therefore it has promised to eliminate barriers and already announced an **ambitious investment plan** in December 2014. In it the Commission intends to use 21 billion EUR of "leverage" and the new EFSI fund to conjure up 315 billion euros for various investment projects which should begin in the years 2015-2017.

In the first half of the year, before it is shown whether the plan is realistic or unrealistic, the Commission will have to **prepare related legislation** and **select projects**. This will not be an easy task.

After the scandal with corporate tax in Luxembourg, pressure for shifts in the area of taxation can be expected. It is apparent that the EU will continue to **build or reshape the Economic and Monetary Union**. The Union will also negotiate new trade agreements with partners outside the EU, especially the **Transatlantic Agreement on Investment and Partnership (TTIP)** with the US.

It will also have to deal with **reform of European migration policy** and even more with the problem of terrorism in light of recent events in France. It is clear that this list is far from exhaustive. Moreover, a number of previously approved legislative acts will come into effect this year.

**Summarized and underlined:** The EU certainly does not expect an easy year, but the same thing could have been said at the beginning of the year for a number of years.

Tomáš Pirkli, Confederation of Industry of the CR



January news was dominated by reports regarding the European Central Bank and its declaration about the start of quantitative easing and undoubtedly also the results of the Greek elections, which in many ways could influence the future development of the Eurozone. In the following rows of our main topic, you can read about how these events influenced the development of the exchange rate of the euro, which during January fell to its lowest level against the dollar in 11 years.

## EURO(ZONE) IN LIGHT OF THE ECB'S QUANTITATIVE EASING AND THE GREEK ELECTION

### INTRODUCTION

The topic that resonated the most in the first month of this year both in economic and EU circles was the current and future development of the euro exchange rate. During January, the euro sank to its lowest level in 11 years against the dollar and also prompted debate about to what extent the euro project could survive in the current makeup of the Eurozone, which gained its 19th member as of 1 January 2015.

What was the cause? There were clearly **two key factors**, which we will focus on below:

- The European Central Bank's notification of the **start of quantitative easing** on 22 January;
- The early parliamentary elections in Greece, which were held on 25 January and were won overwhelmingly by the SYRIZA radical left coalition.

### EUROPEAN CENTRAL BANK CARRIES OUT QUANTITATIVE EASING

On 22 January 2015, the European Central Bank decided to expand its programme involving purchasing of assets and bonds issued by governments and agencies in the Eurozone and European institutions. The purchases of these assets are expected to reach EUR 60 billion per month. In view of the intention to carry out these purchases from March 2015 until the end of September 2016, 1.08 trillion euros is involved.

The aim is to correct the development of inflation, which is currently reaching deflation values in the Eurozone. The European Central Bank's long-term objective is to maintain the inflation level over the mid term at below 2%, but near that level.

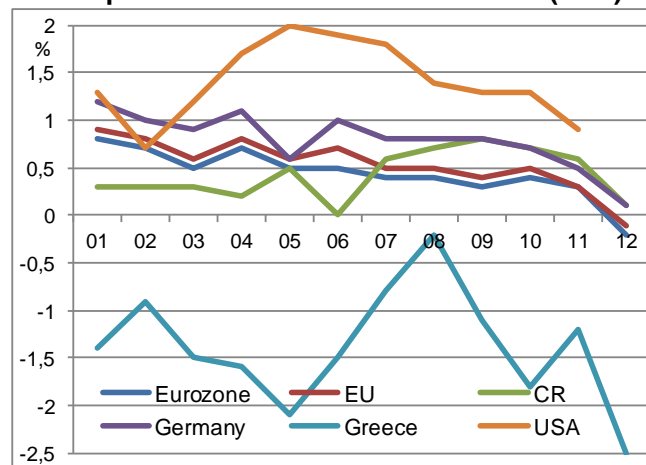
In December 2014, according to available data from Eurostat, the year-to-year inflation level in the Eurozone, measured by the Harmonised Index of Consumer Prices, reached 0.2% (in the previous month of the same year it was 0.3%, which was 0.5 pp higher), and in the EU the inflation level reached -0.1%. Deflation occurred in more than half of the EU member states. The worst off state in the Eurozone is Greece, where the inflation level reached -2.5% in December. This decline is reflected mainly in the decrease in the pace of energy price growth and to a lesser extent in the decline of year-to-year changes in food prices.

In the months to come, a very low or even negative inflation level can continue to be expected (in part due to the recent oil price declines). However, thanks to the ECB's adopted monetary policy measures, the anticipated increase in demand and the anticipated gradual increase in the price of oil, the inflation level in 2015 and 2016 could begin rising gradually.

It is apparent from the ECB's declaration that in March 2015, the Eurosystem will begin purchasing investment securities on the secondary market in euros issued by governments and agencies in the Eurozone and European Institutions. The purchase of securities in the Eurozone will be based on the shares of national central banks in the key for subscription of ECB registered capital. For countries falling under the EU/IMF recovery programme, certain additional eligibility criteria will apply.

The expanded programme of purchases of assets by the ECB will be complemented by the already ongoing programme involving the purchase of bonds secured by

#### Development of the inflation rate in 2014 (in %)



Source: Eurostat



# Main Topic

assets (ABS) and covered bonds. The bought assets must fulfil these conditions:

- They must be issued by an entity established in the Eurozone and from the group: central governments, certain agencies or international or supranational institutions located in the Eurozone.
- Their issuer or guarantor must have a rating falling into the investment zone and corresponding at least to an ECB evaluation in the grade CQS3 (equivalent BBB-/Baa3).
- Under certain conditions, it will also be possible to purchase bonds that have a lower rating, but their eligibility will be suspended if an evaluation is carried out of the particular state during provision of a rescue programme to that state, and it will be cancelled if the result of the evaluation is not positive.
- Purchased bonds within the new programme that do not fall either in the ABS category or in the program for purchasing covered bonds will have maturity between two and thirty years.

More details regarding (among else) the technical annexe of the ECB can be found at [www.investicniweb.cz](http://www.investicniweb.cz).

In the case of purchases of assets themselves, the Board of Governors of the ECB shall retain control over all parameters of the programme, and the ECB will coordinate those purchases.

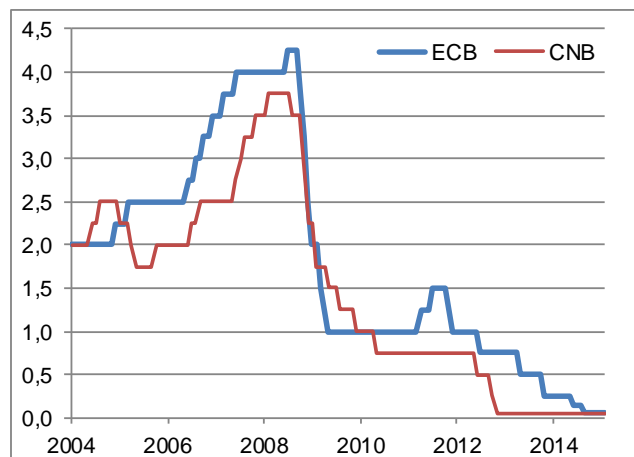
This will ensure the single nature of the Eurosystem monetary policy. For the purpose of mobilising its resources, the Eurosystem will carry out this activity in a decentralised manner.

The Board of Governors has decided that in the event of division of hypothetical losses, purchases of securities of European institutions (which will represent 12% of additional purchases of assets and will be carried out by national central banks) will be subject to division of losses.

The remainder of the additional purchases of assets by national central banks will not be subject to division of losses. The ECB will retain 8% of the additionally purchased assets. This means that 20% of additionally purchased assets will be subject to division of risks.

The ECB shall ensure price stability by aiming to get inflation below 2% over the mid term. One of the ECB's tools for doing this will be its setting of interest rate amounts. If the Central Bank wants to act against excessively high inflation, it usually increases interest rates, which increases the cost of borrowing money and makes saving more interesting.

## Development of the key interest rate of the ECB and the CNB



Source: ECB, CNB

However, if it wants to combat too low inflation, it reduces interest rates. Since already last September the Bank reduced all three basic interest rates by 10 basic points to historic minimums:

- the basic interest rate for main refinancing operations was reduced to 0.05%;
- the interest rate for the marginal lending facility intended for one-day loans to banks to 0.30%;
- the interest rate for the deposit facility even to 0.20.

It does not have many other ways of intervening against the pressure of deflation other than through quantitative easing.

Besides the notification of the expansion of the asset buying programme, at its meeting held on 22 January the ECB also decided to leave interest rates unchanged.

From the point of view of further development of measures, the ECB shall in a decisive manner support anchoring of mid-term to long-term inflation expectations. The conditions for financing businesses and households in the Eurozone will continue to improve.

These factors should jointly increase demand, increase the use of capacities and support growth of monetary reserves and the volume of loans, which will contribute to the return of the inflation level to positive values.

This recovery should also have a positive influence on improving exports. However, a certain brake on the Eurozone will be the continued high unemployment level, which in some states even exceeds 25%.

However, the situation on the labour market is expected to improve gradually.





## GREEK LEGISLATIVE ELECTION

### Genesis of the Greek political crisis

The political crisis in Greece, which eventually culminated in early elections, began already last December. At the beginning of last December, the then prime minister from New Democracy, Antonis Samaras, announced that the government's candidate for president would be a former deputy chairman of his party and a former Euro Commissioner (for environment), Stavros Dimas.

The opposition under the leadership of Syriza did not present any candidate. The cabinet also hurried with the announcement of new elections, which were held already on 17 December 2014, even though the current head of state, Karolos Papoulias, has a mandate until this March.

Although the representatives of the Commission welcomed the nomination of the renowned and well known face, political commentators and investors already saw the signs of the approaching political crisis, which was apparent from the deep decline of the Greek stock market. (Following the announcement of the candidate's name, Greek stocks fell to their lowest level in nearly 30 years.)

The Greek Constitution stipulates that if the president is not successfully elected, the parliament must be dissolved, and early elections must take place. Since the governing coalition of conservatives from New Democracy and socialists from PASOK held only 155 of the 300 parliamentary seats, and a qualified majority of 200 and 180 votes respectively is needed to elect a president, there were legitimate concerns about the failure of the vote. That was eventually confirmed, and the president was not elected even in three rounds – see table.

#### Greek presidential elections – December 2014

Round	Date	Needed votes	Received votes
1.	17. 12. 2014	200	160
2.	23. 12. 2014	200	168
3.	29. 12. 2014	180	168

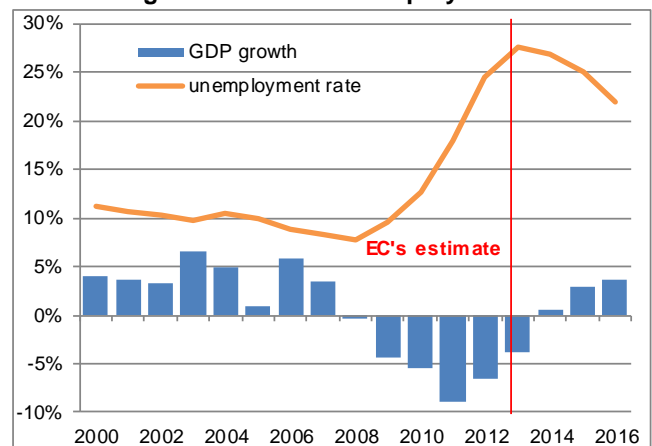
Source: ČTK

Former prime minister Antonis Samaras was not as lucky this time. The Greek parliament was dissolved as a result of the unsuccessful elections, and the government scheduled the early elections for 25 January 2015. Samaras' pro-reform government went into history one year and a half sooner than had been expected. (The regular parliamentary elections were not supposed to take place until mid 2016.)

### Results of Greek parliamentary elections

Pre-election public opinion surveys already indicated that the era of Antonis Samaras at the top of the Greek political pyramid was ending. The radical left coalition Syriza emerged as the clear favourite, led by charismatic politician Alexis Tsipras, and it was only a matter of time until Syriza won enough support to be able to set up a government. When just before the holding of the elections Tsipras called on his voters to give him enough votes to be able to govern without a coalition partner, it seemed like a sci-fi scenario.

#### Economic growth and the unemployment in Greece



Source: Eurostat, European Commission

However, in the end it was not far from reality. The poisonous cocktail of the lengthy six-year recession, record unemployment and increasingly weak light at the end of the tunnel (from the point of view of independent analysts) led Greek voters to reject resoundingly the policies of austerity and painful reforms. Syriza won more than 36% of the votes, which led to 149 mandates in the 300-member Greek parliament. The Party of Independent Greeks, with 13 lawmakers (4.75%) rushed to form a majority government, and that party and Syriza have a common demand, which is that public debts be written off. The new coalition will have a majority of votes in parliament (162 votes).

For the first time since the demise of the military junta in 1974, a party other than New Democracy and PASOK, which have been taking turns ruling since then, has come to power. New Democracy took a devastating blow, finishing in second place with 27.8% and 76 mandates (compared to 129 legislators previously), which is a failure. Its former coalition partner PASOK did even worse, winning only



# Main Topic

4.68% (13 lawmakers) and just barely exceeding the 3% minimum needed to enter parliament. The radical, even Fascist-leaning, Golden Dawn party came a distant third, followed closely by the new River (Potami) party and the Communists.

## Results of the Greek elections from 25<sup>th</sup> January 2015

	Share of votes	Number of seats
SYRIZA	36.34	149
New Democracy	27.81	76
Golden Dawn	6.28	17
To Potami	6.05	17
Communist Party of Greece	5.47	15
Independent Greeks	4.75	13
Panhellenic Socialist Movement-Democratic Alignment	4.68	13

Source: *Greek Interior Ministry*

## Reactions to election results

The direct reaction to the elections on the financial markets was very negative. The exchange rate of the euro declined further and Greek state bonds along with stocks weakened, led by banking stocks. However, during the day the situation improved, and the euro eliminated all of its initial losses against the dollar.

The concerns were mainly prompted by Syriza's economic programme – see box. In its first place is the agenda, which Syriza (one of few) has in common with its coalition partner, the Independent Greeks: revision of the rescue programme for the purpose of evaluating approved savings and reforms, an agreement with international creditors under the leadership of the Group of Three (the European Commission, the ECB and the IMF) to achieve further writing off of Greek public debt.

### Main points of Syriza's economic programme

- Achieving writing off of a large share of public debt, so that it becomes sustainable, like when debt was written off in Germany in 1953; pay off remaining debt instalments through "growth";
- Creation of a European New Deal project, which would be financed by the EIB;
- Free electricity to 300,000 households living below the poverty line;
- Food subsidies for 300,000 families without include and subsidies for housing and rent;

- Reintroduction of the 13th pensions of 1.2 million retirees;
- Reduction of consumer debt for heating and diesel fuel;
- Cancellation of the flat real estate tax rate and introduction of taxes for larger real estate;
- Cancellation of income taxes on income up to EUR 12,000 annually and introduction of progressive tax policy;
- Debt relief for debtors through debt restructuring;
- Raising the minimum monthly salary to EUR 751;
- Implementing work measures to protect employees and make it more difficult to lay off employees;
- Increasing the transparency, economic autonomy and effective management of regional state institutions;
- Increasing civic participation and direct democracy;
- Regulation of the television and radio environment and reintroduction of state television and radio.

Source: *Presentation of Syriza's government programme by Alexis Tsipras at a conference in Solun on 15<sup>th</sup> September 2014*

EU leaders' reaction has been rather negative. This sentiment was expressed clearly by a member of the ECB's executive committee, Benoit Coeuré, who said that the ECB would not get involved in any writing off of Greek debt. Another warning was sent to Athens by German Bundesbank chief Jens Weidmann, who reminded the new leaders in Greece of their obligation to honour their agreements with international creditors. However, Europe also showed Greece a friendly face.

Jeroen Dijsselbloem, chairman of the group of Eurozone finance ministers, cited the need for Greece to fulfil existing agreements, but he also left room for a potential compromise with his statement about future discussions regarding the "sustainability of Greek debt". The most understanding for Alex Tsipras' plans has been expressed by left-wing (often) opposition parties in Europe, who have cited what they consider the ineffectiveness of austerity measures pushed through so far in Greece. Those measures have been pushed by European political heavyweight Germany, which thanks to its position as the largest European economy and the largest "sponsor" of EU rescue mechanisms will probably have the main say.

However, instead of official press releases, Berlin's position has been hinted at more by information leaked to the media. At the beginning of January, that information revealed that Germany would no longer defend Greece at any price if it had to leave the Eurozone. That reportedly would happen if



## Main Topic

after the elections Greece abandon austerity policies and stopped repaying its debt. German Chancellor Merkel and Finance Minister Schäuble reportedly believe that it would now be acceptable for Greece to leave the Eurozone, since in recent years the EU and the Eurozone have taken systematic measures that would minimise the impacts of a departure from the Eurozone by Greece.

Greek officials themselves do not question the principle of debt repayment, but they want to link it to the country's ability to grow and to repay its debts thanks to a growing economy. Finance Minister Janis Varoufakis has already presented a plan for exchanging current Greek state bonds for two new types:

- **Bonds linked to economic growth** would replace debt held by Eurozone states and the EFSF;
- **Material bonds** (perpetuity, with the issuer paying endless interest, but not principal), would be replaced by bonds owned by the ECB.

Now it will be key whether this – or a similar – scenario of restructuring of debt burden (without leading to writing off of the nominal value of debts) will receive support from key EMU states. The first sign is positive; French Finance Minister Michel Sapin, after meeting with his Greek counterpart, stated publicly that "repayment of current Greek debt must be bound to the country's ability to renew growth."

The Greeks also refuse to negotiate further with the group of three inspectors representing international creditors, the EU, the ECB and the IMF, and they are not interested in extending the existing rescue programme, which will expire at the end of February 2015. According to the Greek

government, it should be followed by a four-month bridging loan lasting until June 2015, in which the ECB would be significantly involved.

A concession would be a pledge to maintain a primary public budget surplus (after clearing away the effects of debt repayment instalments) of between 1 and 1.5% of GDP, even though that would mean that Syriza would not fully be able to implement its election programme.

### Future developments in Greece and the Eurozone

It would not be right to agree with the claim that Europe is better prepared for the departure of the weakest link in the Eurozone. Since May 2010, when Greece accepted the first aid package, the EU has built up necessary mechanisms and instruments. The key ones include:

- **the European Stabilisation Mechanism (ESM)** – a permanent rescue fund with injection power of EUR 500 billion, from which aid for Eurozone member states is financed.
- **the Banking Union** – a project to unite the European banking sector, including a joint supervisory mechanism and a joint resolution mechanism, which would make it possible to finance the financial restructuring of problematic banks.
- **the programme for purchases of government bonds by the European Central Bank (Outright Monetary Transactions, OTM)** – the aim is to purchase state bonds from the Eurozone on secondary markets in order to reduce their yields to more acceptable levels.

### Rescue packages for Greece

	1st package (First Economic Adjustment Programme for Greece)	2nd package (Second Economic Adjustment Programme for Greece)
<b>Approval by the Euro group</b> <sup>1)</sup>	2 <sup>nd</sup> May 2010	14 <sup>th</sup> March 2012
<b>Provided for the period</b>	VI/2010 až VI/2013	III/2012 až XII/2014 <sup>2)</sup>
<b>Volume in billions of euros</b>	73,0 <sup>3)</sup>	164,5 <sup>4)</sup>
<b>of that the Eurozone</b>	52.9 (Greek Loan Facility – bilateral loans between EMU states and Greece)	144.7 (European Financial Stability Facility)
<b>of that the IMF</b>	20,1	19,8

Source: European Commission (DG Ecfm), 1) comprised of finance ministers from Eurozone member states, 2) rescue programme extended until II/2015, 3) the original volume was set at EUR 110 billion (EUR 80 billion in bilateral loans of Eurozone states + EUR 30 billion from the IMF), but only EUR 73 billion was drawn, and the remainder was transferred to the 2nd rescue package, 4) consists of undrawn amounts in the first rescue package (reduced by EUR 2.7 billion for the non-participation of Slovakia, Portugal and Greece) and an additional EUR 130 billion.





## Main Topic

Nonetheless, a potential exit from the Eurozone by Greece would cause major turbulence on financial markets, negative effects on the real economy and concerns about the potential departure of other Eurozone members. Whether this scenario will eventually play out or will remain the subject of speculation will depend on whether the new Greek government headed by Syriza leader Alexis Tsipras and key politicians from the EU led by Angela Merkel manage to reach a deal. Syriza's programme so far and the terms of the agreements connected with the financial rescue of Greece and its remaining in the Eurozone are mutually incompatible, after all. Therefore, it cannot be ruled out at all that Greece may exit the Eurozone, even though Syriza and most Greeks want to keep the euro as their currency.

### Potential scenarios in Greece and the Eurozone

Under the condition that Greece does not soon experience a new political crisis and new early elections:

#### a) Real politics and pragmatism will win (30%)

This scenario anticipates that Tsipras and his coalition partner Panos Kammenos from the Independent Greeks party will recognise that the fulfilment of all of their pre-election promises is not a realistic expectation and that the rest of Europe will not be willing to forgive more Greek debt. Most of Samaras' government's reform steps will continue to be followed. Some steps increasing fiscal spending will be made up for by increased tax collection thanks to more intensive combatting of tax evasion and corruption.

The nominal value of the debt will not change, but the EU will accept further restructuring of Greek debt (linking repayment to growth, extending the periods until debt maturity, reducing interest, etc.). Greece will continue to report primary state budget surpluses, and public debt will gradually begin to be reduced to more sustainable levels. Investors' confidence, disrupted by the commotion surrounding the early elections, will return, the economy will embark on a path of cautious economic growth, and unemployment will begin to decrease. **Best** possible scenario for Europe.

#### b) The EU will make concessions, due to concerns about a "European Lehman Brothers" (25%)

Syriza, under the influence of more radical legislators, over whom Prime Minister Tsipras will not have influence, will eventually give in and will insist on not conditioning the election programme on the completion of the austerity measures, which Tsipras has described as "fiscal waterboarding". European politicians, headed by Merkel, will offer Greece another rescue package with order number 3.

It will include additional writing off of public debt held by banks (Private Sector Involvement, PSI) and will shatter taboos and lead to a "haircut" of debts held by public institutions as well (Official Sector Involvement, OSI), especially Eurozone states through bilateral loans and the European Financial Stability Facility (EFSF).

Besides writing off of debt, the Greek government will also negotiate concessions in the approved austerity programme. Prime Minister Tsipras will win, but at the price of a dangerous precedent. Similar concessions and writing off of debt will also be demanded by other states (such as Portugal, Spain and Cyprus) and by their politicians. This will be true of both the current political leaders and the new ones who win in future parliamentary elections. The first of them will be the Spanish Podemos movement, which will take power after the elections held last December. **Worst** possible scenario for Europe.

#### c) Prepare the rotators for the new Greek drachma (45%)

Following the initial rounds of bilateral negotiations between Greece's new leaders and EU and Eurozone officials, no agreement is reached, due to opposing points of view. Such situation will either emerge by the end of February, when the extended period for revision of the rescue programme expires, or several months later.

Although primary law does not define the legal mechanisms for a country's exit from the Eurozone, in view of the critical circumstances a quick solution will be found, which will be that the founding agreements will not be revised. In view of the above, an agreement between both sides must be reached. Unilateral steps can be ruled out. A potential compromise could take the form of radical forgiveness of debt in exchange for the country's exit from the Eurozone.

The euro is proving to be too strong of a currency for the Greek economy, and the reintroduced drachma will weaken against the euro initially by nearly half and enable the country's inhabitants, who are against further austerity, to get a breath of fresh air. The failing Greek banks will be propped up by the Bank of Greece in cooperation with the ECB, and for a few years the free movement of capital and money across borders will be limited for Greece. In order to prevent a chain reaction resulting in the departure of additional countries from the Eurozone, the ECB will begin intervening on bond markets and issue a clear pledge to rescue the other vulnerable economies of the Eurozone and their banks.

For Europe from a short-term point of view, this would be the **most painful** scenario, but from a long-term point of view it could be beneficial for all sides.



The Guide to Doing Business section is part of the advisory programme "Foreign Business Guide", which the EU Office has offered since the beginning of this year. Within the program, we provide our clients from among small and medium-sized businesses with information about how to expand abroad successfully and what business environment awaits them there. You can find more information about the programme here: [www.csas.cz/eu](http://www.csas.cz/eu). In this issue we present Ireland.

## IRELAND

Official name	Ireland
Population	4 591 087 (2013)
Area	70 273 km <sup>2</sup>
Currency	Euro (EUR)
Official language	Irish, English

Source: Eurostat

Republic of Ireland is a country in North-west Europe. It shares a land border with Northern Ireland, which is considered part of the UK. The Republic of Ireland is divided into two cohesion regions (NUTS 2 type), or 8 regions.

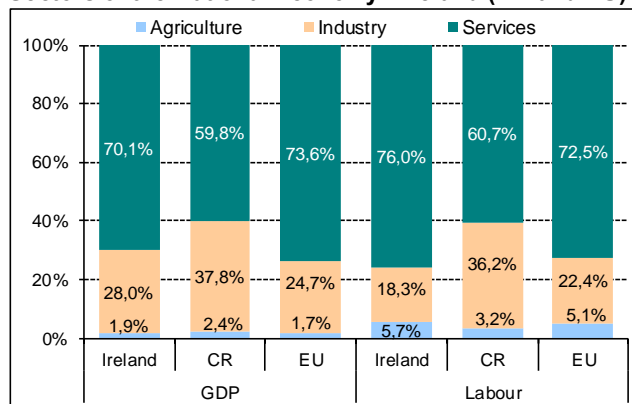
The country is a parliamentary democracy with a bicameral parliament. The lower chamber's members are elected for five-year terms. Enda Kenny has served as Ireland's prime minister since March 2011. Michael D. Higgins has served as Ireland's president since November 2011, following his election.

### Structure of economy and foreign trade

Ireland's main export partners are the USA (17.9%), the UK (17.3%) and Belgium (15.6%). The Emerald Isle's main import partners are the UK (39.8%), followed by the USA (13.2%) and Germany (7.6%).

Ireland's main export commodities are machines, equipment, computers, chemicals and medical supplies. The country imports mainly data processing devices, machines and equipment, chemicals, petroleum and petroleum products.

### Sectors of the National Economy – Ireland (CR and EU)



Source: Eurostat, data as of 2013

### Macroeconomic outlook

While according to the Commission, the Eurozone as a whole grew by 0.8% of GDP in 2014, growth by 4.6% of

GDP is expected in Ireland, making it the country with the strongest growth in the entire EU. This optimism stems from the incredible growth rate of 5.8% of GDP in the first half of 2014. The "Celtic Tiger" will experience a slight economic slowdown in the years to come (to 3.6% in 2015), but will remain among the EU member states with the highest GDP growth levels. The transformation from a long-term recession to astronomical growth has been driven mainly by strong exports of goods. However, the Irish cannot be too proud of their deficit of public finances. Although it has fallen since 2011 (-12.6% of GDP), it remains high. In 2015 and 2016, it is expected to range at around 3% of GDP. Public debt is declining in Ireland. It has been gradually falling towards 100% of GDP.



Basic indicators (in %)	2013	2014 <sup>e</sup>	2015 <sup>e</sup>	2016 <sup>e</sup>
GDP Growth	0.2	4.6	3.6	3.7
Unemployment rate	13.1	11.1	9.6	8.5
Inflation	0.5	0.4	0.9	1.4
Current account saldo	3.8	5.5	5.5	5.3
Public debt	123.3	110.5	109.4	106.0

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

### Labor market

Employment is growing at a pace of 2%, and the unemployment level has continued to decline from the long-term maximum in February 2012 of 15.1% to 10.5% in December 2014, but even so it is above the EU average. The country has the seventh highest work productivity per hour in the EU and has long been at around 120%. The minimum wage in Ireland has been frozen since 2007 and expressed in euros is approximately 4.5 times higher than in the Czech Republic.

Basic indicators of labor market		
Unemployment rate (December 2014)	10.5%	
Labor productivity to ø EU (2013)	122.6%	
Minimum monthly wage	1 462 EUR	
ø monthly labor costs in sectors	Ireland	CR
Wholesale and retail (2013)	3 272 €	1 512 €
Manufacturing (2013)	4 491 €	1 480 €
Construction (2013)	3 977 €	1 467 €
Accommodation. food ... (2013)	2 089 €	978 €

Source: Eurostat

# Doing Business

The average labour costs in individual sectors are more than 2.5 times higher than in the Czech Republic. For example, in the processing industry, average labour costs in Ireland can reach nearly EUR 4,500 per month.

## Labor law basics

An employment contract must be entered into between the employer and the employee within two months of the employee being hired and may be set for a definite period or an indefinite period. The maximum work period is 48 hours per week. The conditions under which overtime work can be required and compensated must be stipulated in the employment contract. Each employee is entitled to 4 weeks of leave.

## Commercial law basics

Ireland is the best evaluated state in the Eurozone according to the World Bank's Doing Business Index. From 1 to 99 shareholders are needed to establish a private joint-stock company, but shareholders cannot trade with their shares on a stock exchange. In order to establish a public joint-stock company, a minimum of seven shareholders is needed (regardless of nationality). The minimum registered capital is EUR 38,092, and 25% of that amount must be paid by the date of the company's founding.

Form of Company	Minimum Capital
Private company limited by shares	symbolic (1 EUR)
Public company limited by shares	38 100 EUR
European company (SE)	120 000 EUR

Source: Department of Jobs, Enterprise and Innovation

## Main taxes and additional labor costs

The basic corporate tax rate in Ireland is 12.5%, and for selected activities it is 25%. Individual income taxes in Ireland are relatively complicated. The tax rates depend on factors such as the person's marital status and whether both partners have income. Up to a certain amount (which differs depending on the amount specified, approximately EUR 30,000 to 40,000), income is taxed at a 20% rate, and above that amount at a 41% rate.

The basic VAT rate in Ireland is 23%. The reduced rates are 13.5% (for certain food products) and 9% (for sport and cultural events, hotels, restaurants, etc.). A super-reduced rate of 4.8% applies to other types of food products. The country has a progressive social security system. If an employee's gross wages do not reach EUR 352 per week, the employee pays nothing. Above that amount, the employee pays 4% of wages towards social security.

The employer pays 8.5% of the employee's weekly wages up to EUR 352 and 10.75% above that amount.

Tax/payment	Rate
Corporate Tax	12.5% (25%)
Individual Income Tax	20% / 41%
Social insurance (employee)	0% / 4%
Social insurance (employer)	8.5% / 10.75%
VAT (basic /1 <sup>st</sup> lower/2 <sup>nd</sup> lower)	4.8% / 9% / 13.5% / 23%

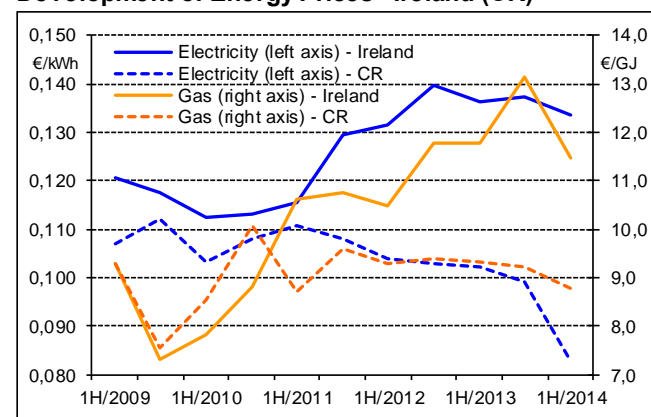
Source: Ministry of Finance

## Energy

Electricity in the first half of 2014 was sold to large consumers for 13 euro cents per kWh. The price of natural gas has been rising regularly since 2009 (in 4 years it has grown by 80%). However, in the past 6 months the price of natural gas has fallen to EUR 11.46 per GJ.

Ireland relies on natural gas for nearly 55% of its energy, followed by 25% on fossil fuels and 20% on renewable resources. The country is also 89% dependent on imports to cover its energy needs.

### Development of Energy Prices– Ireland (CR)



Zdroj: Eurostat, tariffs for wholesales excluding VAT

## Incentives

The key sectors that foreign investors will find attractive in Ireland include pharmaceutical and medical supply production, financial services and information and communication technology (ICT).

Non-tax incentives are sponsored by the Industry Development Agency (IDA) and include capital grants, guarantees and loans or subsidies for rent reduction, employment, education, research and development. These incentives vary mainly based on location and job creation levels.





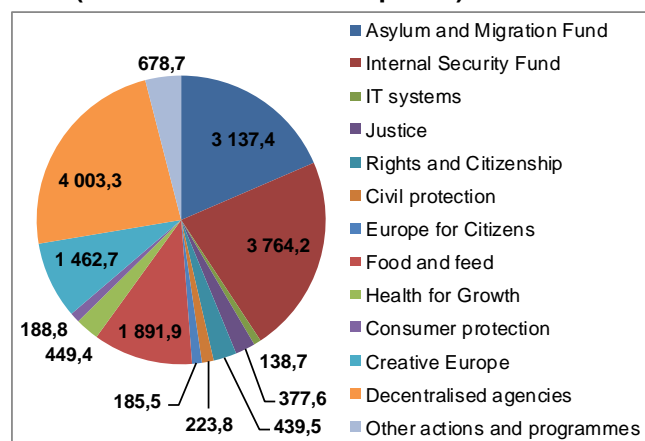
In the January issue of the Monthly, we devoted the Dating the MFF section to the Asylum, Migration and Integration Fund (marginally also the Internal Security Fund), part of budget heading 3 Security and citizenship. In addition to these funds, resources are also budgeted for extensive information systems and the Civil Protection Mechanism. Within this category programmes that promote public health, consumer protection and culture and youth are also funded.

## SECURITY AND CITIZENSHIP

Although the Security and citizenship budget heading makes up about **2%** of the budget total in the 2014-2020 multiannual financial framework, it is an important and indispensable part of great significance.

The resources under this heading are designed to ensure safety, the fight against terrorism, migration management, human rights and judicial cooperation. The total allocated under this heading in the 2014-2020 period is **17,725 million euros** (in current prices).

### Budget of Heading 3: Security and citizenship 2014-2020 (million euros in current prices)



Source: European Commission

The largest share is for **decentralized agencies**, which total **twelve** under this heading. These include:

- The European Judicial Cooperation Unit (Eurojust);
- The European Police Office (Europol);
- The European Food Safety Authority (EFSA);
- The European Agency for the Management of Operational Cooperation at the External Borders (Frontex);
- The European Agency for the operational management of large-scale IT systems (eu-LISA).

A substantial part of the funds is intended for the Asylum, Migration and Integration Fund and the Internal Security Fund. Another budget item under this heading worth billions is a programme focused on **food and animal feed**, which aims to strengthen enforcement of standards in the area of health and safety in the agri-food chain, and the **Creative Europe** programme which promotes European cinema, cultural and creative industries in order to protect the linguistic and cultural diversity of Europe.

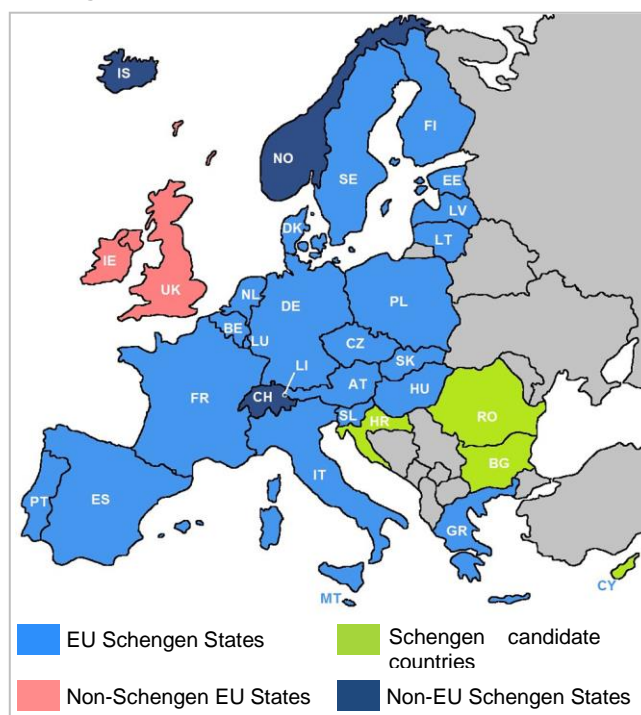
### The European Agency for the operational management of large-scale IT systems (eu-LISA)

Among the most important of the so-called independent agencies is eu-LISA. It was founded in 2011 in order to **manage large-scale IT systems** in the area of freedom, security and justice: **the Schengen Information System (SIS II), the Visa Information System (VIS) and the EURODAC system.**

The **Schengen Information System (SIS)** was established to limit the security risks that arise from the free movement of persons and goods and its first version was launched in 1995. **In 2013 the second generation Schengen Information System (SIS II)** began as a reaction to the expansion of the Schengen area and therefore the need to more effectively ensure security. The document creating it had been signed in 1985.

The **Visa Information System (VIS)** assists in the implementation of the common visa policy and consultation between central visa authorities concerning short-term Schengen visas for stays up to 90 days. The **Eurodac system** allows the competent authorities in EU Member States to compare the fingerprints of asylum seekers.

### Schengen Area



Source: European Commission; compile by EU Office



# 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 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

in %	Inflation (YoY)				Unemployment rate				Labor costs to Ø EU			
	IX-14	X-14	XI-14	XII-14	Q4-13	Q1-14	Q2-14	Q3-14	2010	2011	2012	2013
Belgium	0.2	0.3	0.1	-0.4	8.5	8.4	8.4	8.6	148.5	148.6	149.6	150.2
Bulgaria	-1.4	-1.5	-1.9	-2	12.9	12.3	11.6	11.5	13.4	14.2	14.4	15.4
CR	0.8	0.7	0.6	0.1	6.7	6.6	6.2	5.9	44.0	44.6	44.8	44.6
Denmark	0.3	0.3	0.2	0.1	6.8	6.8	6.5	6.5	152.8	152.5	151.5	151.3
Germany	0.8	0.7	0.5	0.1	5.1	5.1	5.0	5.0	121.5	121.9	122.8	123.6
Estonia	0.2	0.5	0	0.1	8.7	7.9	7.5	7.5	34.6	35.3	36.8	39.1
Ireland	0.5	0.4	0.2	-0.3	12.2	12.0	11.7	11.2	120.4	115.9	116.1	115.0
Greece	-1.1	-1.8	-1.2	-2.5	27.6	27.2	26.9	26.2	79.1	72.6	67.0	n/a
Spain	-0.3	-0.2	-0.5	-1.1	25.8	25.2	24.7	24.2	89.3	89.4	88.4	87.4
France	0.4	0.5	0.4	0.1	10.2	10.1	10.1	10.3	133.3	134.1	134.1	132.4
Croatia	0.2	0.5	0.3	-0.1	17.3	17.4	17.1	16.8	38.1	38.1	38.1	38.3
Italy	-0.1	0.2	0.3	-0.1	12.4	12.7	12.6	12.8	112.8	112.3	112.1	113.0
Cyprus	0	0.3	0	-1	16.6	15.8	16.1	16.3	72.5	71.8	70.4	66.7
Latvia	1.2	0.7	0.9	0.3	11.5	11.4	10.8	10.7	26.4	26.6	27.1	27.9
Lithuania	0	0.3	0.4	-0.1	11.2	11.6	11.4	9.9	23.7	23.7	24.2	25.5
Luxembourg	0.3	0.4	0.2	-0.9	6.0	6.0	6.0	6.0	147.0	147.6	147.8	150.5
Hungary	-0.5	-0.3	0.1	-0.8	9.2	8.0	8.1	7.6	36.3	37.3	38.6	38.7
Malta	0.6	0.7	0.6	0.4	6.5	6.1	6.0	6.0	55.3	55.5	56.2	56.8
Netherlands	0.2	0.4	0.3	-0.1	7.0	7.2	7.0	6.6	134.3	133.4	133.1	135.0
Austria	1.4	1.4	1.5	0.8	5.0	5.0	5.0	5.0	123.7	124.8	127.5	129.4
Poland	-0.2	-0.3	-0.3	-0.6	10.0	9.8	9.2	8.6	35.2	35.7	36.0	36.7
Portugal	0	0.1	0.1	-0.3	15.4	15.0	14.3	13.6	53.7	52.8	49.1	47.5
Romania	1.8	1.8	1.5	1	7.1	7.0	6.9	6.8	22.6	23.5	24.4	24.9
Slovenia	-0.1	0.1	0.1	-0.1	9.7	10.2	9.6	9.7	61.2	60.9	60.0	58.4
Slovakia	-0.1	0.0	0	-0.1	14.1	13.8	13.4	13.1	34.7	35.2	35.3	35.8
Finland	1.5	1.2	1.1	0.6	8.3	8.4	8.6	8.7	122.8	122.6	125.1	125.6
Sweden	0	0.3	0.3	0.3	8.0	8.1	8.0	7.8	152.6	152.6	155.3	155.7
UK	1.2	1.3	1	0.5	7.1	6.7	6.3	5.9	115.5	114.7	113.8	113.2
EU	0.4	0.5	0.3	-0.1	10.7	10.5	10.3	10.1	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	2011	2012	2013	1H-14	2010	2011	2012	2013
Belgium	255.9	251.5	261.6	277.7	n/a	n/a	n/a	n/a	121.0	122.1	116.1	111.5
Bulgaria	32.6	34.8	37.2	39.0	8.8	8.3	7.8	7.6	45.2	43.5	43.9	42.5
CR	100.0	100.0	100.0	100.0	4.6	4.2	3.6	3.4	118.9	119.0	113.2	109.4
Denmark	280.7	275.2	287.0	296.6	4.0	3.5	3.7	3.3	164.5	167.6	160.6	153.3
Germany	202.8	201.0	206.8	218.6	4.1	3.2	2.9	2.8	146.2	143.2	140.7	149.2
Estonia	81.9	82.1	87.7	95.4	3.7	3.1	3.0	3.0	55.2	53.0	55.2	65.4
Ireland	279.6	283.1	293.5	302.0	3.5	3.3	3.5	3.3	118.2	125.3	131.8	135.9
Greece	153.2	143.0	148.8	151.7	4.7	3.6	3.1	3.2	57.2	56.5	61.2	67.7
Spain	182.5	177.5	185.5	197.8	3.5	3.4	3.2	3.3	111.7	116.4	120.5	114.4
France	234.7	230.1	238.5	252.0	4.4	4.5	3.9	3.8	82.7	81.7	78.4	80.8
Croatia	94.3	92.0	96.0	100.1	9.5	8.1	7.6	5.6	62.2	60.8	68.8	69.6
Italy	209.6	204.6	207.8	219.4	n/a	n/a	n/a	n/a	89.2	86.8	94.3	93.2
Cyprus	154.6	151.0	160.2	164.3	3.6	4.3	3.9	3.7	106.1	114.9	138.5	122.5
Latvia	67.4	71.6	79.0	84.3	5.3	5.5	5.4	5.1	57.6	61.1	61.6	59.3
Lithuania	71.6	76.3	81.6	87.9	4.7	3.9	4.1	n/a	66.5	65.2	62.9	66.0
Luxembourg	575.3	579.1	595.9	630.0	4.3	3.3	2.7	3.0	105.5	95.7	92.2	87.2
Hungary	82.6	80.6	79.5	83.0	2.5	2.4	2.2	2.3	94.3	87.4	80.8	69.1
Malta	128.7	125.4	130.9	137.3	10.6	12.0	9.6	7.8	110.0	103.2	97.5	94.0
Netherlands	236.9	229.9	234.2	247.0	3.6	3.6	3.4	3.3	52.9	55.0	56.1	55.3
Austria	n/a	n/a	n/a	n/a	4.6	4.3	3.9	3.5	117.8	113.8	109.1	110.2
Poland	74.2	74.2	77.4	82.7	3.4	3.3	2.8	2.8	80.3	78.2	75.1	71.5
Portugal	115.4	110.4	113.3	122.1	7.1	7.4	5.9	5.6	100.7	102.6	110.2	109.3
Romania	42.6	43.6	44.1	49.7	4.8	4.8	4.3	4.1	57.6	56.8	53.4	62.3
Slovenia	119.8	118.6	118.8	n/a	4.1	3.6	3.5	3.7	92.7	87.1	85.8	90.8
Slovakia	92.5	92.8	96.8	102.7	5.2	5.3	4.4	4.0	97.7	98.1	95.1	89.9
Finland	240.5	239.6	247.1	263.5	2.6	2.2	2.2	2.2	94.1	100.7	95.7	94.2
Sweden	261.9	269.9	285.8	303.5	4.0	3.6	2.8	2.4	113.0	116.2	109.2	106.9
UK	199.8	195.6	216.0	219.3	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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