Wrocław Summer School 2013

HOW OLD AND NEW DEMOCRACIES COPE WITH THE ECONOMIC CRISIS

COUNTRY REPORTS

Uniwersytet Wrocławski

Wrocław Summer School
23 June – 7 July 2013

How old and new democracies cope with the economic crisis

Country reports

University of Wroclaw
University of Koblenz-Landau
University of Bucharest
Masaryk University
University of Zagreb
Comenius University in Bratislava
Babeș-Bolyai University
Université Libre de Bruxelles

Wrocław 2013

Table of contents

THE CZECH REPUBLIC

Nikola Janíková
Lucie Varvařovská

Summer School on Democracy:
How old and new democracies cope with the economic crisis.

Country report: the Czech Republic

Our research will be about the Czech national level and the regional level of dealing with the financial crisis from 2008 up today. The national level dominates with the great tries of reforms of taxation, the pension system, social benefits and the education system but the regional level has completely different competencies and ambitions. The decision-making is also different. All these questions will be discussed below.

Decisions, bills and reforms on the national level

In dealing with the crisis the governments of Czech Republic were motivated by saving the public finance and reducing the budget deficit. The government which has been elected in 2010 calls itself "The Government of Budgetary Responsibility" and promotes mainly neoliberal measures.

For the purpose of this paper, I would like to divide the decisions, reforms and bills adopted by Czech government in several areas:

1. Taxation;
2. Reform of the social welfare system;
3. Reform of the pension system;
4. Reform of the education system;
5. Reform of the public administration;
6. Other measures.

Taxation

Taxation changed several times during 2009 and 2010:

2009 the new Taxation Code (Act No. 280/2009 Coll.) was adopted. It changed most of the taxes in Czech Republic, including VAT, income tax and excise duty. The standard rate of VAT increased by one percent – from 19 to 20 %. The reduced rate of VAT increased from 9 to 10 percent (Act No. 87/2009 Coll.). Income tax decreased by 1 percent – from 20 to 19 % (Act No. 216/2009 Coll.). This bill was implemented from 1. 1. 2010.

In 2010 the reduced rate of VAT was changed from 10 to 14 % (Act No. 120/2010 Coll.; Act No. 346/2010 Coll.). This change was implemented from 1. 1. 2012.

In 2012 the VAT was changed once again – the both rates of VAT were increased by one percent – the standard VAT rate is now 21 % and the reduced rate of VAT is now 15 % (Act No. 502/2012 Coll.). Moreover for many goods applies the standard VAT rate instead of the reduced rate of VAT (f. e. baby diapers, public transport, health care aids). This bill is implemented since 1. 1. 2013.

The motivation of the decision makers was always the same – increase the incomes of the state, reduce the budget deficit and support entrepreneurs (by decreasing the income tax). It is truth, that the budget deficit decreased constantly in this period and the incomes from VAT were higher. The assumptions of the decision makers remained partly unfulfilled – the expectations were always much higher than the real incomes of increased VAT rate. Moreover both the businessman and the economists criticized the government that by changing taxation (mainly VAT) rate so often and without some longer-term conception is only confusing and produces a chaotic environment that does not contribute to stabilize the economy and the state.

Reform of the social welfare system

The social welfare reform has been prepared since 2010. The most important bills and decisions are following these:

- Act No. 364/2011 Coll. amending certain acts in connection with the austerity measures in the Ministry of Labour and Social Affairs.
- Act No. 365/2011 Coll. amending Act No. 262/2006 Coll. The Labour Code.
- Act No. 329/2011 Coll., The provision of benefits to persons with disabilities.
- Act No. 366/2011 Coll. amending Act No. 111/2008 Coll. On assistance in material need; the Act No. 108/2006 Coll., Social Services; the Act No. 117/1995 Coll., On state social support and other related laws.
- Act No. 376/2011 Coll. amending Act No. 453/2004 Coll. On Employment.
- Act No. 370/2012 Coll. amending Act No. 262/2006 Coll. The Labour Code as amended.
- Act No. 385/2012 Coll. amending the No. 108/2006 Coll. A Social Services as amended.
- Decree No. 388 on the implementation of Act No. 392/2011 Coll.
- Decree No. 389 on the implementation of Act No. 366/2011 Coll.
- Decree No. 390 amending Decree No. 518/2004 Coll. implementing Act No. 435/2004 Coll. On Employment as amended.
- Decree No. 391 amending Decree No. 505/2006 Coll. implementing certain provision of the Social Services Act as amended.
- Decree No. 424, the model, the relevance and social systems design cards, design, design essentials and confirmation of the loss, theft, damage or

destruction of the card and social systems model of standardized recording of a social worker.

Most of these bills are implemented since 1. 1. 2012. The main changes are, that about gaining social support decides one specialized body (Labour Office), not a wide range of organs of both the state and local government. Labour Office is also the only authority to pay the social security benefits. This measure should increase the availability of services – the number of contact places will grow gradually. This measure should also save public finance. The other measure is, that the citizens of Czech Republic, which are gaining social support received so called "S-Card" – on one hand it is an ID, which should accelerate and simplify communication between Labour Office and the applicant for social assistance; on the other hand it can be a credit card – this function of the S-Card is optional only for the clients which misused the social support in the past and now they are gaining vouchers for goods. These clients receive the whole payment of social support on S-Card and could manipulate with the means, but the manipulation is not completely free – there are some day limits that can not be exceeded and it is not possible to pay for alcohol and cigarettes with the S-Card. Among the measures is also greater and more effective involvement of the Labour Agencies and greater opportunities and support for retraining. Aim of the reform was also greater and more effective punishment of illegal work, so some measures were also taken in this area. According to the decision makers, the reform of the social welfare system should save ¼ of billion CZK in 2012. It is very difficult to tell, if that was so, because the spending in social welfare area increased by 12, 1 billion CZK in total. The increase was caused mainly by increased number of the applicants. It is not possible to find the detailed breakdown of the costs UNIT items, so it is impossible to say how much money (if any) saved the reform in administration.

It is still difficult to evaluate, if the reform was effective or not. When the reform was implemented, the institutions – mainly the Labour Office – were not prepared, because the officials were not well trained and had no previous experience with the social benefits agenda.

The S-Card was clearly unsuccessful and the same government that implemented it is now promoting a proposal to repeal the S-Card system in the House of Deputies.

Reform of the pension system

The most important bills, which were adopted to reform the Czech pension system, are following these:

- Act No. 426/2011 Coll. On pension savings.
- Act No. 397/2012 Coll. On pension savings insurance.
- Act No. 403/2012 Coll. amending Act No. 427/2011 Coll. On supplementary pension savings.
- Act No. 314/2012 Coll. amending Act No. 155/1995 Coll. On pension savings insurance.

The main motivation to implement these bills (implemented from 1. 1. 2013) was changing the pay-as-you-go pension system. According to the political elite, the system untenable for many reasons – most of all, the population gets older – the citizens receive a pension for much longer time than in the past and simultaneously the total number of pensioners increase. Difference between incomes and expenditures is increasing – in 2011 it was almost 40 billion CZK and the expenditures for the pensions generate more pressure on the state budget. The reform gives the citizens the opportunity to save money for their own pension. Citizens who choose this opportunity and will voluntarily save for their own pension the state or the employer has to contribute a fix amount. Although the reform was implemented 6 months ago, the decision makers and the representatives of pension companies are quite disappointed with it – the interest of people to save money for their own pension is compared with expectations of very low – to the "second pillar", which allows saving money for retirement entered only 32 000 people (from June 2013 to May 2013).

Reform of the education system

During 2012 the government was constantly trying to introduce tuition fees, but all their proposals met with opposition from students and the public. Because of that the government postponed the introduction of tuition fees and decided to process a whole new conception of the education system, which has not been presented yet.

Despite of this failure the political elites adopted some new bills and decisions in the area of education:

- Act No. 370/ 2012 Coll. amending Act No. 561/2004 Coll. The Education Bill.

- Act No. 48/2013 Coll. amendment to the Higher Education Act (Measures for the study of parents).
- Act No. 49/2013 amending Act No. 130/2002 Coll. On the promotion of research, experimental development and innovation of public funds.

All the bills aim to strengthen competitiveness on the market of both, the students and the products that are established in Czech Republic. The problem of these changes is, that in fact, they do not introduce many new things into the system and according to some experts, they do not solve the problem of financing education system – the more complex reform is still needed.

Reform of the public administration

The first attempt how to reform the public administration was made in 2009 when the Act No. 111/2009 Coll. Act on Basic Registers was adopted. The Basic Registers are basic pillar of so called eGovernment project which was implemented earlier. The main objective is to facilitate the citizens, companies and other entities in contact with the public administration, i.e. minimize the number of visits to the offices of the opportunities for on-line access from anywhere. It should increase the government efficiency and reduce the burden of bureaucracy and of course the costs of a vast bureaucratic apparatus.

A trial version of this system was implemented at the beginning of 2011. In 2011 the government also produced an analysis of implementation of this act that found a wide range of deficiencies of the Act. The Act was therefore amended[1] and the finally implemented on 1. 1. 2012. The amendments modify the system of Basic Registers in some way and are also attempting to set new standards of financing public administration with delegated powers. The reform is heading to reduce the costs of bureaucratic apparatus.

The whole system is in the pilot phase and there is not any analysis which would evaluate its effectiveness and the decision makers are not willing to comment it either.

[1] Amended by:

- Government Regulation No. 161/2011 Coll. establishing a timetable and technical process of taking action pursuant to § 64-68 of the Act on Basic Registers.
- Act No. 101/ 2012 Coll. amending the Act No. 111/2009 Coll. Act on Basic Registers.

<u>Other measures</u>

Besides to above-mentioned measures the government adopted wide range of other measures.

In 2009 the government enforced the Act No. 326/2009 Coll. On the Promotion of the Economic Growth and Social Stability. The act mainly aimed to reduce social welfare support in wide range of areas. The unions criticised the act and the government. The president vetoed the act – according to his opinion the act was discriminating some social groups and was non-system with a very uncertain positive effect. The deputies overrode the president's veto, but soon after that the soon was the government censured and the newly established government did not fully implemented this act.

During the whole period, the government tried to fight the corruption and misusing the public finance – the most important bills and decisions are:

- Act No. 155/2009 Coll. amending Act No. 143/2001 Coll. On protection of free competition.
- Act No. 417/2009 Coll. amending Act No. 137/2006 Coll. On Public Procurement.
- Act No. 423/2010 Coll. amending Act No. 137/2006 Coll. On Public Procurement as amended.
- Act No. 456/2010 Coll. On Financial Administration of Czech Republic.
- Act No. 258/2011Coll. amending Act No. 137/2006 Coll. On Public Procurement as amended.
- Act No. 55/2012 Coll. amending Act No. 137/2006 Coll. On Public Procurement as amended.
- Act No. 134/2013 Coll. Act on some measures to increase the transparency of public limited companies.

Even if these bills brought some positive changes, the NGO's are crying out for more complex reform. Because of that, a wide range of Czech NGO[2] launched an initiative "Reconstruction of the State" to gain support for 9 anticorruption bills.

The government has also targeted to revive the economy through investment incentives. The Act No. 72/2000 Coll. On Investment Incentives was implemented on 12. 6. 2012 finally. According to the bill, investor of the manufacturing industry,

[2] For example: Transparency International Czech Republic, Good Governance, Brnění, Ekologický právní servis, Oživení, KohoVolit.cz.

strategic services and technology centres, newcomers and existing, can get a discount on income tax for 10 years. It is possible to draw material support for job creation, training and retraining and investment incentives in the form of transfer of land and related infrastructure at a discounted price. The bill introduces strategic investments. This means that in addition to standard investment incentives can be labelled as such projects to obtain material support for capital investment of up to 5% of the cost. This support covers manufacturing and technology centres. The support of projects that meet the conditions, the government will decide Czech Republic. There is no analysis which would evaluate the programme of investment incentives.

The Regional Level

The regional part of this paper will be about South Bohemia Region that is an autonomous region in the Czech Republic. In the Czech Republic partly autonomous regions have specific competences and rights but they have to respect the decisions made on the national level as genereal Framework for their regional management. South Bohemia region has to care about infrastructure that is the most expensive spending from the budget available.

Ruling parties

There was right-wing oriented region´s council till autumn 2008 but after elections in 2008 there was left-wing oriented coalition lead by the social democrats. In elections in autumn 2012 the social democrats won again and they are still in the council. (Election outcomes 2004, Election outcomes 2008, Election outcomes 2012)

Legislature

There is no relevant legislature issued by the South Bohemia Region. The decrees issued in last 5 years are mainly about the environment: establishment of natural reservations.

We have to say that this region did not made its own law regulation to deal with te economic crisis but the council was determined by decreasing amount of money coming from the national government according to general restriction of the national budget.

Strategic investments in a time-laps

The best way how to follow savings after 2008 is in non-mandatory costs. The South Bohemia region there is the found of strategic investments that should develop the region in many fields. There are no mandatory expencies but also no payments for social services that the region is responsible for. This is not a representative sample but it well illustrates how the council feels the priorities in this time-lap.

In 2008 the budget and the plan of investments was made in late 2007 so that there was almost no fear of economic crisis that time so there was also no extra need to make any special savings. Similar situation was in the 2009 plan because even in late autumn 2008 the government and the council had not admited any great crisis that had been coming soon. These are the main reasons why the plan was more generous in 2008 and 2009.

	2008	2009	2010	2011	2012	2013
Economic development	9,6	3	3	3,5	3	1,9
Human resources	25	41,5	44,6	37	31	31,8
Infrastructure	9,8	11	4,5	6,5	7,7	3,8
Development of urban areas	0	0	0	0	1,5	1,5
Rural areas	15	34	15	4	5	3
Tourism, culture, natural heritage	20,6	14	8	5,5	8,5	5
Effective public offices	3,5	1,5	0	0	0	0
Environment	0	0	0	20	15,5	18
Department´s projects	6,5	0	0	0	0	0
Total	90	105	75,1	76,5	72,2	65

Note: In millions CZK

Source: Program of Development of the Region, Annual Reports

As we can see in this tab the item for economic development was rapidly diminishing since 2009. Thats the proove that the economic support of the state offices did not work as in a welfare state but the state relied only on the private sectour that should help the economy. The rethorics of free trade is predominating till now. Economic development is decreasing from 9 million to 1,9 million per year. Also infrastructure is underfinanced. In 2008 there was 9,8 million but in 2013 there is only 3,8 millions left in the fund for infrastructure.

There is a proof that in 2008 nobody expected such a crisis in the chapter of expencies for rural areas, because for year 2009 there was planned to spend 34 millions but next year there was less than a half of this amount for this chapter.

The common sign of noticed numbers is a tendention of restricting money from non-essential issues. For example no support for effective public offices which should be an example of money-saving institutions. We should consider that there might be a universal mechanism of well-working byrocracy aparatus settled on the national level. Another example is decreasing money for cultural and natural heritage.

On the other hand we can see a convert strategy in the environment chapter. In 2011 there was 20 millions although next year there was less money we can see that the regional council changed the priorities and started to support environmental values.

<u>General budget</u>

In 2008 the budget was balanced but in 2009 there was deficit of 500 millions CZK. A year after the region had approx. 500 millions CZK surplus. 370 millions CZK was left in the end of year 2011. In 2012 there was a deficit of 1 billion CZK. According to this data we have to say that the council managed the budget quite well till 2012. Since 2012 the deficit is twice higher than in 2010. This development of balancing can tell us more about the effort of the council to deal with the crisis but after five years it was obviously unavoidable not fall into serious troubles with the budget.

<u>Influence of the national level</u>

According to the information about the national level´s decision-making there is almost no continuancy between the national and the regional level. Scard, reform of the pension system and social welfare systém does not have a direct influence on the regional decision-making because the regional level does not have competences to regulate these issues. The only direct influence is a regular money transfer from the national level to the regional. The regional level is autonomous in many tasks so the only limitation is money.

Conclusions

The Czech case is specific for different competences of the national and regional level. Both have strong effort to deal with the economic crisis. The regional level is fully responsible for the issues that are included in its sphere but the national level has more power to make such a legislative to settle a new circumstances. The law is more valuable than an act issued by the regional council. The council has to operate with the money available so that it can regulate way of managering of institutions to make some savings. It is important for both stakeholders to keep providing services that are needed in the society. The national level should provide the general framework of reforms that can enable savings but the regional level is responsible for fulfilling the idea in the area where the regional level can reach.

References:

Bills and decisions

Act No. 72/2000 Coll. On Investment Incentives

Act No. 87/2009 Coll.

Act. No. 111/2009 Coll. Act on Basic Registers

Act No. 216/2009 Coll.

Act No. 280/2009 Coll.

Act No. 120/2010 Coll.

Act No. 155/2009 Coll. amending Act No. 143/2001 Coll. On protection of free competition.

Act No. 326/2009 Coll. On the Promotion of the Economic Growth and Social Stability.

Act No. 417/2009 Coll. amending Act No. 137/2006 Coll. On Public Procurement.

Act No. 346/2010 Coll.

Act No. 423/2010 Coll. amending Act No. 137/2006 Coll. On Public Procurement as amended.

Act No. 456/2010 Coll. On Financial Administration of Czech Republic.

Act No. 258/2011Coll. amending Act No. 137/2006 Coll. On Public Procurement as amended.

Act No. 329/2011 Coll., The provision of benefits to persons with disabilities.

Act No. 364/2011 Coll. amending certain acts in connection with the austerity measures in the Ministry of Labour and Social Affairs

Act No. 365/2011 Coll. amending Act No. 262/2006 Coll. The Labour Code.

Act No. 366/2011 Coll. amending Act No. 111/2008 Coll. On assistance in material need; the Act No. 108/2006 Coll., Social Services; the Act No. 117/1995 Coll., On state social support and other related laws.

Act No. 376/2011 Coll. amending Act No. 453/2004 Coll. On Employment.

Act No. 426/2011 Coll. On pension savings.

Act No. 55/2012 Coll. amending Act No. 137/2006 Coll. On Public Procurement as amended.

Act No. 101/ 2012 Coll. amending the Act No. 111/2009 Coll. Act on Basic Registers

Act No. 314/2012 Coll. amending Act No. 155/1995 Coll. On pension savings insurance.

Act No. 370/2012 Coll. amending Act No. 262/2006 Coll. The Labour Code as amended.

Act No. 370/ 2012 Coll. amending Act No. 561/2004 Coll. The Education Bill.

Act No. 385/2012 Coll. amending the No. 108/2006 Coll. A Social Services as amended.

Act No. 397/2012 Coll. On pension savings insurance.

Act No. 403/2012 Coll. amending Act No. 427/2011 Coll. On supplementary pension savings.

Act No. 502/2012 Coll.

Act No. 48/2013 Coll. amendment to the Higher Education Act (Measures for the study of parents).

Act No. 49/2013 amending Act No. 130/2002 Coll. On the promotion of research, experimental development and innovation of public funds.

Act No. 134/2013 Coll. Act on some measures to increase the transparency of public limited companies.

Decree No. 388 on the implementation of Act No. 392/2011 Coll.

Decree No. 389 on the implementation of Act No. 366/2011 Coll.

Decree No. 390 amending Decree No. 518/2004 Coll. implementing Act No. 435/2004 Coll. On Employment as amended.

Decree No. 391 amending Decree No. 505/2006 Coll. implementing certain provision of the Social Services Act as amended.

Decree No. 424, the model, the relevance and social systems design cards, design, design essentials and confirmation of the loss, theft, damage or destruction of the card and social systems model of standardized recording of a social worker.

Government Regulation No. 161/2011 Coll. establishing a timetable and technical process of taking action pursuant to § 64-68 of the Act on Basic Registers.

<u>Analyses</u>

Home Office (2011): Analysis of the current state of public administration.

<u>Online sources</u>

Basic Registers (http://www.szrcr.cz/legislativa)

Investment Incentives (http://www.czechinvest.org/)

Social welfare reform (http://socialnireforma.mpsv.cz/cs/)

Reform of the pension system (http://www.duchodovareforma.cz/)

Reconstruction of the State (http://www.rekonstrukcestatu.cz/cs)

Taxation, GDP (http://www.czso.cz/)

News – restoring S-Cards (http://www.novinky.cz/domaci/305296-ods-zaskocila-snemovnu-a-predlozila-navrh-na-mozne-pokracovani-skaret.html)

The president to the veto of the Act No. 326/2009 Coll. On the Promotion of the Economic Growth and Social Stability (http://www.hrad.cz/cs/prezident-cr/prezidenti-v-minulosti/vaclav-klaus/rozhodnuti-prezidenta/vracene-zakony-parlamentu/1.shtml)

Election outcomes 2012, Czech Statistical Office. Available on http://volby.cz/pls/kz2012/kz21?xjazyk=CZ&xdatum=20121012&xkraj=

Election outcomes 2008, Czech Statistical Office. Available on http://volby.cz/pls/kz2008/kz21?xjazyk=CZ&xdatum=20081017&xkraj=2

Election outcomes 2004, Czech Statistical Office. Available on http://volby.cz/pls/kz2004/kz21?xjazyk=CZ&xdatum=20041105&xkraj=2

Program of Development of the Region, Annual Reports. Available on http://www.kraj-jihocesky.cz/index.php?par%5Bid_v%5D=339&par%5Blang%5D=

ROMANIA

Veronica ANGHEL
Laura Florina GHERMEC
Oana GRIGORE
Roxana MARIN
Nina Marina MATEI
Cătălina Nicoleta MĂNOIU
Daniel Kwame OFFIN

Summer School on Democracy:
How old and new democracies cope with the economic crisis.

Country report: Romania

Coping Policies for the Economic Crisis

This report represents the preliminary research of the students of the FACULTY OF POLITICAL SCIENCES, UNIVERSITY OF BUCHAREST for the programme Summer School On Democracy: How Old and New Democracies Cope with the Economic Crisis.

Introduction

The global financial and economic crisis of 2008-2009 and the following global recession have brought about different challenges, both within the European Union and at the level of each of the Member States. Due to the country specific difficulties encountered by each Member, policies addressing the negative effects were structured on three different levels: the EU level, aiming at offering a strategic framework for coping with the crisis, the national level, addressing more specific issues and the regional level, offering local responses to the situation at hand. The purpose of this report is to give account of the coping with the crisis policies adopted by **Romania** at all the three levels mentioned above. In what concerns regional strategies, a case study was conducted on the manner in which the local government system in Sibiu have responded to the institutional and policy challenges.

In **Chapter one**, the authors analyse the most important bills adopted by the Romanian Parliament in the context of the economic crisis. Some of them consisted in harsh measures with a perceived negative impact on the citizens, thus being received with a stiff resistance by the population. Examining the reforms which were adopted by the central institutions, it becomes apparent that those measures failed to achieve the desired short term impact.

Chapter two considers the financial and economic crisis from the perspective of various measures adopted by the European Institutions with the purpose of minimising the negative effects of the crisis and of stimulating growth within the European Union as a unitary entity. A number of policy areas became of special importance within this context: financial and economic affairs, employment, social affairs and inclusion and the justice sector. The first domain was prioritary within the 2008-2010 period, when the Commission, sanctioned by the Council and the EU Parliament, adopted the Temporary Framework, which aimed at the recovery of the Single Market, especially through State aid mechanisms. The year 2012 marked an intense interest in the European labour market, with two Employment Packages awaiting implementation, one specifically focused on the European youth, and an initiative directed at skills improvement.

Last but not least, **Chapter three** analyzes how the local authorities, especially the Local Councils, have responded to the situation and its resulting effects on the administrative system. The authors review the case of Sibiu and the measures adopted in the region towards decentralisation and the interplay of this tendency with the need of following national and EU regulations. It has to be noted that Sibiu represent a peculiar case in local decision-making and local autonomy, labeled either as "urban regime" or "semisovereign city". Also, the local administration keeps an open dialogue with the local and international non-government organizations and agencies, which has a positive impact on the very process of decision-making. Not at least, its main developing strategy focuses around cultural tourism.

The **concluding section** reflects on issues which have been identified within each of the three policy levels and on the interplay between them. It proves that Romania was a country strongly affected by the crisis and was in need for an external bailout in order to maintain its economy functional. The national measures, while harsh on the population, did not bring the extent of stability predicted. In contrast, at regional level, some improvements can be encountered, especially in areas where the local authorities access EU or foreign financing for their projects.

Laura Florina GHERMEC
Cătălina Nicoleta MĂNOIU

Governmental, national reforms

Laws passed between 2009-2010:

In Romania, during 2009 – 2010, the following laws were passed in order to deal with the economic crisis:

1. **OUG 34/2009** adopted on April 14, 2009 regarding the rectification of the budget in the year 2009 and the reglementation of financial and fiscal measures.

This law was adopted in what regards the private and the public sectors. The intention of the decision makers was to help the growth of the economy and to diminish inflation. This was made by a reduction in the budget of health insurances, social insurances, redundancy money, by not providing job opportunities in the public sector and by introducing a tax that private companies have to pay. This tax varies from 2.200 RON (500 Euro) and 43.00 RON (10.000 Euros) and is dependable on the income of the company.

Table 1: Annual tax relative to total income

Total income / year in RON	Minimum annual tax in RON
0 – 52.000	2.200
52.001 – 215.000	4.300
215.001 – 430.000	6.500
430.001 – 4.300.000	8.600
4.300.001 – 21.500.000	11.000
21.500.001 – 129.000.000	22.000
More than 129.000.001	43.000

As it can be seen from the table, even if a company had no income, the tax still needed paying. Apart from this newly introduced tax, each company had to pay a contribution to the state budget of 3% in 2009. This is only one of the reasons why this law had a negative effect on the country's economy. Working people received less money; many of them were fired and could not find another job because everything in the public sector was blocked. In what regards the private sector, all the taxes that companies had to pay resulted in the disintegration of a great number of them and in redundancy.

This law was received with many protests in the private sector and also with the threat of a fiscal strike. Despite all the discussions, OUG 34/2009 was implemented and its negative consequences can still be felt nowadays.

Integral text of the law (in Romanian):

http://lege5.ro/Gratuit/gezdinjvge/ordonanta-de-urgenta-nr-34-2009-cu-privire-la-rectificarea-bugetara-pe-anul-2009-si-reglementarea-unor-masuri-financiar-fiscale

2. **Law 330/2009** adopted on November 9, 2009 regarding the unitary salaries in the public sector.

This law was passed out of various reasons:

a) To harmonize the salaries in the public sector proportional with the importance, the responsibility, the complexity of the activity and the level of studies necessary in order to unroll it;
b) To establish a minimum salary;
c) To realize a hierarchy of salaries;
d) To prove that the mechanism of establishing salaries is a transparent one;
e) To differentiate salaries depending on the level where the activity takes place: central, local, territorial.

Basically, through this law, the intention of the decision makers was that people working in the public sector were supposed to start being paid based on the **value and the importance of their activity**. This expectance failed to happen. Even though this law was passed, it was not respected and it changed nothing. People are still paid based on anything else than value and importance of their activity.

Integral text of the law (in Romanian):

http://www.dreptonline.ro/legislatie/lege_cadru_salarizare_unitara_personalului_platit_fonduri_publice_330_2009.php

3. **Law 118/2010** adopted on June 30, 2010 regarding measures that need to be taken in order to re-establish the budgetary balance.

This law states that the salaries in the public sector established through Law 330/2009 will be diminished by 25%. The decision makers wanted to pay less money to people in order to have the necessary financial resources to deal with the economic crisis. Salaries were not the only ones to be cut down. The same happened to pensions (15 %) and to a number of rights. For example, redundancy money was diminished by 15%, the so – called 'family money' was also diminished by 15% and the money given to Academies such as the Romanian Academy was diminished by 25%.

This normative act generated great debates in Romania and was called 'the austerity law'. However, people had no other option but to accept to be paid less and hope that things would improve. The 25% from salaries were supposed to help the economic growth. Unfortunately, this did not happen. After June 2010, the crisis in Romania deepened.

Integral text of the law (in Romanian):

http://www.dreptonline.ro/legislatie/legea_118_2010_unele_masuri_necesare_vederea_restabilirii_echilibrului_bugetar.php

4. **OUG 58/2010** adopted on June 28, 2010 regarding a series of financial and fiscal measures.

This piece of legislation modifies Law 571/2003 regarding the Romanian Fiscal Code. When it was passed, critics emerged. One important aspect that was discussed and debated was whether the OUG was indeed legal. This was put in connection with a statement in the 2003 Law which says that modifications to it can only be applicable at the beginning of a year (OUG was passed in end of June). These views were soon abandoned.

This law was adopted in reference to the public and the private sectors. The Romanian context at the time was determined by a level of budgetary incomes severely affected by the deeper and deeper economic crisis, the need to realize a balance between the incomes and the expenses and the need to correlate the national legislation with the European one.

Basically, the intention of the decision makers was to reduce the crisis in the country and in order to do this, they needed money. And they got the necessary by increasing the standard share from 19% to 24%. All the services with invoice became more expensive. And instead of helping the economy, this law further damaged it. People had to pay more money for what they were buying. And given the fact that their incomes had been reduced by 25%, this resulted in a decrease in the purchasing power. Another consequence of the June 2010 law was an increase in inflation.

Integral text of the law (in Romanian):

http://www.dreptonline.ro/legislatie/oug_58_2010_modificarea_completarea_legii_571_2003_codul_fiscal_alte_masuri_financiar_fiscale.php

5. **Law 284/2010** adopted on December 28, 2010 is the same with Law 330/2009. They both refer to unitary salaries and influence the public sector. The only difference between these two normative acts is that in 2009 the report between the lowest and the highest salary is of 1 to 12, whilst in 2010 this report is of 1 to 15.

This shows the ineffectiveness of the 2009 Law. The salaries were supposed to be harmonized, but the contrary happened. The minimum salary remained the same and the maximum salary grew even more. Equality resulted in further inequality.

Integral text of the law (in Romanian):

http://www.sindicat.uaic.ro/legislatie/L_284_2010.pdf

6. **Law 285/2010** adopted on December 28, 2010 regarding the budgetary incomes in 2011. This is an important piece of legislation because it increased salaries in the public sector by 15%. The legislators thus wanted to show that the economic crisis in Romania was not that deep anymore and that there was a sufficient amount of money in the state fund to pay people better. However, there were no immediate positive consequences. Indeed, people had more money, but the prices and the inflation were higher too, so no actual change took place.

Laws Passed Between 2011-2013

1. Emergency ordinance **OUG nr.1/2011**, approved through the law nr. **165/2011** – legislative initiative regarding the remuneration of former members of the army. This legislative act aims to provide an accurate system through which the right to a fair pension.

Integral text of the law (in Romanian):

http://www.dreptonline.ro/legislatie/oug_1_2011_pensii_aparare_militari_ordine_publica_siguranta_nationala_ordonanta_urgenta_1_2011.php

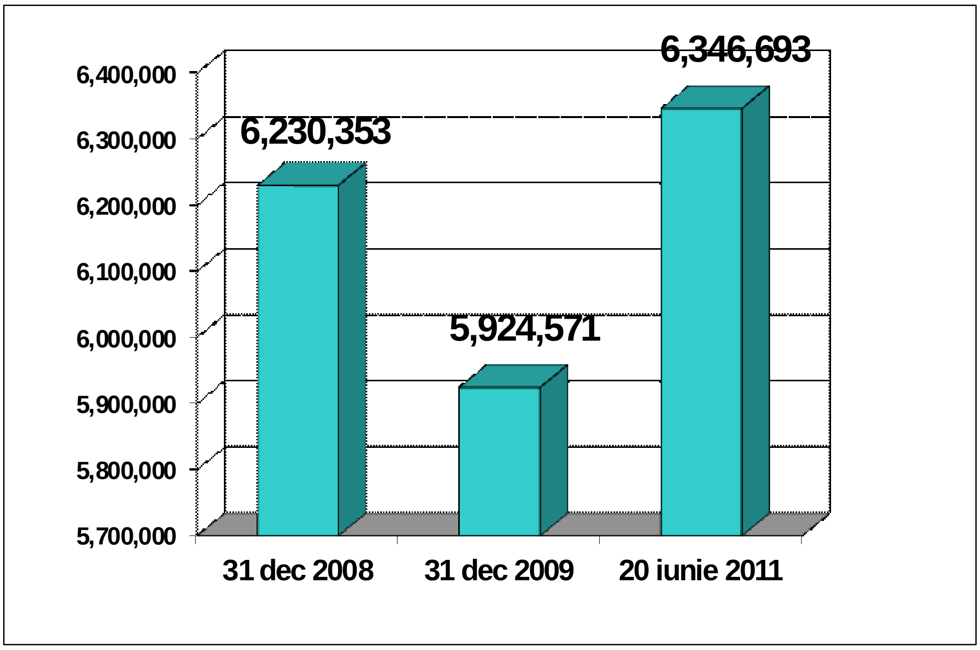
2. The programme **Rabla 2011** - 50.461 old cars were collected and almost 4.723 new cars were bought, from the total amount of 2.773 were Romanian cars.

3. The programme „**The First House 4**" – guarantees of 3.4 bn euro, twice more than in 2010, half of them were offered by the state and half of them were offered by private banks.

4. The law project regarding the **successful integration of the young people into the labour market** (*Proiectul de Lege privind stagiile de adaptare profesională pentru absolvenții de învățământ superior*)[3]. Through this governmental set of policies almost 548.999 persons were employed and 13.459 companies entered under the incidence of the policies mentioned above.

[3] „Planul Național de Dezvoltare 2007-2013", pg. 313

Figure 1: Registered labour contracts until June 2011



5. 2011 – the governmental programme for the support **of young entrepreneurs**, through European funds, with a state contribution of 25 %.

6. **Emergency ordinance nr. 26/2012** regarding some measures for the reduction of public expenditures and the enhancement of financial discipline and of modification and amendment of some normative acts.
The ordinance aims to design a legal framework that could increase the premises for the successful fulfilment of the international agreements that were assumed by the Romanian state. The law brings under its incidence the central and local state authorities and aims to enhance the financial security of the country through the implementation of a set of coherent public politics shaped under the incidence of the needs that emerged as pressant in the context of 2008 economic crisis.

Integral text of the law (in Romanian):

http://lege5.ro/en/Gratuit/gmytombugi/ordonanta-de-urgenta-nr-26-2012-privind-unele-masuri-de-reducere-a-cheltuielilor-publice-si-intarirea-disciplinei-financiare-si-de-modificare-si-completare-a-unor-acte-normative

7. 2012 - the **privatization** of Petrom, Transelectrica, Transgaz, Romgaz

8. The programme "**The entrepreneur woman**". This programme is to be implemented at the end of June 2013. The total budget of the programme is 500.000 RON. Through this programme, women that express their will to start a business and met the requirements could benefit from an amount of 10000 euro for their business; the programme is entirely financed by the state.

9. The emergency ordinance **OUG 335/2013** for the regulation of green energy through subventions

Integral text of the law (in Romanian):

http://www.legex.ro/Hotararea-335-2013-127365.aspx

Oana GRIGORE
Nina Marina MATEI

EU reforms

The global financial crisis of 2007 – 2008 and the global recession of 2008-2010 affected greatly the European continent. Within the European Union, the financial crisis started as a banking system crisis due liquidity problems, involving both public and important private financial institutions such as Fortis, ING or ABN AMRO. In most cases, the national response was to design policies aimed at the bailout of the banks using taxpayers' money. In return, this situation created the impossibility for some countries within the Euro zone to repay or re-finance their government debt without the assistance of third parties, creating a sovereign debt crisis. It must be stressed that, although primary manifesting at the level of the Euro zone, the financial crisis affected severely nonetheless also the Member States which have not yet adopted the Euro as a national currency. Due to the financial predicament, the real economy was strongly affected, with historic decreases of gross domestic product (GDP) and high rates of unemployment throughout the European Union. Most of the governments of the countries affected by the crisis and the recession adopted austerity measures in order to minimise the public expenditure.

At the country level, it is considered that Greece, Spain, Portugal and Cyprus were the Eurozone states most affected by the crisis and the subsequent recession. Taken as a whole, the EU has experienced since the autumn of 2008 successive periods of contraction and growth of economy, largely depending on the performance of major national actors such as Germany, France, United Kingdom, Italy and Spain. Also, differences of growth were measured between EU27 and the Eurozone economy. As an example, Poland is the only Member State managing to avoid recession. On the other hand, Hungary, Romania and Bulgaria experienced economic hardships.

After a period of economic growth, Romania has suffered badly as a result of the economic and financial crisis. It officially entered recession in the first quarter of 2009 and as a result of an IMF-led bailout, the government introduced austerity measures in 2010. The country performed better than expected, not using a second bailout support package. Although it officially exited recession in 2011, but the economic growth is still virtually inexistent, coupled with high unemployment rates. The economic situation was translated at the political level, with governmental instability and some civil unrest at the beginning of 2012.

The Financial and Economic Policies of the EU

The institutions of the European Union were responsible for shaping the EU strategies for coping with the economic and financial crisis, their main purpose being to "support financial stability and to maintain the level playing field within our single market"[4]. The European Commission played a definitive role as the institution responsible for creating and implementing policies aimed at reducing the negative effects of the recession and creating favourable conditions for economic growth within the region. It worked closely with governments, central banks and financial regulators in order to stabilise the financial sector, to prevent similar situations in the future and to limit the impact of the crisis on the real economy.

The Commission recommendations were sent to the European Council and the Parliament, which conferred biding power to the acts through their consent. With reference to the financial and economic crisis, the Commission formed a joint working group under the lead of Directorate – General Internal Market (DG MARKT), which comprised several other DGs, depending on the issue to be resolved. Important contributions to this joint group were delivered by DG Economic and Financial Affairs (ECFIN) and DG Competition (COMP). The Commission also worked closely with the ECON Committee of the EU Parliament, the EU Council and the Ministers Council. Not at last, the EU political institutions closely collaborated with the EU financial organisations such as the European central Bank and European Investment Bank.

The **coping strategy** for dealing with the effects of the crisis was summed into two bills: The **European Economic Recovery Plan** (COM(2009) 615, 19.11.2009), which was written by the Commission and endorsed by the European Council and the Temporary Framework for State aid measures to support access to finance in the current financial and economic crisis (OJ C 83, 7.4.2009). The European Economic Recovery Plan focused on increasing investments in infrastructure and key sectors

[4] DG Competition, Report on Competition Policy 2009, COM(2010) 282 final, http://ec.europa.eu/competition/publications/annual_report/2009/en.pdf

such as cars, construction and green technologies. Also, it mobilised funds for improving labour market growth and decreasing unemployment rates. The plan proposed that Member States co-ordinate national budgetary stimulus packages to optimise their impact and avoid negative spill-over effects from one country to another. The total package amounts to around € 200 bn, which represents 1.5 % of the EU's GDP. Not at last, EIB increased its annual level of financing by some €15 billion between 2009 and 2011.

The **Temporary Framework** was written in the form of a communication from the Commission and had the purpose of providing Member States with additional instruments of counterbalancing the effects of the financial crisis on the real economy. These instruments were aimed on one side at ensuring companies' access to financing through low interest loans with a State guaranteed maximum sum and on the other side at encouraging companies to invest in sustainable solutions, such as allowing subsidised loans for the development of green products. In addition to the above mentioned new aid measures, the Temporary Framework includes temporary adaptations of existing guidelines as a simplification of the rules on short-term export credit insurance and an increase in the ceilings for risk capital investments.

Arguably the most important financial policy regarding the financial sector was **State aid**, which regulates the mechanisms available to national states for giving financial aid to commercial and industrial organisations. The **EU State Aid Framework** offered the strategy lines for governments to give support to the private economic sector, aiming at gradually withdrawing special aid once economic growth was registered, whilst taking into account the market conditions and the still underlying risks to financial stability. Once the latter was achieved, the normal State aid instruments would be able to achieve the economic goals of growth. In 2009, the Commission prolonged the validity of the current Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty until October 2012. Providing **State guarantees to loans** with reduced interest rates was one of the most used instruments, with 14 Member States out of 27 introducing such a scheme**.** In this context, Romania amended its original scheme in order to take advantage of the amendment brought to the Temporary Framework in December 2009 that the maximum loan level could be set as a function of the annual EU average labour costs.

In what concerns **competition rules**, the Commission had two major objectives: to support financial stability by giving, as quickly as possible, legal certainty to rescue measures taken by EU Member States and, secondly, to maintain a level playing field in Europe and ensure that national measures would not export problems to other Member States. Regarding economic structural aspects, State aid was used between 2010 and 2011 for programmes which included the privatisation and/or restructuring of State-owned enterprises (SOEs). For Romania, privatisation is particularly important

Aid to financial institutions was established through two communications of the Commission: The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis (OJ C 270, 25.10.2008, p. 8) and The recapitalisation of financial institutions in the current financial crisis: limitation of the aid to the minimum necessary and safeguards against undue distortions of competition (OJ C 10, 15.1.2009, p. 2). The latter addresses the recapitalisation of banks and offers guidelines for national guarantee-based schemes. Romania, together with Bulgaria, Czech Republic, Estonia and Malta did not support any specific measure in support of their financial sector. It must be mentioned that these countries have a small number of financial institutions compared with EU27, summing up less than 1% of total assets of financial institutions in Europe.

As from 2009, Romania was part of the group of the Member States which requested **external help** from the European Commission and the International Monetary Fund (IMF), together with Cyprus, Greece, Hungary, Ireland, Latvia, Portugal and Spain. These so-called "Programme countries" were subject to economic adjustment programmes. Those programmes impose a wide range of conditions, which include restructuring of the financial sector and the need to introduce structural reforms for other sectors of the economy, the administration and the judiciary. The balance-of-payments (BoP) assistance programme designed for Romania was signed in May 2009 for an overall amount of € 20 billion, consisting of the following contributors: European Community, € 5 billion under the balance-of-payments assistance programme; International Monetary Fund, SDR 11.44 billion (around € 12.95 billion) under an IMF Stand-by arrangement approved on May 4 2009, amounting to 1,110.77 percent of Romania's quota; The World Bank, € 1 billion under a Development Policy Loan; The EIB and the EBRD, € 1 billion combined. The average interest rate on the amounts disbursed by the European Commission is around 3%, with repayments starting in 2015. Between May 2009 – June 2011 Romania received 12.6 billion Euros, but did not engage a second bailout fund of 3.6 billion due to good performances.

It is generally considered that the EU financial and economic policies had a positive **impact**[5] trough reducing financial instability and offering incentives for economic recovery. The liquidity injected has prevented the meltdown of the financial system and has contributed to reopening markets, provided more funds to the real economy and helped financial markets reach a more normal market functioning. In the absence of a fully harmonised regulatory framework, State aid control has been effective in mitigating distortions of competition across Member States and banks within the Single Market, and has contributed to pushing EU banks on a path of long-term viability. The Temporary Framework addressed the complementary issues of the real economy and allowed companies an easier way of access to financial aid during the crisis.

EU Economic Policies Specifically Targeting Romania

- Council Decisions regarding **financial assistance** to Romania (see external help paragraph):
  - Council Decision of 6 May 2009 providing Community medium-term financial assistance for Romania (2009/459/EC)
  - Council Decision of 16 March 2010 amending Decision 2009/459/EC providing Community medium-term financial assistance for Romania (2010/183/EU)
  - Council Decision of 12 May 2011 providing precautionary EU medium-term financial assistance for Romania (2011/288/EU)
- European Council Decision of 7 July 2009 on the existence of an **excessive deficit** in Romania (2009/590/EC) – stipulated the implementation of the excessive deficit procedure under the Stability and Growth Pact, and future guidelines were offered to Romania for correcting the situation. Due to compliance and the good performance of Romania, as of 29.05.2013 the Commission wrote a Recommendation for a Council decision abrogating the decision on the existence of an excessive deficit COM 126(12).
- **State aid to agricultural sector** – Romania was one of the countries that adhered to the new scheme regarding the possibility for Member States to approve EUR 15 000 in limited amounts of aid to primary producers under the Temporary Framework.

[5] Commission Staff Working Paper (October 2011), The effects of temporary State aid rules adopted in the context of the financial and economic crisis, http://ec.europa.eu/competition/publications/reports/temporary_stateaid_rules_en.html SEC(2011) 1126 final

- Aid N 286/2009 (Romania) – the Commission's document guarantee and/or subsidised loan schemes from which the **car industry** (as well as other industries) can benefit, covering a €400 million loan.
- Aid N 148/08 *Training Aid to Ford Craiova, Romania* and N 478/09 *Individual State Guarantee for Ford Romania S.A.* - the Commission offered EUR 57 million for training staff and modification of safe-harbour guarantee premium to be applied to FORD Romania.
- **Antitrust** enforcement in the **energy sector** - On 11 December 2012 the Commission opened formal antitrust proceedings against OPCOM, which allows producers and buyers to trade electricity in Romania, and its parent company Transelectrica, a state-owned enterprise which controls the power grid in the country.
- State aid investigation of investment and start-up aid to **airlines** or **regional airports** – In 2011, the Commission open formal investigations regarding SA.30931 Scheme investment aid to airports in Romania, which cases involve discount schemes on airport charges given to low cost carriers, in combination with marketing agreements of doubtful value to the airports.
- State aid for Nokia Romania - Decision Of The European Parliament And Of The Council of 12 December 2012 on the mobilisation of the European Globalisation Adjustment Fund, in accordance with point 28 of the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management (application EGF/2011/014 RO/Nokia from Romania) (2013/15/EU) - for the financial year 2012, the European Globalisation Adjustment Fund was mobilised to provide the sum of EUR 2 942 680 in commitment and payment appropriations

EU Policies Regarding the Justice Sector

The most important development in the justice sector has been the adoption in 2010 of the *Protocol nr. 14 of the European Convention on human rights.* Drafted in 2001, the Protocol was ratified and entered into force on the 1st of June 2010, after being predated by the quick term "Protocol No. 14bis" (adopted in May 2009).

The aim was to improve the effective functioning of the Court following the explosive growth of litigations in the last ten years, due not only to the accession of new Council of Europe member states but also to a massive inflow of individual applications from both old and new member states. Its essential function is to speed up the processing of cases that are manifestly inadmissible or purely repetitive, so as to enable the Court to concentrate on those cases that raise important human rights issues.

The protocol involves:

– the creation of new judicial formations for the simplest cases
– a new admissibility criterion (the existence of "significant disadvantage")
– measures for dealing with repetitive cases
– a nine-year non-renewable term of office for judges
– empowering the Committee of Ministers to bring infringement proceedings in the Court against any state which refuses to comply with a judgment
– making a single judge (assisted by non-judicial rapporteurs, who will be part of the registry) competent to declare inadmissible or strike out an individual.
– competence of the committees of three judges is extended to cover repetitive cases. They are empowered to rule, in a simplified procedure, not only on the admissibility but also on the merits of an application

It is expected that the implementation of the new procedure will increase substantially the Court's decision-making capacity and effectiveness, since many cases can be decided by three judges, instead of the seven currently required when judgments or decisions are given by a Chamber, as well as the reinforcement of the Court's filtering capacity in respect of the mass of unmeritorious applications.

<u>EU Policies in the Area of Employment, Social Affairs and Inclusion</u>

In terms of employment, the most important reforms that were envisaged at EU level after the outbreak of the crises have to do with the element depicted in the "2020 European Employment strategy" and its preceding policy packages.

For example**, The 2012 *Employment package***, launched April of 2012, seeks to support job creation by reducing taxes on labour, using hiring subsidies, effectively exploiting the potential of key sectors, such as green economy, ICT, or health and care sector. A second point on its agenda would be the restoring of the dynamics of labour markets by helping workers succeed when changing jobs or getting back into work, mobilizing all actors to implement the reforms required, investing in skills based on better forecasting and monitoring of needs, and promoting the free movement of workers. The intention at EU level also includes the strengthening and development of adequate employment policies by reinforcing their monitoring with the EU countries so that employment and social concerns do not lag behind economic ones.

Given the high youth-unemployment rate the EU is witnessing at the moment, a number of specifically targeted initiatives have been drawn such as the **2012 Youth Employment Package** and the **2013 Youth Employment Initiative**, which together with the **Youth on the move package** seek to reduce youth unemployment and increase the youth-employment rate in line with the wider EU target of achieving a 75% employment rate for the working-age population (20-64 years).

The aim of increasing youth employment is expected to be achieved through a series of proposals such as:

- a Recommendation to Member States on introducing the Youth Guarantee to ensure that all young people up to age 25 receive a quality offer of a job, continued education, an apprenticeship or a traineeship within four months of leaving formal education or becoming unemployed
- the establishment at state level of strong partnerships with stakeholders,
- the assurance of early intervention by employment services and other partners supporting young people,
- the implementation of supportive measures to enable labour integration,
- making full use of the European Social Fund and other structural funds to that end, assess and continuously improve the Youth Guarantee schemes and implement the schemes rapidly.
- supporting Member States through EU funding, by promoting exchanges of good practice, monitoring implementation of Youth Guarantees in the European Semester exercise and awareness-raising.
- facilitating school-to-work-transitions

The Package also envisages the launching of a consultation of European social partners on a Quality Framework for Traineeships so as to enable young people to acquire high-quality work experience under safe conditions, as well as the elaboration of a European Alliance for Apprenticeships to improve the quality and supply of apprenticeships available by spreading successful schemes across the Member States and reducing obstacles to mobility for young people.

These previously mentioned packages are also connected to the **New Skills for New Jobs initiative** that sets out officially to promote better anticipation of future skills needed. It aims at developing better matching between skills and labour market needs and bridging the gap between the worlds of education and work. The measures taken include:

- Forecasts by the European Centre for the Development of Vocational Training (CEDEFOP)
- Analysis of emerging trends at sectorial level and the development of sectorial skills councils
- European Framework for key competences for lifelong learning – which defines the eight key competences that everyone should have to thrive in a knowledge society;
- On-going research with the ILO and the OECD
- ESCO - Classification of European Skills/Competences, qualifications and Occupations – currently under development – will describe the most relevant skills, competences and qualifications of occupations
- European Qualifications Framework – which defines qualifications on the basis of learning outcomes so everyone can understand what they mean in practical terms.

<u>EU developments in the area of taxation and tax-cooperation</u>

Member States have been hit differently by the crisis depending mainly on the degree of macroeconomic imbalances prevailing in the economy. Discretionary budgetary measures necessary to support the ailing financial sector and to temporarily bolster aggregate demand clearly dominated the later part of 2008 and 2009 and fiscal policy continued to be expansionary in 2010, though this was clearly less pronounced than in the year before. However, due to growing sustainability concerns, a number of Member States with rapidly deteriorating public finances started to reverse the stimulus of the previous year.

There seems to have been a common strategy at the level of EU member states in reducing the fiscal burden in order to foster labour supply and labour demand incentives, and increase participation and employment. Such policies have become particularly important in the course of the recession.

States governments have increasingly tried to resort to alternative sources of financing, such as environmental taxation, however this strategy has not always been successful when it comes to additional revenue collection.

The depth and severity of the crisis has induced several governments to introduce measures with an explicit end date, in order to encourage spending by consumers and businesses in the short term. A prominent example is the temporary VAT reduction to boost consumer spending in the UK, but several other countries utilised temporary measures, typically to encourage investment in the construction sector or to strengthen the structural competitiveness of firms.

Around half of the Member States have implemented substantial, albeit in many cases temporary, changes to personal income tax in 2011 and 2012. The need for budget consolidation has resulted in marked increases in personal income tax in many Member States, with tax cuts mainly targeting special groups.

Most member States have increased personal income tax (Belgium, Denmark, Cyprus, Finland, Greece, Ireland, France, Italy, Luxembourg, Netherlands, Portugal, Spain, Slovakia, and the United Kingdom), often by increasing statutory tax rates. In contrast to 2010, many tax rate increases are temporary and often represent surcharges on high income, both from capital and labour.[6]

Belgium, Greece, Italy, Cyprus, Luxembourg, Portugal and Spain introduced solidarity levies, all temporary measures, except in Belgium. Austria announced that it will bring in a temporary progressive solidarity contribution on high incomes in 2013 (and lower tax allowances for the self-employed). Similar measures are planned in the Czech Republic.

[6]http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_papers/taxation_paper_34_en.pdf

Changes in taxation by type 2008-2012:

	TAX changes in 2008 - 2009		TAX changes in 2010 - 2011		TAX changes in 2012	
Type of tax (Statutory rates)	Increase of taxation	Decrease of taxation	Increase of taxation	Decrease of taxation	Increase of taxation	Decrease of taxation
Corporate Income Taxation	LT, HU, PT	CZ, EL (2010-2014), HU, LU, SI, SE, LT	EL, PT	CZ, EL, HU, LT, NL, UK	FR, PT	UK, FI, EL, SI, NL
Personal Income Taxation	EL, IE, FR, LV, PT, SI, UK	AT, DE, DK, FR, FI, HU, LV, LT, RO	EL, ES, FR, IE, LV, LU, PT, UK	DE, DK, FI, HU, NL	BE, DK,CY, FI, EL, ES, IE, IT, LU*, NL, PT	FI, HU, LV, NL
Social Security Contributions	CY, EE, HU, PT, RO, SK, FI	BG, CZ, HU, RO, SE	IE, LV	BG, HU	AT, BG, CY, FR, EL, HU, LV, PL, PT, UK	DE, IE
Value Added Tax	CZ, EL, ES, EE, HU, LV, LT, FI	IE, FI, UK (12.2008-09)	CZ, EL, ES, FI, HU, LV, PL, PT, RO, SK, UK	IE	PT, UK, CY, ES**, IE, HU, LV, PL, SK, IT, FR, BG, EL, CZ	
Excise Duties	BG, DK, EE, EL, ES, IE, HU, LV, LT, PT, PL, RO, SI,	T, LT (2009-11), PL, SK	AT, BG, CY, CZ, DE, DK, EE, EL, ES, FI, FR, IE, HU, LV, MT, NL, PL, RO, SL, SK, UK	AT, BG, SK	AT, BE, BG, CY, CZ, DE, EL, ES, FI, FR, HU, IE, IT, LT, LU, LV, MT, NL, PL, PT, RO, SE, SK, SI, UK	SI

In terms of the EU level cooperation on tax related issue, one can recall the new Regulation on administrative cooperation in the field of VAT, which has been introduced in 1 January 2012 after being adopted by the Council of the European Union on 7 October 2010. The aim of the Regulation is said to be the improvement of administrative cooperation between Member States concerning VAT.

In general, the new Regulation establishes the information that Member States must collect, store in their domestic databases and make electronically available to other Member States. The Regulation also defines access rights to this information in terms of persons and data, reinforces some existing mechanisms, and provides a legal basis for new administrative cooperation instruments, such as Eurofisc.

The new Regulation provides for: an extension of the responsibility of Member States in terms of administrative cooperation, a precise definition of the information to be collected and exchanged with other Member States; an enhancement of the databases on VAT-taxable persons and their intra-Community transactions; an increase of the legal certainty of the information provided to taxpayers by VIES (VAT information exchange system) when asking for confirmation of VAT numbers. IT also provides for a framework guaranteeing the quality of information contained in Member States databases by setting up common minimum standards for registration/deregistration of taxpayers and risk analysis mechanisms; as well as a legal basis for the setting up of an official network aimed at fighting fraud through a multilateral, fast and focused exchange of information which facilitates decentralized cooperation against specific types of frauds (Eurofisc).[7]

[7]http://ec.europa.eu/taxation_customs/taxation/tax_cooperation/mutual_assistance/vat_administrative_regulation/index_en.htm

Veronica ANGHEL
Roxana MARIN

Local and regional reforms

The economic crisis has acted as the catalyst for a heavy political crisis in the Romanian state. Witnessed mostly at the national level, it has also weighed significantly on the decision making factors at a regional and local level. The social costs of the economic measures undertaken by the government to prevent the deepening of the crisis have materialized into considerable political costs for the incumbent governing coalition and their party representatives at the local level. Following street protests in reference to the austerity measures introduced and with the overall political uncertainty in the party system, the incumbent government fell following a vote of no-confidence in parliament eight months before the legislative elections and two months before the local elections.

The general economic setting that we will assume for this evaluation will be the framework of the deal struck by the Romanian government with the IMF (May 2009) and the extent to which the measures foreseen at the local level explicitly dealing with this issue have been implemented. The other critical decision taken at the national level has been the cutting down of salaries for the state-employed by 25% and of pensions and unemployment benefits by 15% (May 2010). The two decisions (the deal with the IMF, the ECB and the EU and the cutting down of state expenses) have been the major economic decisions of the government. Arguably, we could stress that much less attention has been directed towards developing strategies that could also constructively help the society deal with the economic malaise.

A discussion related to the absorption of structural and cohesion funds should also be put forward. The specific case we will advance for this stage will be an analysis on the way the city of Sibiu has benefited from the process of decentralization and the possibility to connect with the opportunities of the EU membership even in times of economic crisis and a lack-luster economic strategy of the Romanian government to deal with the crisis.

Although still undergoing the process of decentralization, the Romanian state continues to promote a certain degree of centralization when it comes to the strategies and methods of dealing with the political crisis. Decentralization will be on of the main focuses of this initial overview of regional economic measures. We will look at the evolution of this process and of its effects on the implementation of the decisions taken at the national or international level at a local level. This view will be completed by the strategies that the local elites could individually construct and apply outside the framework imposed by the government.

The Implementation of National and International Strategies

The issue related to the extent to which the most important national and international decisions have been implemented locally will only briefly be touched upon. Measuring their impact is mostly relevant in nation-wide analysis as opposed to our local focus. Thus, for this chapter of the study, the acts foreseen especially in reference to local administration by the government are addressed.

The agreement struck with the IMF considered a structural criterion on the identification and prioritization of projects at the local level that could enhance economic performance. As late as June 2013, the Romanian government informs the IMF that such a measure was not implemented and that the publication of a list of projects of low priority which are to be excluded would only take place in June 2013. This is not the only benchmark the Romanian government falls short on. The performance criteria on the back-payments (arrears) of local administrations have also not been satisfied. (attached the letter of the Romanian government sent to the IMF before Mrs. Lagarde's visit on the 17th of June).

These are important issues to be noticed since the greatest emphasis of the Romanian government among economic improvement methods has been placed on the better absorption of European funds and the IMF was promised that "We will step up efforts to improve the absorption of EU funds, while ensuring they target the right growth priorities."[8]

The use of EU funds continues to be flawed, with the latest figures showing an absorption rate of 16.27% in April 2013, an increase however from the 5.51% of April 2012. In retrospect, the system Romania put in place for acquiring these funds was faulty. Only as late as 2013, a new Institution with responsibilities to coordinate

[8] see "Letter of Intent of the government of Romania", sent to the IMF on April 24, 2008, which describes the policies that Romania intends to implement in the context of its request for financial support from the IMF.

managing authorities on this issue has been established and Romania continues to have the lowest level of EU funds absorption.

For the same main declared reason of a better use of structural funds, heavy talks have been carried on the issue of regionalization. Still a project waiting to take shape, it has been present on the agenda of the Romanian executive almost in parallel with the issue of decentralization. Though generally acknowledged as a needed measure to be taken in Romania, the political decision-makers have not undergone any conclusive measure until 2013.

Since this issue of the implementation of national strategies was analyzed at length at a national level in an earlier stage of the research on Romania, we will direct our attention at this point on the decision making process at the local level outside the general effects of the national strategies.

<u>Decentralization Process. The Decision Making Process</u>

During the last decade and following the reform of 2002, the local level of the Romanian administration was terribly impacted by permanent decentralization attempts. Decentralization was completed by the distribution of the national budget towards counties and, afterwards, municipalities, and after 2007, with the accession to the European Union, by the capacity of absorption of the European structural funds by the local or regional communities. Decentralization in itself, without constituting the object of the present report, represents a sad experience for the Romanian administration. The process led to the impoverishment of the small-to-medium sized communities, thus deprived from the almost exclusive national budgetary revenues and obliged to administer and financially support the educational and cultural establishments, hospitals, and other public spots from the local income gathered dominantly from the extraction of local taxes (taxes on revenues, profits of the local firms, on the wages of the citizens, etc.) and from the selling and renting of publicly owned property under the Municipal or Country Councils. In effect, decentralization generated initially the closing or severe deterioration of spots of public interest and utility.

Nevertheless, after eleven years since the administrative reform and six years since the EU accession, municipalities are presently economically self-sufficient, though bearing ever increasing debts to the private creditors and to the national budget and remaining largely incapable of attracting European structural funds for local development. However, cases illustrate both negative and positive, ascendant and descendent trajectories, in accordance to the capabilities and managerial abilities of the local communities, which remained largely autonomous on the decision-making process within their communities. Surely, influences from the national and, especially European, authorities are to be felt at different levels of decision-making at the local level.

The implementation of the anti-crisis measures brought some negative effect in the area. Wages were cut down, at a heavy social cost which instead brought political instability. This situation weighed heavily on the decision making process at the local level, especially in the conditions of no absorption of structural or cohesion funds, the electoral year of 2012 and populist measures derived from it. On medium term, the only follow up concerns were cutting down wages and increasing VAT.

Sibiu

In this report we look back over the year 2007 to analyze and assess the effectiveness of Sibiu's economic, cultural and tourism development strategy, following the local and national decision-making process triggering such a developmental strategy.

The Romanian city of Sibiu (or *Hermannstadt* in German or *Nagyszeben* in Hungarian) is a medium sized city in the Transylvania region, having 137,026 inhabitants. In common with cities elsewhere in Central and Eastern Europe it has undergone considerable transformation since the restoration of democracy. Industrial restructuring caused unemployment growth and infrastructure was in need of renovation. In tackling these problems the city adopted a somewhat radical strategy compared to its regional neighbors, by making cultural development a spearhead in the transformation of the city.

Sibiu has a long history of staging cultural events, and was a major centre for the counterculture during the Ceaușescu era. But the event that really re-launched Sibiu as a major cultural hub in Romania was the European Capital of Culture staged in 2007. This was the first European Capital of Culture (ECOC) to be held in one of the post-2004 EU accession countries, and it represented a major challenge in being organized just as Romania was joining the EU. This bold move reflected the new-found confidence of the city with the establishment of a new political coalition under Mayor Klaus Johannis, the first German Mayor of a Romanian city since World War Two.

In order to consolidate the tourism infrastructure, the City Council of Sibiu initiated a series of public-private partnerships with both local firms and international companies. In 2009, the City Council issued a plan for the rehabilitation of the historic city center in Sibiu as early as 2002; the workings concluded in 2009, after being an initiative of the German Federal Ministry of Economic Cooperation and Development (BMZ), in partnership with "*Deutsche Gesellschaft für Internationale Zusammenarbeit, GmbH*" (GIZ). The project was beneficial for the 16,000 inhabitants who live in the perimeter of the old city center and for the historical buildings in different structural conditions and states of preservation. Through the project, the area was renovated and is presently preserved in accordance with monument conservation *criteria*. Moreover, after 2008, when the economic crisis debuted, the project enabled for the residents of the old city center of Sibiu to have the quality of life significantly improved, while Sibiu's cultural and economic developmental potential could be employed effectively and efficiently.

Once the project was initiated, during seven years, the competences and decision-making process was divided among the GTZ and the City Council: whereas the GTZ, as an international partner, offered advice to the municipal authorities for them to improve their administrative, institutional, legal and especially financial framework conditions and processes. As a matter of fact, within the institutional framework of the local administration of Sibiu, a new, separate Old City Department was established, and an *ah-hoc* Committee for the Old City Rehabilitation within the City Council was put into place on a temporary basis. A resolution of the City Council of February 2002 legally inaugurated the partnership; the GTZ was responsible for training construction workers, architects and structural engineers.

Equally important is the involvement of the civil society, as the city's inhabitants mobilized in self-help and action groups, designed to assist the renovation process and to receive, in their capacity as owners and tenants, extensive information and advice on the renovation and rehabilitation plans. It was the local administration, *i.e.* the Mayor, that established the Foundation for Urban Rehabilitation ("*Fundația pentru Reabilitare Urbană*"), the lead agency supervising the renovation process until 2009. The Foundation, while being a local initiative, has been supported technically and financially by the BMZ. After 2009, in the follow-up phase of the project, the local craftsman received training and support in deepening their knowledge about the area of the old city center and their experience in marketing their goods and services. The German support was instrumental as well in supporting the city administration in raising funds from external donors and investors, particularly from the EU promotion programmes. Actually, the BMZ-financed programme of rehabilitation of the old city center in Sibiu was inaugural for the local administration of Sibiu in its attempt to attract and employ European structural funds.

The project resulted in the issuing of the Municipal Action Programme 2001-2005, a plan meant to improve the competences and attributions of the City Council in managing the development of the tourism infrastructure. Moreover, a monitoring mechanism was installed (the HICOS), in order for BMZ to continue cooperation with the local authorities, in a public-private partnership. Even an international *symposium* was held and a handbook was issued on the topic of revitalizing historic spots in Sibiu. The variety of works (*e.g.* securing dangerous and vulnerable buildings, modernizing flats, restoring and repairing building components, renovating facades and historic gates in line with the existing regulations, etc.) resulted in the numerous job opportunities for the skilled inhabitants of Sibiu. After 2003, GTZ, on behalf of BMZ, continued its partnership with the municipality of Sibiu, in the project for the car park management system in the city, but also in rehabilitating streets, squares, shops, public transportation system, etc.; thanks to the German support, the number of cars in the historic old city had dropped drastically, with over 1,000 new parking spaces outside the city center. The local administration covered its costs completely from the extraction of the parking fees, and, additionally, in November 2008, this joined German-local initiative was awarded the European Commission's ELTIS prize for local transport. Pedestrian transportation increased considerably, while the reduction of pollution was a beneficial side-effect.

Tourism is truthfully the predominant sphere in the developmental scheme of the city. Decision-making at the local level – particularly in the City Council – concentrates on the topic of tourism and on development opportunities in the said realm; the largest portion of the taxes extracted by the municipality for the local budget constitutes the hotel tax, a tax that is paid by owners of hotels and other accommodation spots to the local administration, from the profit gathered in providing services to the tourists. Apart from the rich architecture of the city, the municipality devotes important parts of the budget to the maintenance of parks, green spots, and other entertainment open-air establishments. Starting from 1994, in Sibiu, the International Theater Festival Sibiu takes place annually; if, in its first year, the Festival was almost exclusively financed with the help of the City Council and the local budget, presently, in 2013, the municipality financial support constitutes only 5% of the expenditure of the festival. The ITFS is probably the focal point in the strategy of "cultural tourism" adopted by the municipality even prior to 2007.

The National Theater "*Radu Stanca*" enjoys nowadays only partly the financing of the municipality, for it is dominantly supported by private donors and sponsors, whereas other cultural establishments (*e.g.* the Children and Youth Theater "Gong", the Foundation "Sibiu Jazz Festival", the Ballet Theater, etc.) are locally supported. The city shelters also folklore festivals, the TIFF (Transylvania International Film Festival) as a continuation of the main TIFF in Cluj, but bearing its own cultural "personality", music concerts, the mediaeval festival, sports manifestations, etc. The 2013 theme of "cultural tourism" in Sibiu is "Sibiu Smart", mainly founded on the city as a university center, on creativity and innovation within the community.

Additionally, both the National Museum Brukenthal and the National Museum Complex Astra were promoted and financed from European structural funds, based on compelling projects drafted by the municipality of Sibiu[9]. Probably the greatest and notable achievement of the city was the winning of the competition of the "European Cultural Capital" of the year 2007, when Sibiu concentrated an impressive number of tourists and a seriously ascendant trend towards attracting investments. During 2008-2010, in order to both fulfill the European requirements regarding the arrangement of municipal green areas according to the necessary norms for each inhabitant (*i.e.* 4 m^2 sports ground, 4.5 m^2 squares and parks and 1 m^2 playgrounds for children) and to further improve the tourism infrastructure of the city beyond the predominantly cultural one, the local authorities of Sibiu undertook important measures aimed at the extension of the green areas, including the arrangement of the Sub-Arini Park as a dendrological park, the modernization of the zoological garden according to the European standards[10], and the establishment of routes as "green streets" in the tourist areas adjacent to the area of the municipality. Regionally, the area is favored by the functioning of a factory producing canned meat in Sadu, along with similar economic establishments.

For 2012-2013, the major infrastructural investments are carried out exclusively from the resources of the local budget, and they refer extensively to rehabilitation and renovation of marginal streets and bridges, of the electricity, running water and sewage systems. Significant investments were conducted in the public service delivery infrastructure (rehabilitation of kindergardens, schools and high-schools)

---

[9] The Municipality of Sibiu, *Raportul de activitate al Primarului Municipiului Sibiu pentru anul 2012* [*Report of the activity of the Mayor of the Municipality of Sibiu for the year 2012*], p. 11 [henceforth, *Report…*].

[10] In the particular case of the Zoological Garden in Sibiu, after it has been re-taken into administration by the municipality, the former was obliged to undertake modernization measures in order to fulfill the European standards, but also the national Law 191/ 2002, regarding the outlook and maintenance of entertainment, open-air, and green areas.

On the other hand, the municipality of Sibiu is indeed a fortunate case in the sphere of the attraction of European structural funds, used, during the last years, in professional reconversion programmes, in the training of the personnel in the Local Police[11], limitedly in the city infrastructure (covering about 60 streets during the last two years), and particularly in tourism. For instance, the project Sibiu Baroc Update, financed through structural funds, meant the allocation of 770,255.26 lei for cultural activities in 2012.

A joined local venture debuted in 2013, with the project "The extension and rehabilitation of the running water and sewage infrastructure in the Sibiu and Brașov Counties"[12]. Following a directive of the European Commission, Sibiu was obliged to close and recycle the waste landfill, while monitoring after the 2005 closing is continuous for 30 years[13]. In addition, in order to collect the homeless dogs from the streets, the municipality of Sibiu partnered with national and international associations and foundations specialized in offering shelter and home for these pets, a significant number of them finding their adoptive "families" in Germany and Austria, with the help of international NGOs.

Due particularly to the impact of the economic crisis after 2008, more than 10,000 inhabitants of Sibiu registered in order to benefit from the alimentary supplies provided by a special programme financed by the European Union. Such "relief" funds are not offered by the municipality, which is mainly concerned with other types of socially disadvantaged within the community (*e.g.* disabled, families in need of subsidies for heating, families with no revenues in the household, families in need of housing, etc.). Generally, the municipality is assisted, especially in human resources sphere, by numerous NGOs, with humanitarian or religious profile (*e.g.* "*Motivation*" Foundation, the Romanian-American Association for the Promotion of Medical Assistance, of Education and of Human Services "*ARAPAMESCU*", "*CRIES*" Association, the "*Soborul Sfinților Mihail și Gavril*" Association, the "*Sion International*" Association, "*SOMARO*" Association, Women' Association in Sibiu, etc.).

[11] The project was covered by the structural funds (430,471 lei) and was titled "The continual formation and the increase in the organizational skills and qualification of the human resources for the improvement of the organizational efficiency and effectiveness of the Public Service of the Local Police of the Municipality of Sibiu" ("*Formarea continuă și creșterea calificării organizaționale a resurselor umane pentru îmbunătățirea eficienței și eficacității organizaționale a Serviciului Public de Poliție Locală al Municipiului Sibiu*").
[12] This joined project, "*Extinderea și reabilitarea infrastructurii de apă și apă uzată în județele Sibiu și Brasov*", was voted for in the two City Councils, with the contracting firms being owned by the Councils themselves. Nevertheless, the financing – 421,453,177 lei – belongs to a nationally implemented Programme, "*POS Mediu*".
[13] *See*, for the projects of closing the landfill and the modernization of the zoological garden, both under European directive, Sibiu City Hall, *Local Agenda 21 – Local Plan for Sustainable Development of Sibiu Municipality*, UNDP Project ROM 98/012, Sibiu, 2004, 76 pp.

Presently, 66.6% of the local budget is constituted through local endeavors, particularly the collection of taxes. The rest of the budget is formed by: credits contracted by the municipality from the European Bank for Reconstruction and Development; European structural funds[14], portions from the national budget.

Table 2: Social Needs Programme in Sibiu

Social need/ social service	**Number of beneficiaries of the social service (* refers to the no. of families)**
financial support for disabled	920
subsidy for heating in the household	2,999
financial subsidy for maternal relief	1,125
financial support for families registering no revenues	185*
shelter and protection for children coming from disadvantaged or unsuited parentage	8
shelter for elders and retired	85
daily meal	160
free medical assistance: - families with children - adult persons (disabled, chronic diseases, etc.) - elders	400/ month 130 120 150
alimentary supplies (through a EU programme), for the following social categories: - disabled - retired - socially assisted unemployed - unemployed without social assistance - beneficiaries of social assistance	10,346 5,601 2,798 1,348 304 295
housing	4,100
ANL housing for young families	95*

(*Source*: *Report…*, pp. 25-27)

[14] In 2012, the municipality was undertaking modernization and improvement works in infrastructure with the support of structural funds cumulating 430 mil. lei; in 2013, a new financing transferred 48.5 mil. lei in the local budget of Sibiu, with the municipality already preparing projects for attracting an additional 32.6 mil. lei from the European structural funds for infrastructure. *See Report…*, pp. 10-18.

Tourism as a main developmental strategy. Sibiu from 2007[15]

This urban "regime"[16] aimed to stimulate economic development through public private partnership and by raising the international profile of the city to attract inward investment. The German links of the Mayor's party ensured that capital began to flow into the city, and the cultural links with Luxemburg won the city the ECOC (*i.e.* European Capital of Culture) title for 2007.

The main aims of the ECOC in 2007 were:

- Raising the international profile of Sibiu;
- Long term cultural development;
- Attracting international visitors;
- Enhancing feelings of pride and self-confidence;
- Growing and expanding the local audience for culture;
- Improving social cohesion and creating an economic downstream;
- Improving cultural and non cultural infrastructure;
- Developing relationships with other European cities/regions and promoting European cultural cooperation, and
- Promoting creativity and innovation.

In addition there were a number of specific aims in the area of communications and promotion:

- Raising the international profile of the city;
- Changing the image of the city;
- Increasing foreign and domestic tourism;
- Broadening audiences for culture, and
- Improving the availability and dissemination of information about the programme is a major task, now under the process of construction.

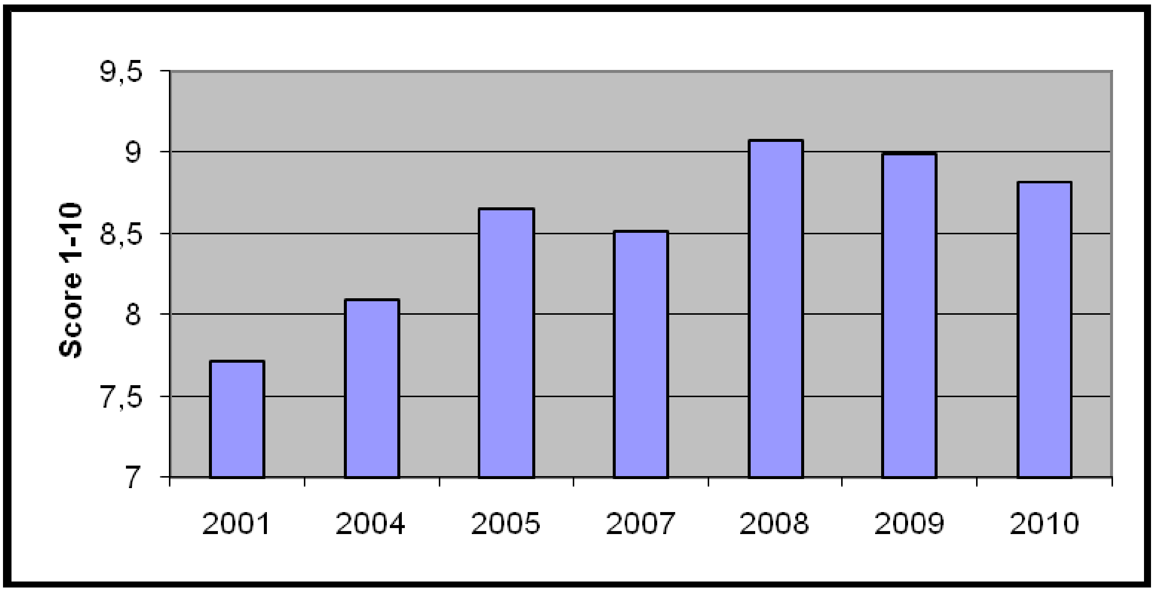
The original evaluation report published in 2007 by ATLAS[17], indicated that the event programme had successfully met many of the short-term aims, attracting large

[15] The present report cites the data provided in Greg RICHARDS and Ilie ROTARIU, "Ten years of cultural development in Sibiu: The European cultural capital and beyond", in *Munich Personal RePEc Archive – MPRA*, MPRA Working Paper No. 31167, Association for Tourism and Leisure Education (ATLAS) & Editura Universității "Lucian Blaga", Arnhem (the Netherlands) & Sibiu, May 2011, 87 pp.
[16] Alexandra OANCEA, "Governing the European Capital of Culture and Urban Regimes in Sibiu", MA paper submitted in 2010 in the Department of Sociology and Social Anthropology, Central European University, Budapest (Hungary), 2010, 82 pp.
[17] G. RICHARDS and Ilie ROTARIU, „Tourism Impact of European Cultural Capital Programs – Sibiu 2007. Preliminary Findings of a Follow up Aproach", in *Ovidius University Annals, Economic Sciences Series*, Vol. X, No. 1, 2010, pp. 422-425.

numbers of visitors, increasing cultural participation and improving the image of the city in Romania and abroad[18].

One of the interesting aspects of the quality ratings was that visitors staying one night or less tended to score Sibiu lower than those staying for two nights or more. This suggests that the first impression of visitors is relatively poor, but improves as they explore the city further.

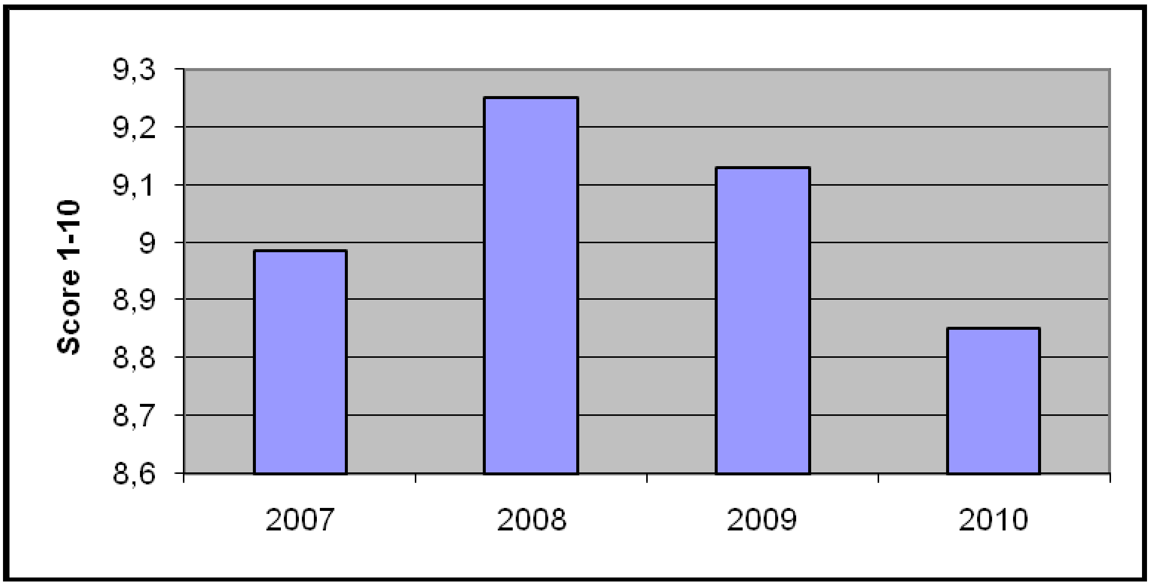
Figure 2: Visitors' evaluation of Sibiu 2001-2010



[18] ATLAS has undertaken a continuous monitoring programme for the City of Sibiu in the post-ECOC period. This research includes a number of different elements:

- Regular surveys of residents and visitors;
- Analysis of tourism flows and other statistics;
- Interviews with stakeholders in the city, and
- Data from the regular surveys carried out by ATLAS in other parts of Europe.

Figure 3: Visitors' evaluation of Sibiu 2007-2010



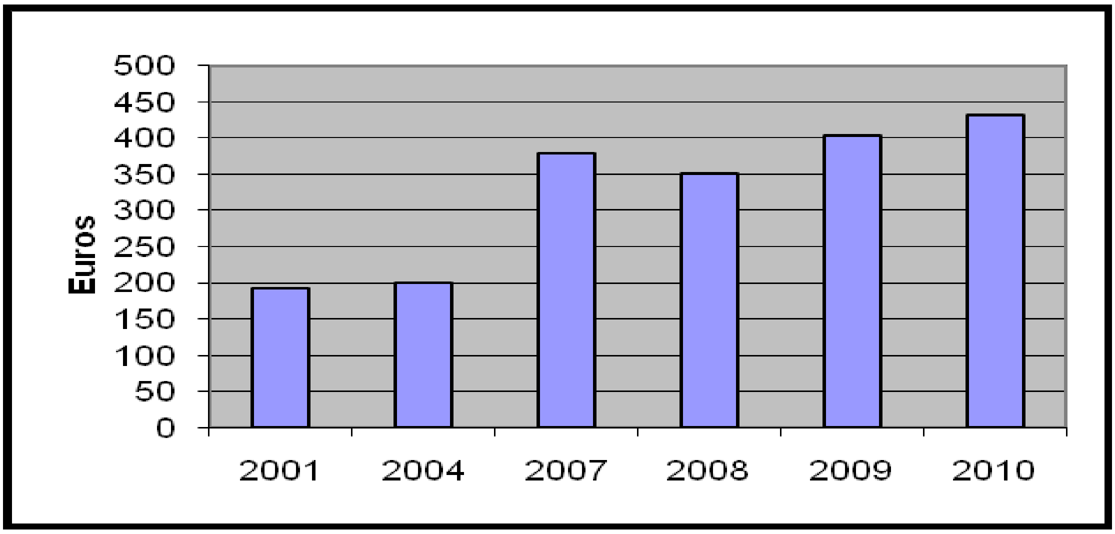
Economic impact

One of the most important motivations for staging cultural events such as the ECOC is the economic impact that these can generate for the host city. Figures on average visitor spending show that spend levels increased particularly sharply during the ECOC in 2007, largely because of the influx of high spending foreign visitors. However, even in the years after the ECOC average expenditure has continued to rise. This underlines the structural change in the nature of the tourist market, with more high spending cultural tourists attracted to the city. But it also reflects the impact of hotel investment, which has increased accommodation spend substantially.

In 2010-2013, the pick of the number of tourists in Sibiu was achieved during the summer months (June, July and August) and in January. In 2012, thanks to the ever increasing revenues from the hotel tax, the Local Council decided a reduction of the tax, from 4% to 1% for every bed night, a measure that proved to be extremely beneficial for both tourists and entrepreneurs. *Grosso modo*, in the time span 2005-2007, the increase in the hotel tax was constant and accentuated. In 2008, the debut of the economic crisis globally, the revenues from tourism-linked activities continued to increase, albeit moderately. It was only in 2009 that a feeble decrease was registered, most definitely due to the growing intensity of the economic crisis. From 2010 onwards, the increase in revenues became the rule, even though in a moderate pace:

for instance, in 2012, the revenues from hotel tax into the local budget sensitively overstepped the ones recorded in 2008, *i.e.* the best numbers registered from the beginning of the crisis[19]. Presently, the most important number of visitors comes from Germany (8,000), followed closely by the autochthonous ones (around 7,500 people). As a consequence, Sibiu is the sole Romanian city to receive three Michelin stars, in accordance with the quality standards internationally applied by Michelin.

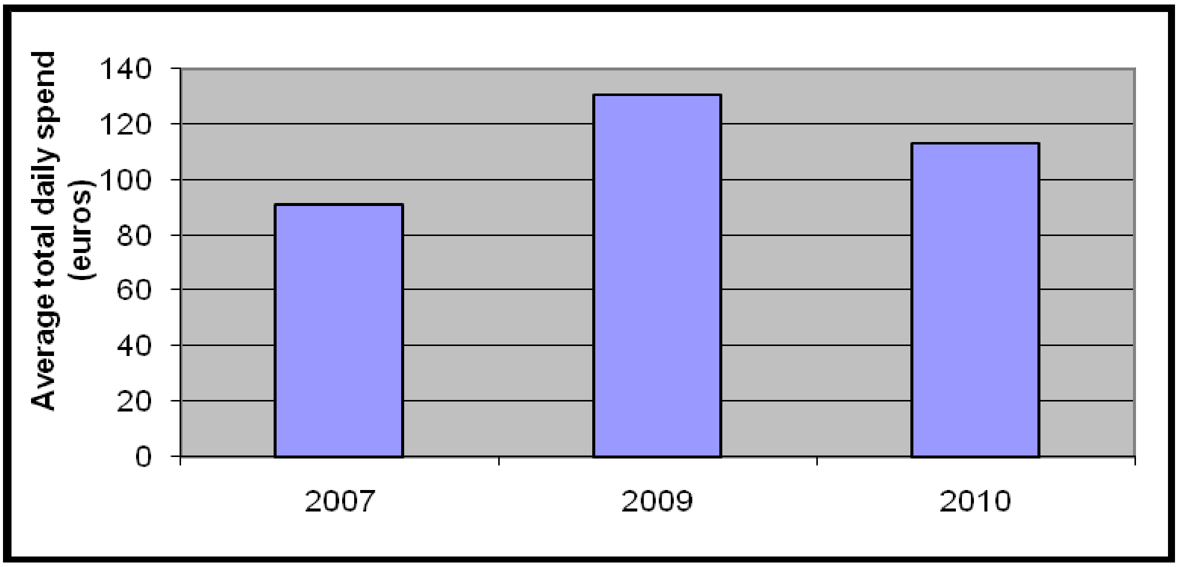
Figure 4: Average total visitor spend 2001-2010



Total average visitor expenditure increased after the ECOC, and the average spend is now 25% higher than in 2007. This is in spite of the fact that the ECOC attracted a relatively high number of foreign tourists and other high spending guests. The data indicate a shift in spending patterns, including more spend on shopping. In 2010 the average spend per day fell slightly compared with 2009, partly as a result of the longer length of stay of high-spending hotel visitors.

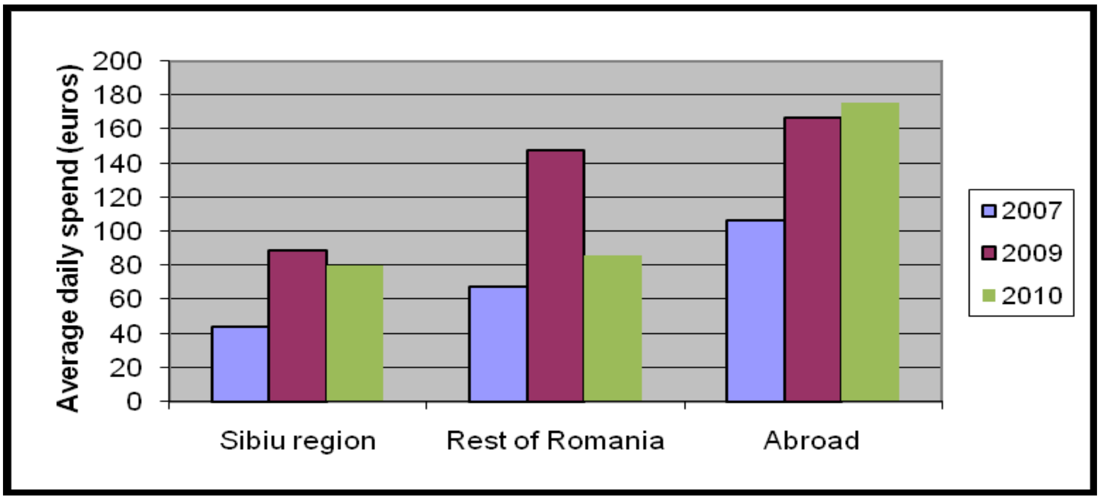
[19] *Report…*, p. 12.

Figure 5: Average spend per day (Euros) 2007, 2009 and 2010



Not surprisingly the average daily spend of foreign tourists is significantly higher than that of Romanian visitors. Romanian tourists also exhibited a strong decline in spend per day in 2010, probably reflecting the effect of the crisis.

Figure 6: Average spend per day (Euros) by visitor origin 2007-2010



In 2009 relatively more was spent on shopping and admissions, and less on travel (reflecting the higher level of domestic tourism).

Figure 7: Visitor spend by category 2007 (excludes Sibiu residents)

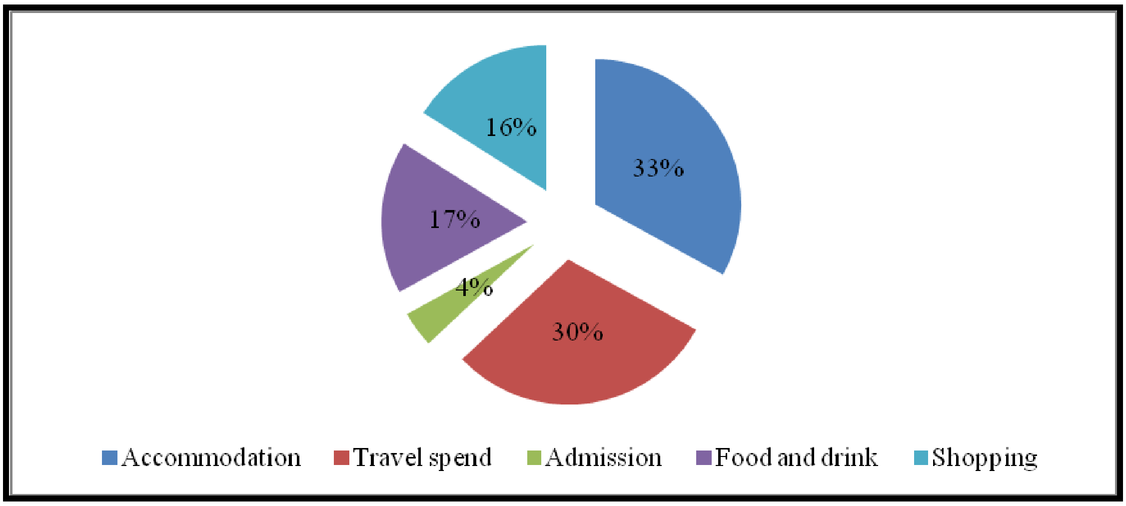
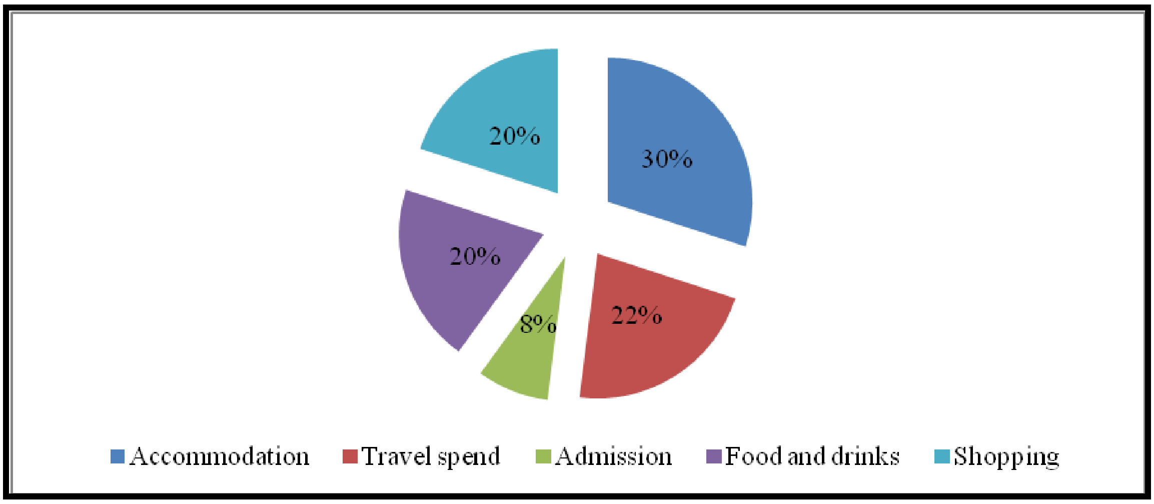


Figure 8: Visitor spend by category, average for the period 2010-2012 (excludes Sibiu residents)



In 2010 shopping expenditure fell and travel spend grew as a proportion of the total. However, shopping expenditure still accounted for a higher proportion (and a much high absolute amount) than in 2007.

Expenditure was particularly high for hotel guests, who tended to spend almost twice as much as other visitors. The only area in which hotel guest spending fell in 2010 was on shopping.

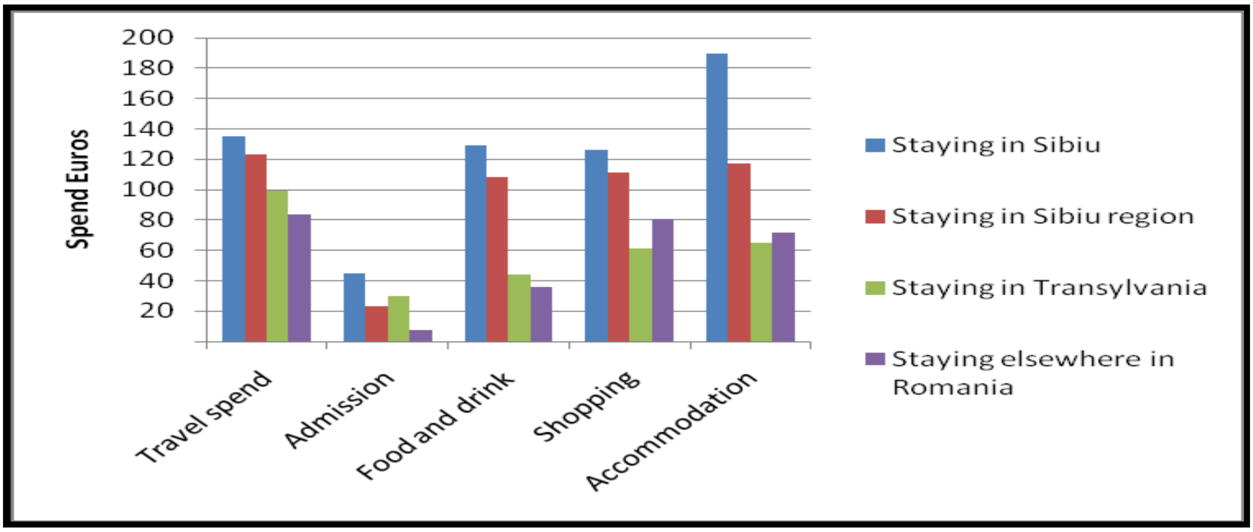
Table 3: Spend by Hotel Guests in Euros

	Travel spend	*Admission*	*Food and drink*	*Shopping*	*Accommodation*
2007	*212,14*	*21,53*	*126,24*	*87,89*	*250,19*
2009	*157,69*	*62,44*	*145,27*	*227,18*	*269,39*
2010	*249,45*	*82,67*	*187,50*	*167,91*	*309,99*

Not surprisingly, the highest spend was made by visitors from abroad, who tend to have much higher travel and accommodation costs than Romanian visitors. However, the economic impact of foreign visitors on the local economy is not as great as the total expenditure suggests, because a large proportion of the total is spent on transportation to reach Sibiu. Even if travel costs are excluded, however, spending by foreign visitors in the city is still much greater than for domestic tourists.

For the local economy, the most important data relate to those tourists actually staying in the Sibiu region, because these visitors spend money on accommodation in the region, and therefore have a greater economic impact. Visitors staying in Sibiu spent considerably more than visitors staying in the region around Sibiu, mainly because they spent more on accommodation and shopping. The accommodation spend in the Sibiu region was however higher than for visitors staying in other parts of Romania, a sign that the accommodation facilities in the region have been upgraded in recent years.

Figure 9: Spend per visitor by location of accommodation 2010



<u>Total tourism expenditure trends</u>

Looking at the longer term trends in tourism arrivals and bednights, it is clear that the ECOC produced significant growth in 2007 and afterwards, which is by far the peak year for tourism demand in the last decade. Since 2007 there has been a decline in both arrivals and bednights, largely due to the impact of the economic crisis. Even so, levels of demand are still higher than 10 years ago, and figures for 2010 showed a slight improvement over 2009. The arrivals and overnights for foreign visitors were notably higher in 2010 after a significant fall in 2009. In the city of Sibiu itself, the number of foreign bednights reached the highest level since 2007.

Table 4: Tourist arrivals and bednights in Sibiu county 2006-2010

	Arrivals		*Bednights*	
	total	*foreigners*	*Total*	*foreigners*
2001	*165,613*	*53,421*	*309,796*	*88,213*
2004	*214,942*	*74,586*	*368,305*	*124,287*
2006	*252,694*	*68,732*	*434,455*	*121,550*
2007	*327,925*	*92,052*	*530,100*	*157,629*
2008	*287,103*	*72,177*	*459,342*	*109,996*
2009	*220,491*	*55,808*	*381,672*	*77,849*
2010	*228,031*	*64,293*	*339,576*	*106,979*

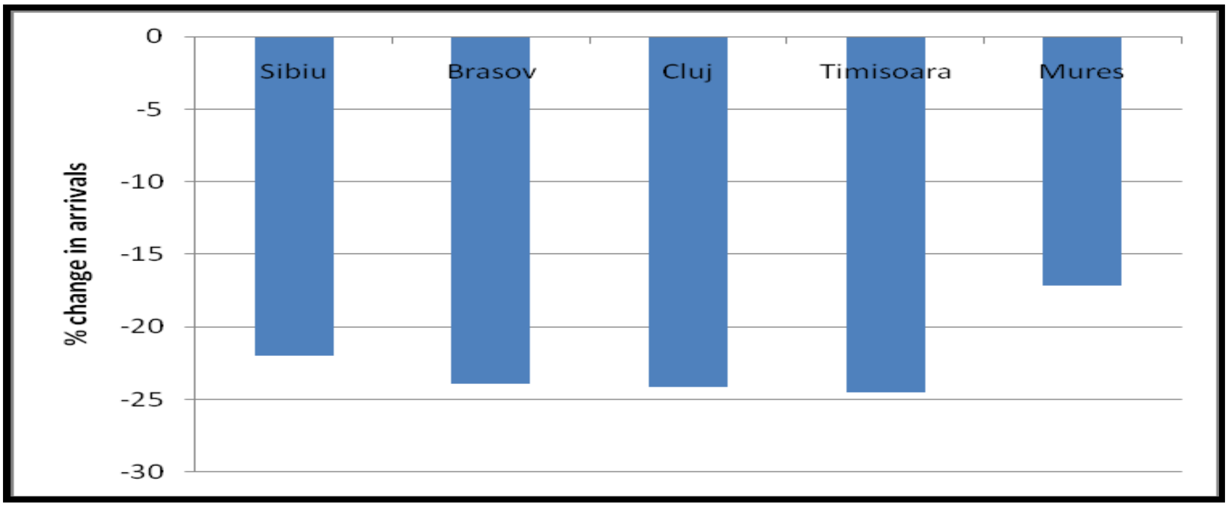
Table 5:Tourist arrivals and bednights in Sibiu 2006-2010

	Arrivals total	***foreigners***	***Bed nights total***	***foreigners***
2006	*150,000*	*n.d.*	*235,000*	*n.d.*
2007	*178,532*	*69,434*	*280,993*	*117,170*
2008	*147,000*	*47,265*	*204,005*	*67,930*
2009	*120,373*	*42,129*	*164,281*	*54,636*
2010	*143,839*	*50,990*	*233,560*	*88,189*

(n.d. = no data)

The data for 2008 and 2009 indicated a sharp decline in tourist arrivals and overnights, which is probably related in 2008 to post-ECOC decline and in 2009 to the economic crisis. 2010 shows a recovery for Sibiu and a descending trend for the whole county. It is clear that the decline in arrivals and expenditure follows national and regional trends. Compared to other cities in Transylvania, for example, the decline in arrivals in 2009 has been lower in Sibiu than in any other city except those of Mures County. Nationally, the first 11 months of 2009 saw a decline in tourist overnights of more than 16%, which indicates that Transylvania as a whole has been hit by the decline in tourism worse than the country as a whole. In 2010 the town of Sibiu is an exception for Romania, as it seems to have regained its "normal" tourist arrival levels in spite of the general economic decline and the fall in tourism nationally, However, evidence from the data collected so far also indicates that many individual businesses in Sibiu have seen an increase in tourism, in spite of the general economic climate.

Figure 10: Change in arrivals in major towns in the region 2009



Conclusions

Presently, at the local level, the bulk of decision-making process concentrates in the local authorities – primarily, the Local Councils –, which exercise the main attributions and prerogatives in the drafting, adoption and execution of the local budgets. After 2002, when the administrative reform favored an increasingly decentralized system of decision-making, the municipalities were faced with a new range of spheres of competences and management, which triggered, initially, a shockwave directly leading to the impoverishment and reduction of the public services, but, during subsequent years, a marked independence towards the center of the local communities became the rule.

As the case of Sibiu shows, successful endeavors may be noted. The decision-making rests almost exclusively with the local institutions and authorities, albeit national and European directives and regulations are closely followed. Moreover, the dialogue with the local and international non-government organizations and agencies enriches the very process of decision-making in the case of Sibiu. The focal point is represented by the strategy of "cultural tourism", which is implemented by the local administration, backed by the decision of the City Council and partly financed through international – mainly, German – and European programmes. Indeed, Sibiu is a peculiar case in local decision-making and local autonomy, labeled either as "urban regime" or "semisovereign city"[20]. It may be, to some extent, concluded, that, nowadays, due to the fact that it enjoys the benefits of the European structural funds, the municipality of Sibiu is particularly concerned in following the European directives. Clearly, all the modernization endeavors undertaken before and after the outbreak of the economic crisis by the local authorities in Sibiu are responsive to the needs of the community and to the requirements of the national government, but the extent in which the national administration is involved in decision-making at the local level is extremely contingent on the limitations of decentralization. The present debate over regionalization and new administrative reform might be a turning point in the assessment of the implication of the national center of decision-making on the evolution and development of local communities and on the competences and prerogatives of local leadership.

[20] Todd SWANSTROM, "Semisovereign Cities: The Politics of Urban Development", in *Polity*, Vol. 21, No. 1, 1988, pp. 83-110.

Daniel Kwame OFFIN

Comparative analysis and conclusions

Romania has since 2009 adopted different measures which have been agreed upon at the EU level as a means of tackle the economic crisis which has brought some countries to a brink of collapse. Most predictions about the effects of these policies are still cautious. But so far not all the member states have reported positively on the prospect of their economy ability to shield themselves from its impact. The effect of the crisis although seems to weighing down, some it is still not over for countries which was worst affected.

The belief of the policy makes has been to avoid the spread of the crisis to all the member states thus helping countries such as Romania to disconnect itself from the financial crisis and to improve the condition of macro-economic structures. Nevertheless, the approach could not hedged Romania from the impact of the crisis.

This report looks at the effects of the financial crisis on Romania and how the government has approached it through the adoption of various policies which were agreed upon at the EU and national level

The Effects of the Crisis

The effect of the crisis has brought about challenges to the young economy of Romania which is trying to reposition its self within the EU market. The government adopted different measures to mitigate the crisis and to avoid its effects but it has had different result. Some of the policies which were adopted intended to boost the economy and to promote economy growth and reduce inflation. For instance to ensure fiscal discipline and sustain the government budget, the government adopted measure which led to a reduction of health insurances budget, social insurances, redundancy money, by not providing job opportunities in the public sector and by introducing a tax that private companies have to pay.

One of the policies which have had diverse effect on the government is the tax system which was adopted as the measure of raising money to support the government budget. In the study of group one, they identified the positive intension of government adoption measures which was intended to help boost the government coffers and to reduce the crisis in the crisis in Romania. This was done through increase in tax. The effort led to increase in government revenue from 19% to 24%. On the other hand, the effect on all the services led to increase in prices. Instead of helping the economy, the tax law rather had a negative effect on the economy. People had to pay more money for what they were buying. And given the fact that their incomes had been reduced by 25%, this resulted in a decrease in the purchasing power. Also, it has led to an increase in the brain drain and its adverse effect of lost of professional which are needed in building the nation to different country to seek better working conditions elsewhere.

The adverse effect on the general prices was the June 2010 law was an increase in inflation. This had a direct impact on the people of Romania. Although the government responded with increase in salaries by 15% it could not absorbed the negative effect on the people.

<u>The Romanian Response to the Crisis</u>

The strategy which was adopted at the EU level to help the member states to cushion themselves from the demise of the crisis was summed up in the *European Economic Recovery Plan.* The plan which proposed that Member States co-ordinate its national budgetary stimulus packages to optimize their impact and avoid negative spill-over effects from one country to another as implemented by member states according to their capacities. Also, to help the business sector to acquire the capital the EU adopted State Aid Framework to offer strategic guideline for governments to give support to the private sector. The aims of this policy is to boost the economy and to gradually withdraw special aid once economic growth was registered, whilst taking into account the market conditions and the still underlying risks to financial stability.

It is generally considered that the EU financial and economic policies had a positive impact trough reducing financial instability and offering incentives for economic recovery. The liquidity injected has prevented the meltdown of the financial system and has contributed to reopening markets, provided more funds to the real economy and helped financial markets reach a more normal market functioning. In the absence of a fully harmonised regulatory framework, State aid control has been effective in mitigating distortions of competition across Member States and banks within the Single Market, and has contributed to pushing EU banks on a path of long-term viability.

In Romania, the laws which were adopted by the government as a mechanism of dealing with the challenges in the sector have had less effective on the economy. While government aimed raising money from the public rather than borrowing to cut down budget deficit, it has resulted rather in less money in the hands of the people, higher prices of goods and services, inflation, discontent of people with the regime which they placed their hope in.

In the past there has been a called on Romania to check how funds which are allocated to the country are used. Romania is considered as one of the countries with the lowest absorption of funds that comes from the EU. In the report of Group 3, they argued that the use of EU funds by Romania continues to be flawed. According to current figures which was published shows an absorption rate of 16.27% in April 2013, an increase however from the 5.51% of April 2012. Also, the mechanism Romania put in place for acquiring these funds was faulty. Only as late as 2013, a new Institution with responsibilities to coordinate managing authorities on this issue has been established and Romania continues to have the lowest level of EU funds absorption.

Also, the law which was adopted to harmonize the salary system in the public sector was ineffective. Although the bill sought to ensure proper placing of the salaries in the public sector proper budgetary discipline, its implementation was weakly brought about. Thus the provisions of the law became ineffective due to the authorities failure in respecting the policy which was adopted. This heightened the discrepancy between the minimum and the maximum salary structures.

<u>Mistakes and Successes of the Central and Local Authorities</u>

One of the successful stories from the policies and programmes which was adopted in Romania can be found in Sibiu one of the tourist destinations in Romania. For instance, within the period 2012-2013 the local authorities exclusively embarked on major infrastructural investments from the resources of the local budget. The project led to extensive rehabilitation and renovation of minor streets and bridges, electricity, running water and sewage systems within the community. Significant investments were also conducted in the public service delivery of infrastructure. On the other hand, the municipality of Sibiu is indeed a fortunate case in the sphere of the attraction of European structural funds, used, during the last years, in professional reconversion programmes, in the training of the personnel in the Local

Police, limitedly in the city infrastructure (covering about 60 streets during the last two years), and particularly in tourism.

The failure of the government to implement the policies which were adopted to carry out the discrepancies in the salary structure and the cut down of salaries by 25% has not helped the country. It has rather led to loss of workforces and expertise which were needed in tackling the challenges. Also the anti-crisis measures which was implemented, the cutback of social cost; political instability have affected the decision making process at the local level.

Final Conclusion

The crisis has brought about a shift in power within the political environment and the business sector. Government implementation of harsh economic policies has faced resistance from the populace, and instability of the government.

The effect of the economic crisis on member countries have differed in Romania compared to other countries. This can be attributed to the structural differences which exist and shapes how policies and programmes are adopted and implemented in Romania. The impact on the various sectors of the economy has differed. The adoption measures to increase government budget and restructuring of the tax system and institution have a lot of impact in the state support of citizens during these unstable times.

The report identified from the group reports that the adoption of harsh policies, the cutback of government budgets coupled reduction of support to social insurance, health, and increase in taxes have had various consequences on the life of the Romanian citizens.

GERMANY

Iris Tschukewitsch
Tatjana Kunz
Sara Schneider
Sarah Tritsch
Jürgen Raubach
Tamara Okrafka
Ricarda Rostek
Josephine Bernhard

Support by David Gorr M.A.

Summer School on Democracy:
How old and new democracies cope with the economic crisis.

Country report: Germany

This report is intended to inform about the most important political decisions, bills and reforms that were implemented by the German parliament and EU institutions since the year 2009. The report also informs about reforms on the local and regional level. Furthermore the following questions should be answered: "Was the country strongly affected by the crisis?", "Were EU policies implemented effectively?" and "What were the main mistakes and what were the successes of the central and local authorities?"

Reforms on national level

Germany, as the exporting nation in the EU, was deeply affected by the results of the international financial markets and especially the economic crisis as the economy shrank 5%, but could recover faster than other countries because it could offset the losses with its European trading neighbours by good trade with other economic areas, such as Asia and the USA. At first German chancellor and her Finance minister Steinbrück underestimated the impact of the financial malaise spreading from the collapse of the U.S. subprime mortgage market in 2008. After many commercial banks owned by federal states got in trouble and Germany's largest mortgage bank, Hypo Real Estate, had to be rescued, Mrs. Merkel and Mr. Steinbrück went on national television and promised to guarantee all savings deposits in order to avoid a bank run. The “Finanzmarktstabilisierungsgesetze” enabled the billion bank bailout in 2008. The aim was to uphold the credit flow to companies and private households. It was a guarantee for claims laid on German banks, so the “Finanzmarktstabilisierungsfond” allows the recapitalization of banks. “Bad Banks” were introduced to uphold the capital flow because the capital-asset-ratio will be higher if the bank outsources its toxic bonds but after all it is still clear that it is the bank’s own fault and loss. The banks need to retain higher capital-asset ratio. Since 2009 following reforms were created on national level: “Economic Stimulus Package 2” (*Konjunkturpaket II*), “Debt Brake” (*Schuldenbremse*), “Bank Rescue” (*Bankenrettung*) and “Separating Banking Law” (*Trennbankengesetz*). Moreover, uncovered short sales were banned.

The “Economic Stimulus Package 2” came into force in 2009. This package should stop the financial crisis having too much influence on the economy and reduce the danger of an economic recession. Its aims are to stabilize economy, to secure and increase employment and to foster economic growth. Investments in schools, kindergartens, scientific research, infrastructure and other institutions have to be effective and sustainable. The package also claims to reduce Carbon monoxide. People received 2.500 Euro for their old used car that was older than 9 years, when they bought a new car. This financial incentive was called“ Abwrackprämie” and was established in 2009. This incentive was created to uphold the automobile industry. Negative aspects of this solution were that it was only to sustain one important industry and also ineffective, because nowadays there are overcapacities and the restructuring of this industry was avoided. The development bank KfW (Kreditanstalt für Wiederaufbau - "Reconstruction Credit Institute") launched the special program "Wirtschaftsfonds" Deutschland" permitting credits and securities for many companies but they also tightened up the restrictions on lending so that it caused many problems for the companies. Furthermore the "Kurzarbeitergeld" was established. It eased the increase of unemployment and retained many work placements. 60% of the regular income is paid by the Bundesagentur für Arbeit (central unemployment agency).

The 'Debt Brake' (Schuldenbremse) also came into force in 2009 and is anchored in the constitution (GG). New credits for the central governments are prohibited in general from 2016 onwards. Exceptions are catastrophes and natural disasters, as well as new credits needed during a recession which have to be repaid during the next economic recovery, and up to 0,35 % of the GDP annually. The Federal Constitutional Court ("Bundesverfassunggericht" (BVerfG)) can declare budget bills null and void. Another function is to gain balanced government budgets (also of the federal states, the Bundesländer) and a 'sustainable behavior' for future generations. Less governmental investments are possible and effects cannot be assessed because it is planned from 2016 onwards. Generally it is to stop continually raising debts and to influence the governmental sector.

The "Bank Rescue package" (Bankenrettung) contains several bills from 2008 to 2012. The nationalization of Hype Real Estate was the starting point for several bills on rescuing banks and the financial sector. The "Rettungsübernahmegesetz" enables the nationalization of other banks if they are relevant for the whole system, as the rescue of Commerzbank AG, Germany's second-largest bank, in 2009 illustrates. There were immense burden on tax payers so they are liable for the speculations carried out by finance institutions and also high expected default frequency for them as well. Due to the unknown risks, the situation is opaque to politicians and the population.

Germany and the euro crisis

The latest Economist cover deals with Germany's euro policy and describes the country as "The reluctant hegemon." Indeed, as the euro crisis spread from Greece to engulf the entire currency block, Germany refused to guarantee Greek debt and stop the crisis in its tracks. However, the delayed Greek bailout and Merkel`s crisis management as a whole were driven by domestic political (regional elections in North-Rhine Westphalia in May 2010) and legal pressure (German`s Constitutional Court`s decisions). Besides, Germany's leaders no longer assume that what is good for Germany is good for the EU, and vice versa. It has gradually been asserting its interests more forcefully and prefers to act unilaterally, not only in the European policy. With the exception of Die Linke, the opposition parties SPD und Bündnis 90/Die Grünen are in line with the government.

For the German government the euro crisis resulted from a lack of budget discipline and is not rooted in a failure of institutional design of the eurozone (no fiscal union, no banking union, no shared economic governance institutions, no money transfer), as many economists haves stressed. Therefore Mrs. Merkel enforced an austerity strategy, which includes strict government spending cuts and tax increases. Ultimately, so German considerations, austerity will foster growth. Secondly, Germany does not want to *guarantee for loans* because it would relieve the debtor countries of the pressure introducing tough reform programs. Thus, it uses the crisis to transform those countries in the way Germany wants them to be. Without this pressure a European debt brake (Fiscal Compact) would not be in force today. This is also the reason why German chancellor Angela Merkel has remained opposed to the issuance of shared debt in the form of so-called Eurobonds or any other explicit shared liability of debts since the beginning of the crisis. Besides, Germany might have to face higher interest rates as a kind of risk surcharge.
Ultimately, Germany hopes that the efforts for countries affected by crises would bear fruit soon. The existing rescue fund is a mean of buying time and encouraging structural reforms.

However, the majority of the EU members are questioning Germany's approach to the euro crisis. The European partners have criticised Germany for not doing more to stimulate demand in the Eurozone. It must stop focusing on deficit reduction for a while and generate more spending and take the risk of inflation. But this idea is against German economic thinking of "ordoliberalism", the emphasis on price stability. This is also the reason why Berlin does not want the ECB to print money in order to cope with the crisis.

As a consequence, Germany's relation to its neighbours is a difficult one at the moment. *It preaches austerity* to the rest of Europe, which means wage cuts and tax hikes for the population of Greece, Ireland, Spain, Italy or Cyprus. Those countries face years of low growth, severe curbs on public spending and social unrest. Therefore southern European countries reacted bitterly to being forced to take orders from Berlin, as many anti-german rallies with nazi-symbols in Greece and other highly indebted countries have shown. On the other hand, German citizens argue that the southern countries should be grateful for the sacrifices they have already made to help their indebted neighbours. The German population is increasingly angry about having bail out the southern countries of the EU. Additionally, leading economists in Germany claim that the country has already paid too much. This has led even to the foundation of the new party *Alternative für Deutschland* ("Alternative for Germany"), which opposes all the European rescue funds and wants to leave the Eurozone to form alternative monetary unions.

Reforms on European level

The sovereign debt crisis has developed into a major crisis for European integration in general. Yet, the crisis management on European level is characterised by passive and incoherent behaviour. Sometimes it even aggravated the crisis. One explanation might be that the EU's inadequate policy towards the sovereign debt crisis stems from contradicting and divergent preferences from the member states. However, the few reforms were achieved without the European institutions. The larger member states have led the EU's response; especially Mrs. Merkel thinks that intergovernmental negotiated agreements by the member states are more effective than decisions took by European supranational institutions. Therefore, Germany does not support further political integration of the EU in order to create a federalised European "Superstate". The German Government is only willing to change Europe`s treaties for the sake of greater competitiveness. In this sense, Germans have pushed for stricter rules on budget deficits and the major reforms on European level aimed to improve the institutional set-up of the EU. In the following a review is given on the most important political decisions, bills and reforms that were implemented by the EU institutions since 2010:

<u>The period 2010-2013</u>

2010

- **11th February**: The first EU-Meeting because of the financial situation of Greece takes place.
- **25th to 26th March:** The European Council and EU-summit: The Eurozone members oblige to coordinate the bilateral credits, if Greece couldn´t refinance; including appropriate IWF- funds.
- The European Council founds the „Van Rompuy Task Force“: strategies to the crisis management and fiscal discipline till end of 2010.
- **23th April:** Greece engages this help and got controlled by ECB and IWF.
- **2nd May:** Consent Greece aid package: up to 80 billion € from the Eurozone and up to 30 billion € from IWF.
- **7th to 8th May:** The European Council passed the „Euro-rescue-fund“ and the Greece aid package.
- **9th to 10th May:** The EU Finance ministers arrange details of the „European Financial Stability Facility“ (EFSF) and the „European Financial Stabilization Mechanism“ (EFSM): EU state credit guaranties 440 billion €; 60 billion € community funds and 250 billion € from the IWF.
- **10th May:** The European Central Bank starts buying state bonds from crisis-ridden countries.
- **7th September:** The Council of the European Union decides the „European Semester“: a cycle to coordinate the economic policy.
- **29th September:** The Government presents the 'Six-pack'.
- **18th October:** Angela Merkel and Nicolas Sarkozy claim a permanent mechanism to save insolvent states.
- **21th October:** The Van Rompuy Task Force submits their report for the European Council.
- **28th November:** As the first state Ireland gets an emergency-credit from the EFSF. EFSM= 22,5 billion €, EFSF and – bilateral – Great Britain, Sweden and Denmark = 22,5 billion €, IWF= 22,5 billion €.
- **16th to 17th December:** The European Council determines the permanent European Stability Mechanism (ESM).

2011:

- **11th March:** The EU-Meeting to deliberate upon Libya takes place.
- Enhancement of the EFSF.

- **24th to 25th March:** European Council decided a change in the EU law: constitution of a permanent ESM. ESM: 80 billion € basic capital paid by the Euro-zone-countries, starting 2013. Credit guaranties about 620 billion €. Supplementing the ESM capacity up to 250 billion €, given by the IWF.
- **17th May:** Portugal gets a necessity credit: up to 78 billion €. EFSF, EFSM and IWF accepted 26 billion for each of them.
- **21th July**: European Council: The second aid package for Greece is necessary and also extending EFSF competences.
- **28th September and 4th October:** The European Parliament (28th September) and the Council of the European Union (4th October) adopted the „Six-pack": Fiscal policy rules of the „Stability and Growth Pact" were reformed and stronger coordination of national policy (first presented by the European Commission on 29. September 2010).
- **26th October:** EU-summit: The European Council determines „package of measures" to the stabilization of the Eurozone, including the following aspects: The greek creditors quit up to 50 percent of their claims, the EFSF capacity raising up from 250 billion € through „leverages" to the four- to fivefold and recapitalization of the European banking system.
- **8th and 9th December:** The EU- summit and the European Council determine more measures right up to a „politico-economic stability union", which will stronger intervene into national budgets (primarily right). If the European Commission realises a country breaks the 3% border of the budget deficit, there will automatically be consequences, except the member states of the European monetary area built a majoritarian opposition.

2012:

- **January:** All EU-members except Great Britain and Czech Republic have to commit themselves to determine a debt limit like Germany. The maximum of the economic deficit is 0,5% of the GDP per year.
- **29th February:** 800 banks receive 530 billion €.
- **11th July:** The ECB reduces the interest rate (0,75%).
- **April:** Cyprus gets several billions of Euros from the EU (Emergency Liquidity Assistance).
- **2nd May:** The ECB reduces the euro-rate (0,5%).
- **9th June:** The European finance ministers promise a 100-billion Euro-credit for Spain.

- **July:** The European finance ministers concede a higher period for reducing the new indebtedness.

2013:
- **16th March:** Cyprus and the EU determine an aid package about 10 billion Euros.
- **25th March:** The Agreement between Cyprus and the Troika about the 'Cyprus Popular Bank' gets disbanded and 4.2 billion Euros get deposit at a so-called "Bad bank".
- **May 2013:** Cyprus receives 3 billion Euros from the EU.

<u>The Rhineland-Palatinate economy</u>

Rhineland-Palatinate is one of 16 federal states of Germany with 4 million inhabitants. It is located in south-west Germany.

Landau is a provincial town with 43.957 (status 2011) inhabitants. The average turnover of each company in Rhineland-Palatinate was 1.2 million euros in 2010. The national average was 1.7 million euros. Rhineland-Palatinate was on the tenth place in Germany.

With a sales increase of 7.6 percent in 2010, the Rhineland-Palatinate economy returned to the level which had been before the crisis in 2008. The highest turnovers were gained by the processing trade with 86.6 billion euros followed by the trade and repair of motor vehicles with 51.2 billion euros.

<u>Export sector in Rhineland-Palatinate</u>

In 2012 the export has grown in the third year in a row. According to the figures of the State Statistical Office in Bad Ems, goods to the value of 46.4 billion euros were exported.

This turnover was 3.6 per cent more than in the previous year (Germany total: plus 3.4 per cent). So that the previous maximum value from the year 2011 was exceeded once again to 1.6 billion euros.

Increased number of employed, but working volume almost unchanged
The same extent as the real economic output and employment in Rhineland-Palatinate has increased. The annual average 1.926 million workers were engaged

with work in Rhineland-Palatinate, which was the highest ever registered Stand Opposite 2011, the number increased by 16,400 or 0.9 percent. Employment growth was slightly below the national average of plus 1.1 percent.

Gross domestic product
The sum of the services in the country economic performance has increased in 2012 over the previous year terms by 0.9 percent. Thus, the Rhineland-Palatinate growth was slightly higher than the average increase of the gross domestic product in Germany (+0.7 percent).

The gross domestic product adjusted for inflation in 2010 rose by 4.6 percent, after it shrank in 2009 due to the global economic crisis by 4.1 percent.

<u>Reactions of the Rhineland-Palatinate Provincial Government for the Global Financial Crisis</u>

1. **Business activity support programme II (Konjunkturpaket II)**

To mitigate the effects of the global financial crisis, the Rhineland-Palatinate provincial government adopted the Future-Investment-Act. The aim was to secure jobs, support companies and to invest sustainably.

The balance sheets are acceptable. The additional capital expenditures have been around about 854 million euros. 2656 projects mainly in the communities were implemented.

The federal republic sponsored 449 million euros. The rest was supported by the provincial government, the communities and the private agencies.

The business sector activity support programme II includes a multitude of support programmes.

Economic activities were for example focussing on these sectors: urban restauration, rural renewal, school construction, advanced training, communal infrastructure investment in the sector of power efficiency and energy supply, communication technology and much more.

One local example is the technical installation of the integrated coordination-centre with information and communication technics for the fire department in Landau. Investment volume: 1.9 million euros.

Debt Brake (Schuldenbremse)

Similar to the debt brake on the national level, the states introduced one on their level. The functioning is the same except for the instance that the states have time to balance their budget until the year 2020. From the year 2012 onwards, the government of Rhineland-Palatinate has to try to reach the aims of the debt brake but it can still deviate from its guidelines. Nevertheless, from 2020 onwards this is impossible since the debt brake is part of the constitution of Rhineland-Palatinate. What is remarkable is the fact that the states established a federal concept in order to support the weaker states in reaching this aim. Rhineland-Palatinate is one of the states financially supporting the economically weaker ones.

Conclusions

Germany is the largest contributor to the EU-budget and to the euro rescue fund. Nevertheless, it is not influenced in a negative way by the economic crisis like many other states. While the rest of Europe is staggering, Germany`s unemployment fell to the lowest level in decades. It faces the lowest interest rates in the history. While the poll ratings of the leaders of highly indebted countries are at rock-bottom, Merkel is at the peak of her popularity. The German government wants to export the principles of their economy, fiscal stability with low inflation, to other euro-countries. This idea meets skepticism and resistance by most indebted countries. Instead of gaining support for its policies by leading and persuading others to follow, Germany defended its national interest like any other country due to domestic political pressure. Consequently, this situation raised tensions between member states and damaged the image of the EU as a community based on solidarity. The dispute about austerity measures and growth programs led to the incoherent crisis management of the EU. Against this background, reforms on European level were difficult to implement.

BELGIUM

Summer School on Democracy:
How old and new democracies cope with the economic crisis.

Country report: Belgium

Belgian Economic Strategies in Time of Crisis

Introduction

Belgium progressively evolved, through different "rounds" of state reforms from a unitary to a federal state composed by three Communities and three Regions. These legal and constitutional agreements aimed to solve community tensions and to respond to demands of autonomy coming from the North (Dutch-speakers of Flanders) and the South (French-speakers of Wallonia) of the country. As a result, the first Article of the Belgian constitution reads today: 'Belgium is a federal state, composed of communities and regions'.

The power to make decisions is no longer the exclusive preserve of the federal government and the federal parliament. The leadership of the country is now in the hands of the Communities and Regions, which independently exercise their authority within their domains through their own governments and parliaments.

The Communities

The redistribution of power occurred along two principles. The first one was linked to language and included everything related to the culture. As a result three communities were created: the Flemish Community, the French Community and the German-speaking Community. These communities therefore corresponded to the different segments of the Belgian population. The latter have powers in culture, education, the use of languages and matters relating to the individual which concern on the one hand health policy (curative and preventive medicine) and on the other hand assistance to individuals (protection of youth, social welfare, aid to families, immigrant assistance services, etc.) They also have powers in the field of scientific research in relation to their powers and international relations associated with their powers

The Regions

The second principle of state reform was related to economic interests. The regions aspired mainly to more economic autonomy. The result was the establishment of the Flemish Region, the Brussels Capital Region and the Walloon Region. They have powers relating to the economy, employment, agriculture, water policy, housing, public works, energy, transport, the environment, town and country planning, nature conservation, credit, foreign trade, supervision of the provinces, communes and intercommunal utility companies. They also have powers relating to scientific research and international relations in those fields.

The Federal State

Nevertheless the Federal State retains important powers, for example in the area of foreign affairs, national defense, justice, finance, social security, important parts of national health and domestic affairs...

Main structure of the presentation

1. European level
2. National level
3. Regional level
4. Actors involved at all levels

The different levels of power (regional, national and European) implemented various policies, limited to the extent of their area of competences, in response to the economic crisis. However the regulation of fiscal policy seems to have played a significant role at each level. It was nevertheless motivated by different logics. The Treaty on Stability, Coordination and Governance (TSCG) adopted at the European level stressed in its III title (the Fiscal Compact) the necessity to balance the budget and to reduce state deficit/debt. The national level adopted a reform of the financing of the communities and the regions (the Special Finance Act) which transferred new powers and increased fiscal autonomy for the regions. It aimed to balance the federal budget and the sustainability of the public finance. Finally at the regional level, the Plan Marshall 2.Green aimed at stimulating the employment and the attractiveness of the Region (reduction in taxation in order to attract capital and investors).

European level

At the European level the recent financial and economic crisis had led to a very considerable deterioration of fiscal positions in the euro area countries, in terms of both budget deficit and rising on government debt. As a consequence, safeguarding the sustainability of public finances[21] has become one of the major challenges facing policy makers seeking to consolidate a return to economic and financial stability to ensure an environment conductive to output growth and price stability. The rational in revisiting the SGP trough TSCG can be summed up in three points: strengthen governance of euro area in light of persistence debt crisis; tackle moral hazard to create conditions for strengthened firewalls against contagion and spreading of debt crisis; step up national commitments towards fiscal discipline. Indeed fiscal policy is recognized to be as a matter of common concern, and all Euro zone countries have an interest in preventing fiscal indiscipline: deficit bias and debt default within the monetary union, could result to painful spillover effects, and at the same time, the necessity to ensure the achievement and maintenance of the price stability in euro area, without doubt one of the most important priority is easier achievable thanks to numerical rules.

The European Monetary Union implies the loss of monetary policy for Member States, as a macroeconomic stabilization instrument, which seems to enhance the role of fiscal policy, which remains a national competence. However national fiscal policy instrument affects other countries (spillover effect), this is the reason for the need of strong surveillance of medium term fiscal positions with the goal of providing an early warning signal and the sanctions in case member state fail to respect rules.

The Treaty on Stability, Coordination and Governance (TSCG) is the latest stage of the European economic governance Reform, and its III title is the Fiscal Compact. As part of the multidimensional response to the economic and financial crisis, it is a reflection of Member States' willingness to further strengthen and fully implement the provisions of the revised Stability and Growth Pact (SGP)[22]. The 25 signatories of

[21]Fiscal sustainability is defined as government's capacity to service its debt obligations in the long term: a government that has debt outstanding therefore has to run primary surplus in the future, and these have to be large enough to accommodate the servicing the government's debt obligations.
[22]Member States are required by the Treaty on the Functioning of the European Union to avoid excessive deficit art (126) and to ensure coordination of their economic policies and sustained convergence of their economic performance (article 121). The sustainability and Growth Pact provides the secondary legislation that defines

the Treaty on Stability, Coordination and Governance (TSCG), concentrated their commitments to achieve greater budgetary and economic coordination on three main dimensions: (i) fiscal discipline, (ii) economic policy convergence and (iii) enhanced governance of the euro area. Fiscal compact is about the first point. On the budgetary side, the fiscal compact (Articles 3 to 8 of the TSCG), which covers the fiscal rules of the TSCG, gathers elements of a reinforced coordination for all stages of budgetary surveillance, which is governed at the level of the Union by the SGP – with some reinforced provisions specific to the euro area. The fiscal compact follows the two-fold approach of the SGP, where a preventive arm is designed to maintain or guide Member States towards medium and long-term fiscal sustainability; coming at a later stage, in cases that the preventive arm is supposed to avoid, corrective mechanisms, namely the excessive deficit procedure (EDP), ensure the correction of gross policy errors. Furthermore to intensify the effectiveness of the issue, and to ensure compliance, as wrote in Article 3.2: "The rules set out in [Fiscal Compact] shall take effect in the national law of the Contracting Parties at the latest one year after the entry into force of this Treaty through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes"[23].

The so-called "Golden Rules" of the reform are:

a) <u>Balanced budget rule</u>: General government budgets shall be "balanced" or in surplus. The treaty defines a balanced budget as a general budget deficit less than 3.0% of the gross domestic product (GDP), and a structural deficit of less than 1.0% of GDP if the debt-to-GDP ratio is significantly below 60% – or else it shall be below 0.5% of GDP. This rule is based upon the existing country-specific Medium-Term budgetary Objective's (MTO's), which were introduced by the preventive arm of the Stability and Growth Pact (SGP) in 2005, with an upper limit for structural deficits at 1.0% of GDP applying to all Eurozone. The adjustment path towards this goal is assessed every year in the context of the European Semester.

---

these obligations in greater detail and thus sets out the framework within which fiscal policy making is to be set and monitored at European level.

[23]If a member state fail to transpose the "balanced budget rule" rule and the correction mechanism on time, the EU Court of Justice will have jurisdiction to take a decision on the matter. The Court's judgment will be binding, and, if not complied with, can be followed by a penalty of up to 0.1% of GDP. This amount will be payable to the European Stability Mechanism if the country's currency is the euro; otherwise, payment will be made to the general budget of the EU.

b) Automatic Correction Mechanism: If a member state deviates from the balanced budget rule, an automatic correction mechanism will be triggered. The member state will have to correct the deviations over a defined period of time. The mechanism will fully respect the prerogatives of national parliaments.

c) Correction of deficit/debt deviations: Decision-making in the context of the excessive deficit procedure will be more automatic than before: the euro area member states agree to support the Commission's recommendations and proposals for Council acts except where a qualified majority of them are opposed. In addition, a member state that is subject to an excessive deficit procedure will have to put in place a "budgetary and economic partnership program". The program will include a detailed description of the structural reforms which the member state will have to implement in order to ensure an effective and durable correction of its deficit. Such programs will be submitted to the Council and to the Commission for endorsement. Their implementation will be monitored according to the rules of the SGP.

d) Debt issuance coordination: the member states that are parties to the treaty will report their public debt issuance plans to the European Commission and to the Council. In addition, they will discuss and, if appropriate, coordinate among themselves and with the EU institutions in advance all the major economic reforms that they plan to undertake.

e) Embedded fiscal compact rules into domestic law

Actors involved in the process of reform

At the European Council of 8-9 December 2011, most EU Member States decided to open the way to an intergovernmental treaty designed to ensure greater fiscal surveillance and economic coordination within the European Union. Following a period of negotiations of several months the Treaty was signed on 2 March 2012 by 25 Heads of State or government and is in force by 1 January 2013[24] for countries had yet ratified. The option of an international treaty allowed those Member States willing to proceed with commitments going beyond what is currently envisaged by the European Treaties, to do so despite other States wishing to remain outside the

[24]While Euro area Member State are bound by the Treaty from the first day of the month following the ratification, other Contracting Parties whose currency is not the euro may decide to bound by certain previsions related to the fiscal compact, on a voluntary basis.

process. While not being part of EU law as such, the Treaty on Stability, Coordination and Governance is however consistent with EU law and shall be applied in conformity therewith. The Treaty therefore appears as a demonstration of Member States' willingness to go for a closer economic union.

National level

At the national level in Belgium, the revision of the law on the financing came to the agenda of the reform of the state, mainly for two reasons: on the one hand, it was necessary to clarify the mechanisms of financing new competences of the communities and regions. On the other hand, different applications from different political parties on both sides of the linguistic border, sought to amend certain aspects of the current law. These reform negotiations took place in a very difficult budgetary environment caused by the by the full sovereign debt crisis in Europe. In 2011, the deficit in Belgium is estimated at 4.2% of GDP, with unchanged policies, have exceeded 5% of GDP in 2015. To comply with the commitments made by Belgium in the Stability Program submitted to the European Union to reduce the deficit to 2.8% of GDP in 2012 and a balanced budget in 2015, significant savings should have been implemented. The new funding mechanisms should also provide guarantees to financial markets on the fiscal capacity of the federal government in particular as regards repayment of the public debt.

Moreover the LSF (special financial act) was interested in the system of financing the skills of different entities: where will the money come from and how it can be used by the entity to manage a skill.

There were two possible sources of revenue for the federal entities, or decentralization of tax collection when such regional authority directly impose its tax (bypassing the federal level), or the State or the Community receives directly the federal level a sum of money to finance the exercise of its jurisdiction, the latter system is called staffing. Generally speaking, financing reform of the federal entities is based on:

- for Regions it is based on fiscal autonomy without reducing the powers of the federal government. Moreover their responsibility is reinforced.

- for Communities it is based on funding arrangements allocating resources according to the population.

As a result, the Belgian sixth State's reform implied a $ 17 billion transfer of skills:

- Employment (4.36 billion). Pass (amongst others) Regions: control seekers - Job, policies for the target groups, service checks, credit-time ...

- Health (4210000000). Are transferred (among others) the allocation of aid for the disabled, hospital policy (infrastructure projects, accreditation standards), the policy for the elderly (the largest health transfer - 2425000000: nursing homes, day care center ...), the mental health policy, the policy of prevention ...

- Family allowances ($ 5.9 billion).

- Justice. Transfers are limited to: homes justice, protection of youth ...

- Various skills. Transfers are also made in terms of mobility, economy, energy, agriculture, housing, urban planning...

- A tax autonomy. Financing Act (which defines the distribution of resources between entities) has been revised. In its new version, the Regions will have fiscal autonomy (equivalent to 10.735 billion), according to an additional mechanism to the IPP.

To reform the financing mechanisms of the federated entities, two principles have guided the negotiators: for the regions, increased fiscal autonomy without reducing the fiscal prerogatives of the federal government and greater accountability in connection with tax revenues generated on their territory and a solidarity mechanism vertical devoid of adverse effects to Communities, financing arrangements allocating resources on the basis of objective criteria related keys population.

<u>The fiscal stability treaty – achievements and results</u>

-The negotiations led to a reform of the financing system of the federated entities whose terms are being discussed in the context of discussions Comori:

- The fiscal autonomy of the regions in terms of personal income tax
- The new powers transferred to the Regions
- A new solidarity mechanism

- The accountability mechanism environment for Regions
- The shares allocated to personal income tax revenues from VAT and Communities
- The new depreciation Communities
- A compensation mechanism for the transition between the two models

To reform the Special Finance Act, special wishes existed on both sides of the linguistic border, which often went in different directions.

- **Francophone requests**: there was the desire to refinance Brussels. Moreover, refinancing mechanisms Communities adopted in 2001 is a break in the financing of education. Indeed, the application of a tax key to allocate new funding creates a divergence in favor of Flanders and to the detriment of the French Community.

- **Flemish claims**: Several objectives are advanced to justify an increase in the fiscal autonomy of the regions, including, primarily, increased accountability of the federal entities and reconciliation skills and regional preferences. In Flanders, there is also the desire to correct some anomalies mechanism of national solidarity. Indeed, in the current system of financing of the Regions, the effect of "solidarity" effect outweighs the "fair return".

However agreement on the reform of the state does not settle the question of the participation of federated entities in the consolidation of Belgian public finances. It is important to determine the distribution of remediation efforts required to reduce Belgium to a balanced budget by 2015. It will specify the terms of participation of federated entities and set some variables financing law as the reference amounts for the transfer of skills and their parameters change.

In conclusion before the 2012 state reform, the legislation was based on a fundamental principle quite easy to understand: since 1970, Belgium consists of regions and communities, which together form the structure of a federal state (since 1993). The transition from a unitary state to a federal state caused the division of power between the federal level and the federated entities (regions and communities). The FLSA defines precisely how the regions and communities can support the exercise of their new skills.

Since 2011, an agreement on a new government reform has been finalized. It provides a significant transfer of powers to the federal entities of nearly $ 17 billion.

It is also accompanied by a section on the reform of the Special Finance Act federated entities.

Regional level

The financial and economic crisis also required public authorities to play a major role in fostering a sustainable economic development at the regional level. Thus the Walloon Government and the French community tried to identify structure and adopt an economic strategy not only to continue but also to amplify the dynamics of Marshall Plan. Indeed Wallonia, like all parts of Europe, underwent a significant decline in economic activity in 2011, continuing in 2012 with zero growth. However, we note that, since the financial crisis of 2008, Wallonia has resisted quite well. The major benchmarks such as investment, exports, R&D spending or employment and unemployment show that. Undoubtedly, the system of social organization allowed the providing answers to the cyclical movements from recent years: the "automatic stabilizers" have fulfilled their role in helping workers and companies to maintain a connection with the labor market and ensuring a certain level of consumption. Moreover, the economic policies implemented in Wallonia, with the plans Marshall and Marshall 2.Vert, operate undoubtedly, a structural and sustainable transformation of our economy that is already bearing fruit. It is of course a long path to follow but we can estimate that the useful means for redeployment and a retraining of the Walloon economy are on the table.

Similarly, an ambitious action plan to take up the economic, social and environmental challenges facing Wallonia – The Marshall Plan 2.Green – 2.75 billion over the period 2009-2014! Setting out from the Priority Action Plan evaluated in 2009 (also known as the ”Marshall Plan”) and the challenges facing the Region (economic, social and environmental), the Walloon Government – in coordination with the Government of the Wallonia-Brussels Federation – has updated and optimized its priorities via a “Marshall Plan 2.Green”.

This has been endowed with a budget of € 2.75 billion (€ 1.15 billion of which is alternative funding) for the period 2009-2014 and is hinged around the following **6 priority areas**:

1. **The human capital**, an asset to be developed: ongoing reforms (in particular for the development of life-long learning) and greater coordination between education, training, employment and economic policies.
2. **The competitiveness clusters and the company networks**, a success that needs to be built on: ongoing redeployment of the industrial policy, based on the networking of players, through the competitiveness clusters and clustering policies.
3. Use **scientific research** to pave the way for the future: shoring up of investments in R&D, backing for the excellence of scientific research, reinforced role of research and innovation within the economic fabric, etc.
4. Set up **a framework conducive to the creation of activities and quality jobs**: continuation and consolidation of the policies to support entrepreneurial spirit, the creation and development of companies with particular attention to SME, policies that favor the internationalization of companies and other development of the territory for investors.
5. The **Employment-Environment Alliance**, a future-looking strategy: The aim is to develop a series of actions designed to grab the new opportunities triggered by the development of the "green" sector: innovation, training, employment, etc.
6. **Combining employment and social well-being**: policies that promote employment in the care industry.

<u>Marshall Plan 2. Green – achievements and results</u>

Since the start of the Marshall Plan 2.Green:

• 15,702 jobs created or deemed in the future

• 18,008 direct aids to companies

• 207,483 training followed from which 20,565 beneficiaries of Languages Plan and 35,074 green training

• 1315 funded researchers

In conclusion the first two years of the Plan Marshall 2.Vert have been devoted to the definition of the intervention logic, the constitution and the first meetings of the various committees (steering and technical support), the identification of themes and assessment schedules and start writing different specifications in order to surmount the impact of the crisis. This plan highlights and complements sectorial policies outlined in the regional policy statement, in order to focus additional resources on a certain number of priorities and measures distinguished by their defining nature. It is also combined with the short-term actions of the anti-crisis plan which is subject to specific guidance. In the difficult budgetary situation imposed by the crisis, the logic of optimal allocation of public moneys driven by the Marshall Plan is needed more than ever as a guide for regional action. Within this framework, the Walloon Government, fuelled by experience and independent evaluation, has chosen to confirm and consolidate the measures from the first Marshall Plan which have proven their effectiveness. Thus it will strengthen actions to promote a framework conducive to the creation of businesses and jobs, consolidate the priority attention given to research and its use, improve personal and childcare services and enhance skills and knowledge, in the framework of an unprecedented connection between "education" and socio-economic realities. The focus of the first Marshall Plan relating to the reduction in taxation remains a key area of the Marshall Plan 2.Green. The removal of anti-economic taxes that are a burden on companies, sanctioned by decree, is maintained, despite the budgetary difficulties generated by the international crisis.

Actors involved at all levels: who decided, who negotiated

All the 27 Member States, as well as consultations with the European Parliament, the Commission and the European Central Bank, were involved during the process of negotiation at the European level. While the revision of the fiscal law was mainly a response to demands of autonomy on the part of Flanders, Wallonia and Brussels which had been negotiated by the federal government (a coalition government), gathering political parties from the North and the South of Belgium. The reforms undertook at the regional level were exclusively negotiated with the Walloon Government and the French community.

Conclusion

Throughout this threefold analysis, where the local/regional, the national and the European levels were explored, attempts have been made to highlight the economic and financial position of the Kingdom of Belgium. Our report emphasizes the fact that Belgium has been in a critical position since the beginning of the crisis in 2008 until now. Indeed, the country knows a growing public debt and an increasing rate of unemployment, without speaking about disasters which occurred some months or years ago in the financial, banking and industrial sectors.

However, in spite of this negative balance which could be attributed to the international crisis, on the one hand, and to an inappropriate political management of the events to a certain extent on the other hand, we could argue that some efforts have been put in place in order to improve the economic stability of the country.

Firstly, at the local and regional level, the Marshall Plan and the Marshall Plan.2 Green have been designed in the aim to support federated entities in their economic difficulties, with an emphasis on new strategies to solve economic and financial problems, almost in Wallonia which is more touched, but also to ensure the well-being of the workers and the whole population by providing them quality jobs and new facilities to streamline their lives. This plan is a great step for the reinstatement of the national economy even if it contains some barriers, especially looking at the anti-economic taxes on companies.

Secondly, at the governmental level, the sixth reform of the State also implied new answers to the economic crisis, in particular through the revision of the Special Finance Act. Within the overhaul of that law, more powers were devoted to the federated entities, especially to the Regions, with a limitation concerning justice affairs. More competences have been allocated to federated entities: for the Regions the acquisition of a fiscal autonomy, long sought by the Flanders and for the Communities a higher rate of funding fitting with the needs of their populations. Nevertheless, the problem with this type of arrangement of giving growing powers to national entities could be resumed by the fragmentation of the country in itself, each entity claiming its rights of autonomy and forgetting its duties of national solidarity in crisis time.

Thirdly and lastly, we analyzed the impact of EU reforms at the EU level for the whole community of states and for Belgium. These reforms consisted in the review of the TSCG and the SGP in order to limit the euro-area crisis and to exert a certain control on fiscal policy of the Members States, policy which is nonetheless one of their reserved realm. The different States established a line of coordination regarding their budgetary system and their fiscal management, all of that monitored by European institutions. However, we could note that the conditions imposed by the EU are highly tough, each country having to reach a balanced budget by crisis time and with no distinction between them. Nevertheless, this political alignment is needed to ensure the consistency of the Euro zone.

In order to put it in a nutshell, we could conclude that even if Belgium is suffering from the economic crisis which doesn't seem to finish, things are put in place in order to keep head above water, such as the two Marshall Plan which are allowing a certain revival of the Belgian economy. However, at the national level, we can wonder if the federal division of powers will not lead, in a long-term view, to a disaggregation of the country, making the management of the economic difficulties even tougher. This fear, doubled with the pressure of Belgian authorities to fulfill to their European commitments, could become an obstacle to the resolution of the economic problems the country is facing.

References

- Communication Banque nationale de Belgique, « La réforme de la loi de financement des communautés et régions ». Article pour la Revue économique de juin 2012, 11 juin 2012, Communiqué de presse.

-BAYENET, B., « État de la question : contexte des derniers accords institutionnels belges sur la 6ème réforme de l'état et le financement des communautés et régions », décembre 2011.

- BAYENET, B. et PAGANO G, « Le financement des entités fédérées : un système en voie de transformation », CRISP , 2011

- BOURGEOIS, M. (2001). « Le volet fiscal des accords du Lambermont: une extension importante des compétences fiscales des régions ». Actualités Fiscales

- COPPY, D, « Réforme de l'Etat: accord sur les transferts de compétences », Le Soir, 13 juin 2013

http://www.belgium.be

http://www.european-council.europa.eu/

http://www.eurozone.europa.eu/

http://www.cbpp.org

Report on Public finances in EMU 2012. European Commission 4|2012

Ensuring Fiscal Sustainability in the Euro Area. ECB Monthly Bulletin April 2011

Debrun, Moulin, Turrini, Ayuso-I- Casals Kumar (2008). Tied to the mast? National fiscal rules in the EU. National Rules. International Monetary Found, European Commission, CEPR.

Baldwin, R. and C. Wyplosz, The Economics of European Integration, MacGraw Hill, 2009. Chapter 18.

Eichengreen and Wyplosz (1998) Stability Pact, more than a minor nuisance? CEPR, CES, MSH.