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Stability and Convergence: pulling together for growth

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Editorial

Klaus Regling, Director-General of the Economic and Financial Affairs DG

Dear Reader

Welcome to the second edition of *European Economy News*, the DG ECFIN magazine. The encouraging feedback we have received, for which we thank you, suggests many readers appreciated the first edition. Many of our readers are in national and regional administrations as well as in banks, universities and media organisations across the EU – comprising an important target audience for us – and this is heartening as a main purpose of this newsletter is to explain our work more widely and in plain language.

The beginning of the year is a particularly busy time for DG ECFIN. As national budgeting rounds are completed around year-end, then our economic surveillance and monitoring activities can begin in earnest as we receive data from the Member States. The Stability and Convergence Programmes submitted by the Member States are an important element in multilateral surveillance. These describe the fiscal policy steps that Member States intend to take to keep to the agreed rules of the Stability and Growth Pact (SGP) that governs economic and monetary union. The 2005 revision of the SGP has made our assessments of these programmes more wide-ranging, so DG ECFIN economic analysts, as we describe in the ECFIN in Action feature, have been busy completing their work in time for the Spring European Council.

We also report on the annual Spring European Council – an important meeting for us as it traditionally has an economic focus. The regular European Councils bring together all the Heads of State and Government of the Member States to discuss and decide on issues of importance to the Union. Energy prices and the security of energy supply were headline topics at the Council. Energy is vital for industry, and thus vital for growth and jobs – so a new energy policy for Europe should emerge from the discussions. The Council also considered the National Reform Programmes submitted by the Member States. These lay out the measures that individual countries will take to implement the revised Lisbon Strategy with its focus on jobs and growth – their importance is described in a main feature on the Spring Council in this issue.

In the article on 'adopting the euro' we consider a particular challenge facing the new Member States in their preparations for the single currency. While the introduction of euro cash in 2002 went very smoothly, since that time the popularity of the euro has fallen in the euro area, partly because people believe that it brought higher prices – even though price inflation statistics show clearly that this was not the case. These concerns have spread to the EU-10, and DG ECFIN is advising national administrations in preparing their public communications campaigns to inform their citizens about the process of introducing euro cash. We know these campaigns are important – surveys show that when euro cash was adopted in 2002, those countries whose citizens felt well informed are the same ones where satisfaction levels with the euro are highest today.

Finally, we present the economies of the Baltic States: Estonia, Latvia and Lithuania. These three Member States have made great strides in their transition from centrally planned towards market economies, and older Member States might regard their budgetary positions of low debt and low deficits with envy. As the article highlights, they are undergoing a fast-track catch-up process with the rest of the EU and this is seen in the development of their economies.

Klaus Regling
Director-General, Economic and Financial Affairs DG

Editorial information

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What's new from ECFIN

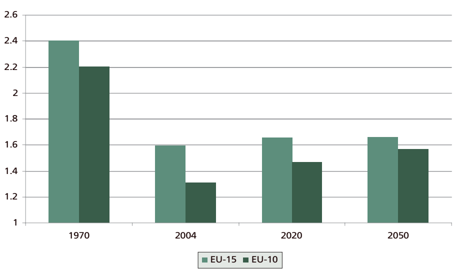
Of trains and telephones, planes and packages – liberalised networks?

Evaluating the degree of liberalisation of network industries was the subject of a workshop organised for practitioners by the European Commission and the Economic and Social Committee on 5 April. The discussions took as their starting point the 2005 Evaluation of the Performance of Network Industries Providing Services of General Economic Interest, a report produced by DG ECFIN in collaboration with other Commission departments. Liberalising network industries, such as postal services, energy distribution, air and rail travel and telecommunications, can bring substantial economic benefits across Europe by allowing users and consumers to benefit from more efficient competition The report can be found under 'publications' on the DG ECFIN website.

A fast-closing window of opportunity to tackle the costs of ageing

A major report on the impact of ageing on public expenditure has been submitted to the Council of Ministers. Prepared by DG ECFIN and the Economic Policy Committee (EPC), the report details new projections on the ageing-related costs for all Member States out to 2050 that show public finances coming under severe strain from pensions, health care and long-term care costs. While some reforms have been made, much more effort is needed now – while there is a window of opportunity – to avoid more painful costs later as the baby-boom generation heads for retirement. The report's conclusions were the subject of a conference organised by DG ECFIN and the EPC in Brussels on 31 March where Peter Heller of the International Monetary Fund (IMF) gave the keynote address entitled 'Can Europe afford to grow old?' The report is available from the 'publications' section of the DG ECFIN website.

Past and projected fertility rates for the EU-25



Source: Commission services

Planning and encouraging reforms – a workshop

Reforms to labour, product and capital markets are vital for boosting growth and employment in the EU – and they need political support and careful planning to minimise disruptive consequences. At a DG ECFIN workshop held on 28 March, Commission staff and academics discussed the interactions between different types of reforms and how their timing can be optimised to contribute to successful implementation under various scenarios. Political and economic incentives for reform were also discussed. More details on the workshop, 'Sequencing and incentives for reforms' can be found under 'events' on the DG ECFIN website.

Slovenia on the euro approach path

EMU Governance and the Euro Changeover was the title of a conference in Ljubljana held in March as part of Slovenia's preparations for adopting the euro. Opened by Prime Minister Janez Janša, the event brought together experienced euro-practitioners from the EU institutions and the Member States with Slovenian government members, administrators and industrial and social organisations. Practical aspects of the euro changeover were the main topic of presentations, which included keynote addresses from Commissioners Almunia (DG ECFIN) and Janez Potočnik (DG Research). For more information see the main article on preparations for the euro in this issue and on DG ECFIN's website.

New from DG ECFIN – interim economic forecasts

To complement and update the comprehensive Spring and Autumn Forecasts, which are major analytical exercises, DG ECFIN will now produce twice-yearly Interim Forecasts, intended to improve economic surveillance and provide a more real-time picture of economic developments. The Interim Forecasts make GDP and HICP inflation (consumer price inflation) assessments for the euro area and EU-25 based on studying the five largest Member States. In the first such forecast, which appeared on 21 February, the Commission revises its growth forecasts upwards to 2.2% for the EU-25 and 1.9% for the euro area in light of an economic rebound in the first quarter of 2006. The Interim Forecasts can be found under 'activities' on the DG ECFIN website.

The euro in the land of tigers and dragons

A conference 'The euro: lessons for European and Asian Financial markets' was held in Hong Kong on 24 February. Organised by DG ECFIN, the Office of the European Commission in Hong Kong and the Hong Kong Monetary Authority, the conference brought together several hundred European and Asian economists and financial market practitioners to reinforce knowledge of the euro in the region and promote further integration of EU and Asian financial markets. In his keynote opening speech Joseph Yam, Chief Executive of the Hong Kong Monetary Authority, remarked: "Observing from afar the process of economic integration in Europe, it is clear to me that financial integration across national borders will make a positive contribution to the region's [Asia] economic development." More information on the conference is available under 'events' on the DG ECFIN website.

Klaus Regling, Director-General, DG ECFIN (left) presenting a souvenir to Joseph Yam, Chief Executive of the Hong-Kong Monetary Authority, on 23 February 2006

The challenge of improving fiscal policy

This was the subject of a presentation by Klaus Regling, Director-General of DG ECFIN, to a seminar of Belgian and Dutch economic planners on 1 February. Improvements are needed, he said, because debt has been increasing for 30 years, most government finances are not sustainable in the long term, the 'good times' go to waste as little is put aside for lean years, and government expenditure to promote growth is lower than elsewhere in the world. This imprudent fiscal behaviour is down to a deficit bias, which arises in the short-term horizon of policy-makers that is linked to electoral cycles. "Voters normally do not punish excessive spending," Klaus Regling commented wryly, before going on to describe the solutions available under the reformed Stability and Growth Pact which break the 'deficit bias' by concentrating on medium-term objectives. The slides that accompanied the presentation can be found on the website of the Belgian Federal Planning Bureau: http://www.plan.be/

Embracing the euro – a question of confidence

PAN II is the Public Administration Network of EU-10 administrators involved in preparing their countries for adopting the euro. At a PAN II meeting held on 30 January, Commissioner Almunia spoke on the need for more and better information for EU-10 consumers if they are to embrace the euro with confidence. The perception that adopting the euro goes hand in hand with higher prices does not correspond with reality, but it is a real fear in consumers' minds that must be addressed through communication strategies that clearly explain the benefits and the process of adopting the euro (see the article on preparing for the euro in this issue). For further information see the Commissioner's website: http://europa.eu.int/comm/commission_barroso/alumnia/index_en.htm

The euro area economy

The March 2006 Quarterly Report on the Euro Area (QREA), published by DG ECFIN, reports that the euro area's recovery is on track after a sluggish end to 2005. Exports remain positive and domestic demand is expected to continue to pick up, with positive effects on private investment and private consumption. The report also looks at rising household exposure to changes in house prices, and economic shocks as a result of increased household indebtedness. Although the risks to the euro area as a whole appear fairly low, individual Member States which have seen soaring house prices and rapid debt accumulation, together with strong consumption, need to exercise caution. The latest QREA report is available on the DG ECFIN website.

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Further information

The latest news and press releases from DG ECFIN are available at:
http://europa.eu.int/comm/economy_finance/news_en.htm

Looking ahead

In May:

The Commission will publish the 2006 **Spring Economic Forecasts** for the EU and the euro area. Published twice a year, in the spring and autumn, these short-term (two-year time horizon) macroeconomic forecasts are relevant for economic policy analysis and timely action. Data is aggregated and consolidated to ensure internal consistency before DG ECFIN country desks make forecasts for each Member State, the euro area, and the Union as a whole.

In May:

The Commission will make a **proposal** for a decision on new external lending mandates for the European Investment Bank. EIB lending supports EU policies in several areas within the Union, such as infrastructure, construction and R&D, and also externally as part of the EU's development and enlargement activities. The Commission will also report to the Council on the EIB's existing external lending mandates.

In May:

The Commission will publish its **Convergence Report** assessing Slovenia's and Lithuania's fulfilment of the convergence criteria. All new Member States have a derogation from joining the euro area while they work to achieve convergence and fulfil the legal requirements. The Commission produces a Convergence Report every two years, or more often if requested, as in this case. The ECOFIN Council will take a final decision on the euro area enlargement in July.

In June:

The Commission will make a **proposal** to the Council for a decision on a capital increase for the European Investment Fund. The EIF is a tripartite investment institution in which the EIB, the European Commission and other financial institutions are the main shareholders. The EIF supports the creation, growth and development of European small and medium-sized enterprises through venture capital and guarantee instruments – such as the SME guarantee facility.

In June:

The Commission will publish a **Communication** and report on 'Public Finances in EMU 2006'. This yearly report evaluates Member States' public finances, a critical aspect of economic and monetary union, and provides analytical studies on government finance issues.

In June:

The Commission will **report** to the Council and the European Parliament on the implementation of the macro-financial assistance (MFA) facility to third countries in 2005. The MFA facility provides loans and grants to third countries, at present mainly to countries in the Balkans and the Eastern European Neighbourhood, aimed at improving macroeconomic stability by responding to exceptional external financing needs. MFA is closely coordinated with aid from the IMF and the World Bank.

In June:

The Commission will publish its third regular report on the practical preparations for the future enlargement of the euro area. The **report** looks at the state of preparations for the cash changeover at both national and Community level and the state of public opinion. It will focus particularly on the 'first wave' countries aiming to adopt the euro in the near future.

A European round-up

Finance ministers upbeat about prospects

Speaking after the ECOFIN Council in February, Eurogroup chairman Jean-Claude Juncker called 2005 euro-area growth figures "disappointing", but added that the Ministers of Finance see better prospects for 2006. The euro-area economy seemed to lose steam at the end of last year, leading to an overall GDP growth of 1.3% in 2005. On implementing the Stability and Growth Pact, Estonia takes pole position as the best performing Member State with: balanced public finances, the lowest debt of all, and low age-related expenditure risks. The Council conclusions can be found on the website of the Austrian Presidency: http://www.eu2006.at/en/index.html

Trade Union Confederation discusses Lisbon and Labour

'Labour market reforms and macroeconomic policies in the Lisbon Agenda' was the title of a conference held by the European Trade Union Confederation (ETUC) in Brussels on 20-21 March. In his keynote speech to the final session Commissioner Joaquín Almunia spoke on how these two elements, labour market reforms and macroeconomic polices, fit together. More information on the conference can be found on the website of the ETUC: http://www.etuc.org/

The World Bank visits Brussels

Executive Directors of EU countries in the World Bank (WB) visited Brussels on 2-3 March and met several Commissioners. Topics of the discussions with Joaquín Almunia, Commissioner for Economic and Monetary Affairs, included the Lisbon Strategy, the external mandate of the EIB, and energy prices and supply. The EU is represented on the Boards of the WB and IMF through the Member States, and the European Commission has observer status in their Committees. The annual visit to Brussels of the EU Directors of the WB is one of a number of efforts that DG ECFIN is undertaking to increasingly establish common EU positions within these institutions: information on WB activities can be found at: http://www.worldbank.org/eu

Mobile workers and mobile money

Labour and capital flows in Europe following enlargement was the topic of a conference organised by the National Bank of Poland together with the Joint Vienna Institute (JVI) and the IMF. Held in Warsaw this January, the conference considered issues such as the size and interdependence of labour and capital flows and how they affect growth and employment in sending and receiving countries. In the session chaired by European Budget Commissioner Dalia Grybauskaite, Karl Pichelmann of DG ECFIN spoke on 'outsourcing and offshoring to Eastern Europe'. Details of the presentations can be found on the JVI website at: http://www.jvi.org/

"A need for vigilance" warns ECB President

As part of a regular series of 'monetary dialogues', European Central Bank President Jean-Claude Trichet addressed the Economic and Monetary Affairs Committee of the European Parliament (ECON). Despite favourable conditions for sustained growth in the euro area, high, volatile oil prices and global imbalances resulting from the US deficit create downside risks that cannot be ignored. The ECB will "... exercise vigilance to ensure the solid anchoring of medium- to long-term inflation expectations...", he said. The full text of the monetary dialogue can be found on the ECON website: http://www.europarl.eu.int/committees/econ_home_en.htm

ECB President Jean-Claude Trichet meets ECON

Changing the mindset and building ownership

Hosted by the EP ECON Committee in February, an inter-parliamentary forum of European and national parliamentarians heard keynote speeches from DG ECFIN Commissioner Joaquín Almunia, OECD Chief Economist Jean-Phillipe Cotis, and ECB President Jean-Claude Trichet on 'How to raise growth in the euro area'. A key aim of the event was to reinforce the direct participation of national parliamentarians in the macroeconomics of the euro area. Over 150 participants discussed topics such as the contribution of monetary policy and structural reforms to growth. MEP Ms Pervenche Berès, Chair of the ECON committee, praised its success, saying, "This event has shown there is near consensus on the beneficial effects for the euro area of improved inter-institutional coordination between our parliaments". For further information see 'conferences' on the ECON website: http://www.europarl.eu.int/committees/econ_home_en.htm

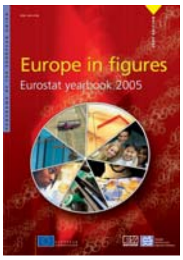
G8 Finance Ministers meet in Moscow

This first meeting of Finance Ministers under the Russian G8 Presidency, held on 10-11 February, helped prepare for the G8 summit that will take place in St. Petersburg in July 2006. The Commission, represented by Commissioner Joaquín Almunia, and the EU Presidency attended the meeting. Development issues and the world economy were discussed and Commissioner Almunia highlighted the need for an ambitious conclusion to the Doha Development Agenda and stressed the importance of energy efficiency and investments in energy capacity. More information on G7/G8 can be found on the External Relations website under 'organisations' at: http://europa.eu.int/comm/external_relations/index.htm

Of welfare and wealth

'Going for growth one year on' is the title of the OECD's update to its annual 'Going for Growth' publication. Launching the second issue in London in February, Jean-Phillipe Cotis, the Chief Economist of the Organisation for Economic Co-operation and Development (OECD), reviewed progress on implementing the OECD recommendations. He also reflected how far GDP per capita is really a measure of overall welfare – the topic of a special chapter in the report that investigates alternative indicators such as those based on income inequality, health and social cohesion that might better capture living standards. The publication can be downloaded from the OECD website: http://www.oecd.org/

The statistical guide to Europe!



An indispensable reference book to help you win arguments and stay well informed. 'Europe in figures – Eurostat yearbook 2005' is a veritable mine of statistical information on all things European: people, environment, business, economy, agriculture, etc. It is also intended for the general public – so the presentation is simple and colourful with clear explanations. From the mean age of marriage to the number of mobile phone subscribers, the guide shows how Europe's society, economy and environment is changing. The yearbook can be downloaded free of charge, in English, German and French, from the Eurostat website: http://epp.eurostat.cec.eu.int/

Adopting the euro: economic and communication challenges

The relatively smooth introduction of euro banknotes and coins in 2002 was due in large part to well-planned preparations involving governments, public administrations and representatives of business and consumers. Examples of good practice are being shared with EU-10 administrations as they prepare for the euro; however, there are also lessons to be learned. As opinion polls show, many euro-area citizens believe the euro brought price increases – a perception that does not match with the economic reality and has its origins in understandable but subjective judgements. Ensuring the public in the EU-10 is well informed will be critical to meeting concerns about price inflation – a series of high-level conferences is being held to address these issues.

Economic and monetary union (EMU) and the single currency are vitally important for promoting growth and jobs in the EU. They are part of the policy framework that supports the EU single market for goods, services, capital and labour that brings opportunities for more trade, more exports and more jobs. The new Member States, the EU-10, are within EMU and participate in the European System of Central Banks while they prepare to adopt the euro and join the euro area. As part of these preparations they are taking measures to achieve sustainable economic convergence with the euro area and meet the formal Maastricht criteria on government deficits and debt, exchange rate stability, inflation and long-term interest rates. Their different economic situations mean they will join in waves, as and when they are ready, in the years to come. Other practical preparations concern the cash changeover (the exchange of national currency cash into euro cash), converting accounting and payment systems, and adapting their IT infrastructures.

Rising concerns

In parallel with these policy and administrative preparations, much attention is being given to public information campaigns – and with good reason. In a recent speech to EU-10 changeover coordinators, Joaquín Almunia, European Commissioner for Economic and Monetary Affairs, pointed out that since the introduction of euro cash on 1 January 2002, public opinion polls show that euro-area citizens believe the introduction of euro cash caused price rises; 93% hold this opinion according to a recent survey. This has led to rising public concern in the EU-10 – where, on average, 75% of citizens fear price abuses on adopting the euro. In contrast to these public perceptions of euro-related price rises, Eurostat data clearly show that the effect of the earlier euro changeover on prices was negligible. Therefore, there is apparently a gap between the actual inflation rate and people's perception of inflation. Addressing this 'perception gap' and the fears it awakens is one of the major challenges facing the EU-10 governments and administrations as they prepare communications strategies on the euro for their citizens.

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Understanding the perception gap

"Preparations for the euro in 2002 included a wide range of measures to ensure a seamless transition for the general public," says Stefan Pflüger of DG ECFIN. "For example, dual displays of prices in shops in both euro and the national currency helped people to make comparisons. And bank statements displayed amounts both in the national currency and euro well before euro cash appeared. These measures helped citizens make the mental adjustment to thinking in euro, preparing for the day when euro cash appeared in people's pockets." However, after the changeover, opinion polls soon showed consumers were convinced that life was more expensive in euro.

Evidence to the contrary came from Eurostat inflation statistics which showed average price inflation remained fairly constant during the introduction of the euro. Only 0.09% to 0.28% at most of the observed 2.3% price inflation could be attributed to the euro, while other unrelated factors, such as new tobacco taxes, extra travel security costs after 9/11, bad weather affecting fruit and vegetable prices, and higher energy prices, all contributed to 'normal' inflation. Significantly, inflation rates outside the euro area, in Denmark and the UK, showed similar behaviour for similar reasons.

To investigate people's concerns, economists turned to Europe-wide consumer surveys of consumer expectations of price inflation and compared these with actual inflation figures. This comparison shows that before the euro introduction, inflation perceptions and actual inflation closely coincided, but when the euro was introduced a clear 'perception gap' appeared (figure 1). Several national studies confirm these findings. A study by the ING bank on the impact of prices in Belgium found that "people have the feeling that prices increased dramatically since the introduction of

"The introduction of the euro did not have a major impact on the cost of living as a whole."

Deutsche Bundesbank

Figure 1: Euro area inflation perceptions

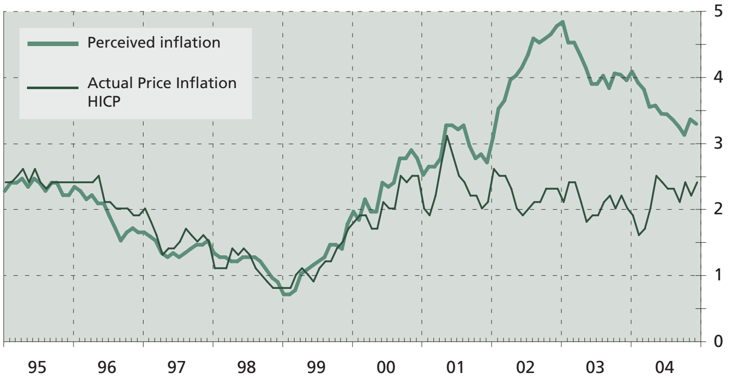
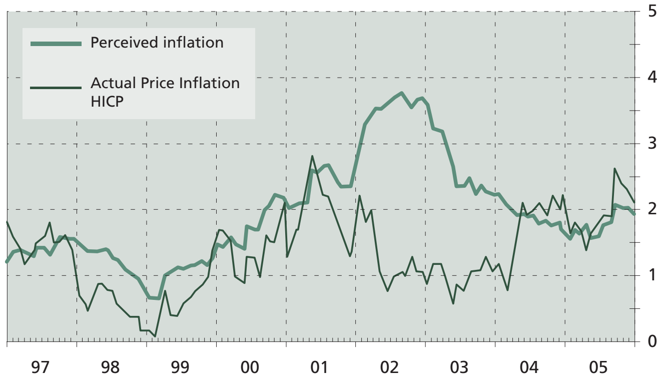


Figure 2: German inflation perceptions



Source: Commission services

the euro, whereas real price increases do not confirm this". Similarly, the Deutsche Bundesbank, after monitoring 18 000 prices, found that "the introduction of the euro did not have a major impact on the cost of living as a whole". While perceived inflation increased in most Member States, there are differences – the perception gap was low in Finland and Belgium, higher in Greece and Italy. Further, while the gap was at its widest in 2003, in some countries, for example Germany, it now seems to have closed (figure 2).

The devil in the details

Subsequent research has revealed the reasons for this perception gap. While overall euro-related price inflation was insignificant, sectoral studies show a 'grey zone' of consumer goods and services that did indicate unexplained price rises during the euro changeover. Most of these are in the services sector, including restaurants and cafés, hairdressers and repair and cleaning services. Significantly, these are sectors with little competition – small local shops rather than large retailers – and they are for everyday goods and services that people purchase frequently but which form only a minor part of the cost of living.

National studies confirm this sectoral dependence: a study for Belgian consumer organisations found that while bread, coffee and beer prices rose considerably in the period 1996 to 2005, prices for durable goods, such as electronics and clothing, remained stable or fell. Several studies conclude that the perception gap arises because frequent purchases, for example bread, contribute more to consumer perceptions of inflation than less-frequently purchased items, like a computer. Additional factors, such as the subjective approach of the consumer, the psychological observation that price increases are noticed more than decreases, and the fact that consumers tend to compare 2006 prices to the price in national currency in 2001, are all used to explain the perception gap and its origins.

The need to communicate and monitor

The 'perception gap' is believed to explain the concerns with the euro in the current euro area. In hindsight, while the initial introduction of the euro went well, the failure to allay public fears is seen as one of the weakest points of the process, and there is a determination to avoid this in the EU-10 as they prepare for the euro, as Stefan Pflüger explains. "We are holding conferences with EU-10 governments and stakeholders to transfer the good practice from the introduction of the euro and highlight the not-so-good practices. A recent high-level conference in Slovenia included a round-table discussion with speakers from the banking sector, SME representatives and consumer organisations. As well as retailers' codes of conduct, dual pricing in shops and the merits of 'fair pricing' stickers, the participants discussed the crucial role of price monitoring by authorities and consumer organisations – to build confidence among the public and ensure abusive pricing in euro is identified and publicised. Above all, this is about the importance of communication. It is crucial that European citizens in the EU-10 have confidence in the euro and in the changeover process."

The Slovenian 2-euro coin – coming soon

Further information

More information on the euro can be found on DG ECFIN's website:
http://europa.eu.int/comm/economy_finance/euro/our_currency_en.htm

A conference: Slovenia on the path to the adoption of the euro

Opened on 17 March by the Prime Minister of the Republic of Slovenia, Mr Janez Janša, and including keynote speeches by Commissioner Almunia and MEP Ms Pervenche Berès, this conference covered EMU governance and the euro changeover. A closing round table with the main actors heard from Johan Verhaeven of DG ECFIN who emphasised the importance of monitoring prices and perceptions and pointed out that the mental changeover takes considerably longer than the cash changeover – which, experience shows, is just the tip of the iceberg of euro adoption.

The Spring European Council: gearing for growth

More investment, more jobs and less regulation are key priorities for action, confirm Europe's leaders. Since the original Lisbon Strategy was launched in 2000, appreciable progress has been made in re-engineering Europe to meet the challenges of the globalised economy. Not enough perhaps, patchy in parts maybe, and not fast enough for some, but nevertheless structural reforms are happening, investment in R&D is rising and growth is heading upwards. At the 2006 Spring Council, held on 24-25 March in Brussels under the Austrian presidency, Europe's leaders reviewed progress on the relaunched Lisbon Strategy for Jobs and Growth – and stressed the importance of maintaining momentum.

With the Commission Communication 'Time to move up a gear' on the table in front of them, European heads of state and government read how individual Member States are implementing in different ways their shared vision for the renewed Lisbon Strategy. As well as listing examples of successful microeconomic measures that have delivered results, leaders considered the plans for the future contained in each NRP – working towards a goal of 3% of GDP R&D investment and an employment rate of 70% across the EU. However, although R&D investments are rising and 6 million new jobs had been created by 2004, more is needed, they concluded. Effective, timely and comprehensive implementation of measures across the board and across Europe is needed to maintain momentum and build on the achievements so far – and rising growth provides the opportunity to do this.

Building ownership

The 2000 Lisbon Strategy set the ambitious goal of making Europe the world's most dynamic and competitive economy by 2010. However – as they tend to – problems soon appeared in the implementation, with important gaps between rhetoric and results caused largely by a lack of both focus and ownership. In response, the 2005 European Council relaunched the Lisbon Strategy in a way that would engage governments, national and regional actors. First, it was given a narrower focus on simple, important goals – growth and jobs. Second, this would be implemented through National Reform Programmes at the Member State level to complement European-level efforts, and to enhance ownership and involvement by national parliaments and a range of other stakeholders. Over the past year, all 25 Member States have prepared their individual National Reform Programmes according to a common format which includes describing targets and efforts in areas such as: boosting innovation, investing in R&D, better regulation and others. They have been assessed by the Commission as part of its Annual Progress Report on Growth and Jobs which was one of the major topics on the table at the 2006 Spring European Council.

EU heads of state and government at the European Council held in Brussels on 23-24 March under the Austrian Presidency

"...if we make the extra effort we can create 2 million new jobs yearly by 2010."

Chancellor Wolfgang Schüssel

Measures for growth

A stable macroeconomic environment with sustainable public finances provides an adequate framework for growth. Yet it does not bring growth on its own. Complementary microeconomic measures are also needed that encourage innovators to invest, industry to expand, and people to work and develop themselves. Microeconomic measures are much closer to the 'real economy' and are at the core of both the NRPs and the Lisbon Strategy.

The leaders at the European Council confirmed four specific areas for priority actions:

- More investment in education, research and innovation to raise the game of industry and workers. The aim is to spend 3% of EU GDP on R&D and innovation by 2010, injecting 100 billion into the sector as part of a broad-based innovation strategy. The Council also welcomed 30 billion extra funding for R&D supported by the European Investment Bank. Upgrading Europe's workforce through education and training is considered critical both for competitiveness and social cohesion, including measures to encourage lifelong learning and mobility.
- Less regulation and more support for SMEs – as they are the engines of growth and employment and the backbone of the European economy. There are over 20 million SMEs in the EU and they employ most of Europe's workers. The Council called for the principle of 'think small first' to be applied systematically in forming legislation at EU and national level to ensure that SME growth and creativity is not stifled by business rules and regulations. The average time for setting up a business should be cut drastically, the ultimate objective being that it should not exceed one week anywhere in the EU by 2010.
- Getting more people into work. The gradual economic recovery that is under way will bring more jobs, but further measures are needed to create 2 million jobs annually and move towards the target of 70% employment. This is a top priority for reform, said the leaders, and while recent labour market reforms are bearing fruit, more is needed to meet the challenge of ageing populations and the sustainability of pension systems. The young, the disabled, women and older workers are among the priority categories for these measures. In particular, the Council called for Member States to develop the adaptability of workers and enterprises with special attention to the balance of flexibility and security (also known as 'flexicurity') in their measures to promote employment.
- Defining an energy policy for Europe to safeguard the supplies that industry and consumers need. While EU economies have proved quite resilient to recent oil price rises, the situation remains challenging. There is an increasing dependence on imported energy, and growth will raise demand. Further, there is a wider context of growing demand worldwide, the limited diversification of energy sources and energy efficiencies achieved so far, and the growing threat of climate change. The Council noted that if these issues are not addressed then there will be direct impacts on the environment, jobs and growth in Europe. Therefore, the Council called for an energy policy for Europe that will address the issues of security, competitiveness and environmental sustainability.

"Time to move up a gear"

...is how Commission President José Manuel Barroso launched the Annual Progress Report on Growth and Jobs that formed the basis for discussions at the European Council. The report assesses each of the individual NRPs submitted by the Member States and gives an overview of their overall impact, with recommendations. It also highlights examples of good practice from individual Member States, with the stated aim of making experience and good ideas more widely available. The Annual Report, Commission Assessments of NRPs and the National Reform Programmes are available on: http://europa.eu.int/growthandjobs/annual-report_en.htm

Maintaining momentum

In addition to these priority microeconomic measures, leaders also agreed that wider measures – which are mainly macroeconomic – must be taken to maintain momentum. Excessive deficits and debt levels need correcting – they said – and the current economic recovery should aid progress towards meeting the medium-term objectives. Further, to support the detailed measures in the NRPs, comprehensive reforms of labour markets and welfare systems are still needed in some Member States to encourage higher growth and employment and contribute to the sustainability of welfare and pension systems.

Chancellor Wolfgang Schüssel at the press conference, 24 March 2006

At the concluding press conference, Austrian Chancellor Wolfgang Schüssel, who chaired the Council, emphasised the importance of measures to boost growth and employment, and commented: "The Austrian Presidency set itself the task of offering concrete solutions and encouraging Member States to make voluntary commitments, so that we can achieve our common goals of stimulating growth and employment. After all, Europe will be judged by the extent to which we achieve our objectives, not our words."

Further information

For the conclusions of the European Council see: http://www.eu2006.at/en/

Stability and Convergence Programmes: an eye on the economics

The Stability and Growth Pact (SGP) coordinates government fiscal policies. While it covers the EU as a whole, it is of particular importance for the euro area. The SGP contains common rules that ensure government debt and deficits are controlled within specific limits chosen to encourage a stable economic environment that will support sustainable growth and employment. These rules are necessary because individual national economic policies can affect the stability and growth potential of the whole euro area – and thus they are a matter of 'common concern'. The SGP provides for regular multilateral surveillance of Member States' economies to ensure adherence to the rules. The Member States' Stability and Convergence Programmes form a critical part of this surveillance, specifically by providing a medium-term framework to fiscal policy ensuring that economic stabilisation does not enter into conflict with fiscal discipline.

The USA does not have a Stability and Growth Pact, nor do China, Australia, Russia or Japan. So why does the European Union need one? The answer is that these countries are unitary or federal states, each with a single currency, a single monetary policy and a single fiscal policy – united under a single government providing political decision-making. But here in Europe, where we are 'united in diversity', things are more complicated. Although the euro area has a single currency and a single monetary policy governed independently by the European Central Bank, fiscal policies remain resolutely a plural noun – taxation and expenditure remain within the competence of national governments. To avoid the problems posed by independent fiscal policies, the designers of EMU incorporated rules for economic convergence into the Maastricht criteria for joining the euro area; and later, into the rules of the SGP that coordinates fiscal policies in EMU. The critical anchors for this rule-based system are the limitation of government deficits to 3% of GDP, and of government debt to 60% of GDP or approaching it at a satisfactory pace. In turn, Member States are required to set medium-term objectives for their fiscal positions ensuring that these anchors are incorporated in their budgetary planning. These rules aim to provide a stable economic framework within which growth and employment can flourish. Adherence to the rules is important because fiscal laxity in one Member State could reduce confidence in the euro and lead to high inflation and high interest rates for all – neither of which are beneficial for sustained growth or job creation.

Multilateral surveillance – an eye on the economics

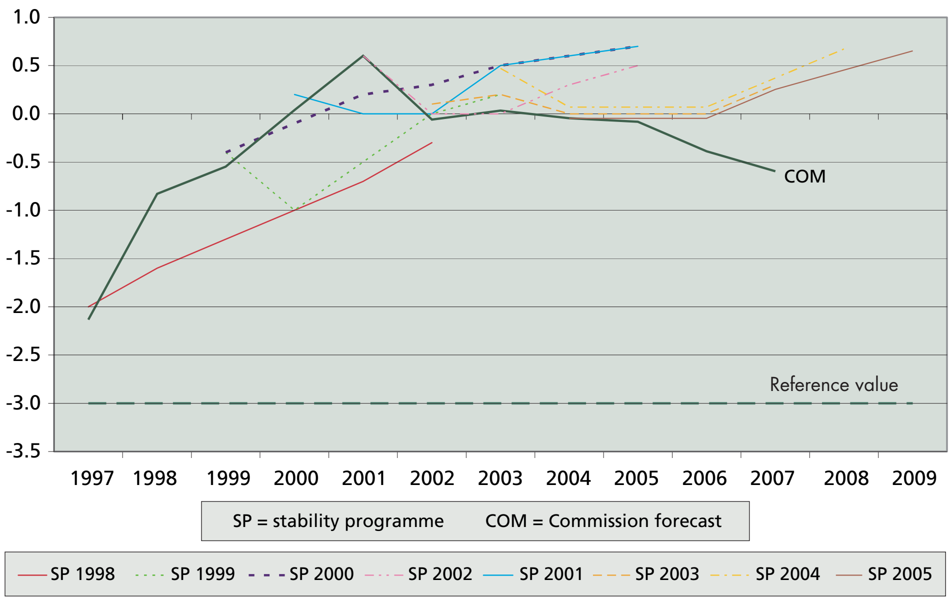
The SGP consists of three parts: first, a political commitment to the Pact by all stakeholders; second, the preventive arm that includes the medium-term objectives and multilateral surveillance; and finally, the dissuasive elements that include demands for immediate corrective actions and the possibility of sanctions. The crucial political commitment element is sustained by the operation of peer pressure among the Member States on the basis that economic policy-making within EMU is a matter of common concern. For this peer pressure to operate effectively Member States need insight into each other's national economies and intentions – these insights are provided by multilateral surveillance of Member State economies achieved through national Stability and Convergence Programmes (SCPs). Member States update SCPs annually: those in the euro area submit stability programmes (see figure 1) whereas those outside submit convergence programmes (see figure 2).

Common assessments for common concerns

SCPs are based on a common format and cover a minimum of three years ahead. They must include a

Figure 1: Stability in Belgium

General government balance in successive stability programmes, in % of GDP



Source: Commission services' autumn 2005 forecast (COM) and successive stability programmes

"...this equality of treatment is vital to reinforce ownership..."

Marco Buti, DG ECFIN

"More cautious and plausible"

This was Commissioner Joaquín Almunia's positive comment on the '2005 vintage' of SCPs submitted by the Member States. Growth assumptions in the SCPs are in line with those of the Commission and medium-term objectives are generally realistic. "The MTOs reflect the specific situation of each country and are appropriate in view of the criteria set out in the Pact," said the Commissioner. On the long-term sustainability of public finances, 17 countries are considered low to medium risk in the Commission assessment, while six are classified as high risk although, as Commissioner Almunia pointed out, the interplay of quantitative and qualitative factors make each country's situation and classification different from others. Overall there are encouraging signs, he concluded. "The SCPs are broadly in line with national reform programmes so there is good integration at various levels, and allowing Member States to set their own MTOs for their public finances, that reflect better their respective weaknesses and strengths, appears to contribute to greater ownership and adherence to the rules".

medium-term objective (MTO) of a government deficit ensuring a safety margin against breaching the 3% of GDP deficit ceiling and satisfactory progress towards debt sustainability, and outline how this will be achieved through budgetary and other economic measures.

Member States submit their SCPs to the Commission where they are assessed by DG ECFIN staff. On the basis of this technical assessment, the Commission then recommends an opinion on each SCP to the ECOFIN Council of Ministers, which brings together the Ministers of Economics and Finance from all the Member States. The opinion considers, *inter alia*, whether an individual SCP provides for a sufficient safety margin to avoid an excessive government deficit, whether the economic assumptions the SCP rests on are realistic, and whether the measures proposed are sufficient to ensure the Member States' economies will meet the rules of the SGP over the medium term. Before their eventual adoption by the ECOFIN Council, the opinions on the SCPs and the underlying technical assessment are discussed by the Economic and Financial Committee (EFC), which brings together the top officials from DG ECFIN and the national ministries of finance.

Fair assessments – a matter of equity

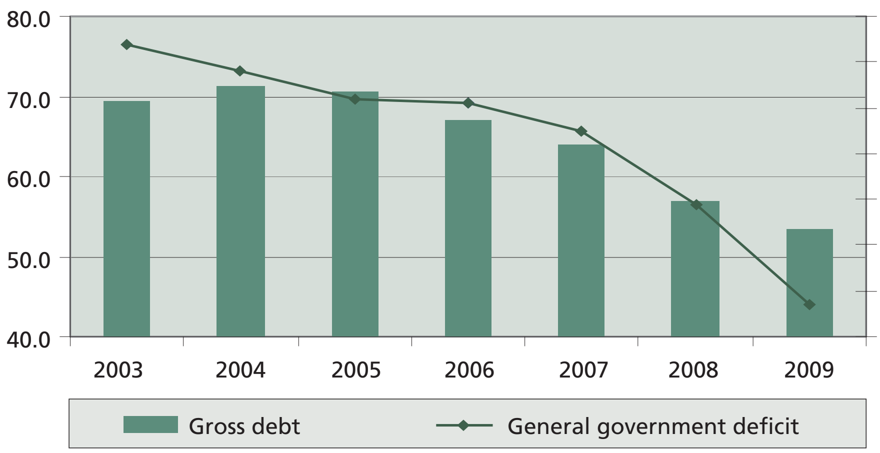
Because the SCP examination of an individual Member State's economic strategy is a sensitive matter, it is important that Member States have a strong ownership of the SGP. "The SGP was controversial prior to the launch of the single currency and has been contentious since, particularly in the recent downturn," says Marco Buti of DG ECFIN. "It was felt to be too mechanistic and problems of 'ownership' arose. The 2005 revision of the SGP sought to address these issues by emphasising the SCP medium-term objectives on a country-by-country basis across the economic cycle. This means that a low debt/high potential growth country has more room for manoeuvre in budgeting than a high debt/low potential growth Member State, and that a larger adjustment is required in economic good times than in bad times."

Opportunities and ownership

This presents both opportunities and challenges, explains Marco Buti. "One opportunity is that when assessing the SCPs there is more discussion of the economics of the specific country rather than just applying a one-size-fits-all benchmark. We can consider more factors in our assessment, including the impact of structural reform, such as new pension systems." In addition, there is a learning curve for the more wide-ranging SCP assessments under the revised SGP. For example, recent analyses of annual SCP updates suggest that some Member States have failed to achieve the MTO objective partly because of optimistic growth forecasts in their SCPs. "These findings underline the importance of unbiased forecasts which are being taken up in future assessment rounds," says Marco Buti. "However, in this process it is important to maintain transparency and fairness as the assessments by DG ECFIN become more complicated and open to interpretation – this equality of treatment is vital to reinforce ownership and the operation of peer pressure between the Member States to support the aims of the SGP – growth and jobs." ■

Figure 2: Convergence in Cyprus

General government deficit and gross debt, in % of GDP



Further information

More information on the Stability and Convergence Programmes, including the results of the current round and press releases, can be found on DG ECFIN's website:

http://europa.eu.int/comm/economy_finance/about/activities/sgp/year/year20052006_en.htm

The economies of Estonia, Latvia and Lithuania

As part of a series of profiles covering the Member States' economies, we look at the three Baltic States. The three gained independence from the Soviet Union in 1991, and have since undergone major economic and social restructuring in their process of integration with the EU. Reforms continue as each country seeks to consolidate its position within the Union and lay the foundations for euro adoption.

Having gained independence from the Soviet Union, the trading relations of the three states radically changed their focus towards the west, a process that accelerated after the 1998 Russian economic crisis. All three are members of NATO and the WTO and, since 2004, the European Union. But their large eastern neighbour, Russia, still exerts significant influence in a range of areas. Estonia and Latvia, and to a lesser extent Lithuania, have sizeable Russian-speaking minorities, and their position in society has caused some tensions. Having among the lowest per capita incomes in the EU they have some catching up to do, and are doing this rapidly with very high growth rates. Shorter-term challenges revolve around entry preparations for the euro area; for the longer term, choices must be made on where they can be competitive and which new industrial sectors should be developed. EU Structural Funds and Lisbon national reform programmes will support them in meeting these challenges. Human capital will also play an important role here. All three have high participation in tertiary education but these skills are often unsuited to industry's needs and emigration of workers compounds this situation. Coherent policy responses will be required to ensure a successful transition to the knowledge economy.

Windmills in Saaremaa, Estonia

"In their transition from centrally planned to functioning market economies the Baltic States have made significant structural reforms and now enjoy high growth rates, a high degree of macroeconomic stability and healthy public finances. However, there is some way to go and it is important to ensure that the large [external] current account deficits, which mirror high inward investment and rising private consumption are well monitored to avoid boom-bust cycles that would threaten sustained convergence and stability once the countries have joined the euro area. High consumption financed by consumer borrowing in anticipation of a bright future will need particular attention to ensure it is sustainable." Marco Buti, DG ECFIN, Director for the Economies of the Member States.

Joining the euro area

In a major step towards entering the euro area and adopting the single currency, Estonia and Lithuania both joined the exchange rate mechanism (ERM II) in June 2004, and Latvia followed in May 2005. All three have made remarkable progress in aligning their institutions and economies with the euro area and are taking steeper convergence paths than other new Member States. In general, as the Baltic States chose strict monetary policy regimes that leave little leeway within ERM II, it is important that fiscal policy and structural reforms aim at stability in the medium term and avoid a pro-cyclical bias in the policy mix. Estonia and Lithuania are aiming to enter the euro area in 2007, Latvia in 2008.

Estonia (Eesti)

Currency: kroon

Population: 1.3 million

GDP per capita in purchasing power standards: 55.4% (2004) (EU-25=100)

Real GDP growth rate: 9.63% (2005)

Public sector deficit (as % of GDP): +1.7% (2005)

General government debt (as % of GDP): 4.6% (2005)

Source: European Commission, national sources

Estonia

The northernmost of the three countries, Estonia faces Finland across the Baltic and there are strong historical ties between the two countries, with similarities in their two languages. With the Estonian capital Tallinn less than 90 minutes' journey by fast ferry from Helsinki, there are growing economic links, and the two regions have established a 'Euregio' partnership to boost economic interaction. Estonia's ambitious National Reform Programme plans to raise R&D spending from 0.82% in 2003 to 1.9% of GDP by 2010, and recognises the need to upgrade low-productivity sectors that have provided growth but will come under increasing pressure in the context of globalisation. Raising employment is a further challenge and a range of measures are being undertaken to attract and retain more people, and more skilled people, in work. Estonia is unique in the EU in generating a significant share of power from oil shale found in the northeast of the country. However, this share is decreasing, for environmental reasons, and Estonia is becoming more dependent on Russia for natural gas imports.

Port of Tallinn, Estonia

Shorter-term challenges revolve around entry preparations for the euro area.

Economic priorities

As the Commission assessment of Estonia's convergence programme states: with a balanced budget, the lowest debt in the EU and low age-related expenditure risks, Estonia can be held up as an example of good fiscal policy. Over the past decade, growth has averaged 6%, well above the EU average of 1.7%. In common with its neighbours, this rapid growth is accompanied by a high external deficit driven by investment and consumption – around 10% of GDP in Estonia's case. While this is an expected feature of the catching-up process, it is an imbalance in the economy that is being financed by strong inflows of foreign direct investment and supported by a prudent fiscal policy, which has produced surpluses. Ireland, which has served as a model for Estonian policy-makers, also experienced a similar external account deficit while catching up. While macroeconomic stability and convergence are high priorities for Estonia, reducing taxes on labour and investing to promote R&D, innovation and training will also be important to ensure that maximum advantage is gained from inward investment for the country's future.

Upgrading access road to Riga international airport (EU-funded project)

Latvia

Situated between its Baltic neighbours, Latvia has experienced rapid economic growth since 2000, supported by one of the highest productivity growth rates in the EU. GDP per capita reached 43% of the EU average in 2004, yet remains the lowest in the Union. Unemployment is high and has only recently fallen below 10%. Like its neighbours, a low cost base attracted much of the early foreign investment that helped economic growth. As incomes rise, it will be critical to manage the switch to more knowledge-intensive sectors, and the Latvian National Reform Programme lays the basis for this with clear ambitions to raise R&D expenditure and create the framework for a coherent innovation system. On employment, the NRP seeks to reduce regional disparities and match skills with labour market requirements through upgrading the provision of education in engineering and sciences and vocational training. Although Latvia has natural resources such as timber, limestone and gypsum, services, including banking and transit, are major contributors to GDP. In the future knowledge economy, forestry services and chemicals and biofuels derived from Latvia's agricultural and forest resources may prove a significant industrial sector.

Latvia (Latvija)

Currency: lat

Population: 2.3 million

GDP per capita in purchasing power standards: 43.1% (2004) (EU-25=100)

Real GDP growth rate: 9.1% (2005)

Public sector deficit (as % of GDP): 1.2% (2005)

General government debt (as % of GDP): 12.8% (2005)

Source: Commission services

Trade relationships between the Baltic States have strengthened notably since EU accession. Linking into the energy and transport systems will assure further economic integration of the region. Access to European electricity grids will reduce energy dependence on Russia. Transport infrastructure is another priority and the realisation of the proposed E67 'Via Baltica' road project and the North-South 'Rail Baltica' transport system, to replace the Soviet-era gauge track, will help bring all the Baltic States' economies closer to those of their EU partners.

Economic priorities

Like its neighbours', Latvia's recent economic performance has been robust. However, to ensure sustainable convergence en route to the euro area a reduced external deficit is desirable and inflation, which is the highest in the EU at 6.9% in 2005, must be contained. While Latvia has low government debt and a small deficit, medium-term economic performance is a subject of particular focus for policy-makers. Rapid economic growth over the past years has helped keep government deficits low while allowing investment in structural reforms, such as the pension system, which contribute to the sustainability of public finances in the longer term. However, the external deficit and high inflation pose non-negligible risks that must be carefully managed to maintain stable convergence, support the desirable investments planned under the National Reform Programme, and maintain investor confidence. Latvia, in common with the other two Baltic States, has created a flexible and business-friendly environment that encourages investment. A further improvement to this environment, and an economic priority, involves measures targeted at lowering the tax burden on labour. »

Amber has been an important industry in Latvia

...they have some catching up to do, and are doing this rapidly with very high growth rates.

Lithuania

The southernmost and most populous of the three Baltic States, Lithuania is the only one whose capital, Vilnius, is inland from the Baltic Sea. Of the three Baltic States, Lithuania has the highest share of trade with Russia today. In the Soviet era, Lithuania was an important energy centre and remains so today. Large oil-refining operations contribute significantly to GDP and Lithuania exports electricity to its neighbouring countries from its nuclear power plant Ignalina. The recent closure of one reactor has hit exports, but this blow is softened by strong activity in most economic sectors. Linking in to EU energy networks is a priority for Lithuania to reduce dependence on Russian energy.

Economic priorities

Macroeconomic performance has been strong over the past years, with very strong economic growth underpinned by both investment and private consumption. Other positive aspects are falling unemployment and relatively low inflation compared to its neighbours, although the latter is rising largely due to higher oil prices. High growth and improved tax collection over recent years have helped keep the government deficit low. Improving the business environment is an economic priority to ensure the continued flow of foreign investment that supports growth and helps reduce the external deficit. Personal income tax reform is also targeted to reduce the tax on labour, encourage employment and lower inflationary wage pressures. While this may reduce government revenues in the short term, longer-term benefits for employment and activity rates are expected. Public investment in upgrading the energy efficiency of housing is a further priority that will reduce dependency on oil supplies and stimulate the domestic economy through creating a market for these services.

Lithuania (Lietuva)

Currency: litas

Population: 3.4 million

GDP per capita in purchasing power standards: 48 (2004) (EU-25=100)

Real GDP growth rate: 7.0% (2005)

Public sector deficit (as % of GDP): 2.0% (2005)

General government debt (as % of GDP): 20.7% (2005)

Source: Commission services

Vilnius, Lithuania

The Curonian Spit is one of the highest dune complexes in Europe and appears on the World Heritage List as an international Russian-Lithuanian cultural complex

Further information

Economies of the Member States
http://europa.eu.int/comm/economy_finance/about/activities/countryeconomy/main_en.hm

Recent research and analysis published by DG ECFIN

Study on methods to analyse the impact of state aid on competition

By Rainer Nitsche (CRA International) and Paul Heidhues (University of Bonn and CEPR). EUROPEAN ECONOMY, ECONOMIC PAPERS, No 244, February 2006, European Commission. ISBN 92-79-01185-5.

Where markets cannot deliver the goods (or services) then state aid can play a beneficial role in improving welfare. In other cases, state aid can distort competition and reduce potential welfare benefits. Therefore it is important to provide guidance on how to focus state aid controls on those areas where it produces the greatest damage. Through a literature review, discussions with practitioners and case studies the authors propose new approaches to analysing the potential impact of state aid, particularly in Member States other than those in which the aid is provided.

The link between product market reform, innovation and EU macroeconomic performance

By Rachel Griffith, Rupert Harrison and Helen Simpson of the Institute for Fiscal Studies. EUROPEAN ECONOMY, ECONOMIC PAPERS, No 243, February 2006, European Commission. ISBN 92-79-01184-7.

The economic literature suggests that while increased competition can lower prices for consumers (as found in the EU Single Market), it can also reduce the economic profits for firms and thus discourage them from investing in innovation (an undesirable outcome in view of the Lisbon Strategy). In this empirical study, the authors take data on EU product market reforms and subsequent changes in firms, mark-ups and relate this to changes in innovation activities and productivity growth in the manufacturing sector.

Report on the Lisbon National Reform Programmes 2005

By the Economic Policy Committee. OCCASIONAL PAPERS, No 22, January 2006, European Commission. ISBN 92-894-8859-X.

As part of the relaunched Lisbon Strategy for jobs and growth the Member States submit national reform programmes every three years, setting out the measures they will take to increase economic growth and employment. This publication reviews the first set of national programmes for the period 2005-2008 and summarises the findings. Key challenges identified by the Member States are reported and a horizontal assessment given on the extent to which the programmes collectively address policy goals.

Will the new Stability and Growth Pact succeed? An economic and political perspective

By Marco Buti of DG ECFIN. EUROPEAN ECONOMY, ECONOMIC PAPERS, No 241, February 2006, European Commission. ISBN 92-79-01182-0.

The Stability and Growth Pact (SGP) aims to make budgetary discipline a permanent feature of economic and monetary union. In this paper the author looks back at SGP 'mark I', gives an assessment of the main features of the reformed 'mark II' SGP, and then presents reflections on the political economy view, pointing out that 'political will' is the decisive success factor that will determine whether the reformed SGP takes the path of 'collusion' and 'mutual back-scratching' or leads to genuine adherence to rules based on mutual trust and renewed ownership.

Cross-border mergers and acquisitions and the role of trade costs

By Alexander Hijzen (University of Nottingham), Holger Görg (University of Nottingham and DIW Berlin) and Miriam Manchin (Tinbergen Institute, Rotterdam University). EUROPEAN ECONOMY, ECONOMIC PAPERS, No 242, February 2006. ISBN 92-79-01183-9.

Cross-border mergers and acquisitions (M&As) have increased dramatically over the past two decades so the factors that influence them and their implications are high on the agenda of policy-makers. In this paper the authors distinguish between horizontal M&A between companies in the same industry and non-horizontal M&A between firms in different industries, such as conglomerates, and then analyse the influence of trade barriers on these two types of M&A activity.

Healthcare reform – unpopular even in Slovakia

By Anton Jevčák of DG ECFIN. COUNTRY FOCUS, Volume III, Issue 2, February 2006, European Commission.

Although many painful reforms have been implemented in Slovakia over the last years, the only one which is clearly disliked by the public is the reform of the healthcare system. While introducing the profit motive and budgetary constraints, it did little to improve responsiveness or patient choice and the author analyses the reasons for this.

The impact of ageing on public expenditure: projections for the EU-25 Member States on pensions, health care, long-term care, education and unemployment transfers (2004-2050)

EUROPEAN ECONOMY, Special Report. No 1, 2006, Office for Official Publications of the EC.

This report provides a detailed description of the projections on age-related expenditure covering pensions, health care, long-term care, education and unemployment transfers for EU-25 Member States for the period 2004 to 2050. The projections describe in detail the potential economic impact and the timing and scale of budgetary changes that could result from ageing populations, and they provide a comprehensive and comparable basis for assessing further the long-term sustainability of Member States' public finances within the framework of the reformed Stability and Growth Pact. ■

The Directorate for Economic and Financial Affairs publishes frequently on economic research relevant to the European Union; only a selection of these articles is reported here. A complete list of downloadable publications is available at http://europa.eu.int/comm/economy_finance/publications_en.htm

Selected upcoming publications in 2006:

- What drives health care spending (Economic Papers, April)
- The Western Balkans in transition (Enlargement Papers, April)
- Economic reforms in the Mediterranean region (Occasional Papers, May)
- EPC progress report on the quality of public finances (Economic Papers, May)
- The 2005 Broad Economic Policy Guidelines (European Economy, June/July)
- Review of labour market and wage developments in 2005 (Special Report, June)

KC-AJ-06-002-EN-C

For your diary

In Austria for an international conference in Linz, 10 to 12 May 2006

'Experience with and preparations for the euro'

EU AT

Organised under the Austrian Presidency with DG ECFIN support, this conference will include presentations by Commissioner Almunia and the President of the ECB, Jean-Claude Trichet. The experience acquired by euro-area members in preparing to adopt the euro will be shared with participants from other Member States who are now preparing their own economies to join the euro area. See 'events' on the DG ECFIN website.

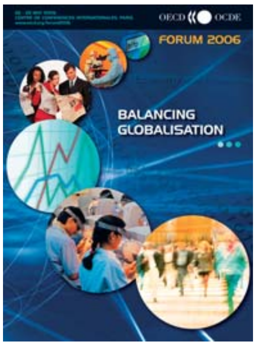
The Brussels Economic Forum, 18 and 19 May 2006

Renewal in Europe

The Brussels Economic Forum is the annual major event organised by DG ECFIN. The 2006 Forum sessions will cover a wide range of issues in European economics, including: the risks to the current economic outlook, making competition and innovation happen, and fostering faster growth. Commissioner Almunia will give the opening address. Contributions will come from a wide range of distinguished speakers: French television journalist and commentator Christine Ockrent presides over the first session on 'The economic outlook: weighing the risks' at which Gang Fan, Director of the Chinese National Economics Research Institute will speak on 'Asia, the US dollar and global imbalances'. Bill Gates will contribute to the session on 'Competition and innovation: making it happen', French MP Ségolène Royal will speak on 'Protecting people versus protecting jobs' and Ali Babacan, Turkish Minister of State for the Economy, will contribute to the session on 'Enlargement: will the magic work again?' – presided over by Javier Solana, EU High Representative for the Common Foreign and Security Policy. For further information and on-line registration see 'events' on DG ECFIN's website.

To Paris with the OECD, 22 and 23 May 2006

The OECD Forum – balancing globalisation



This 'must go' event will tackle the 'hottest issues' on the international agenda, say the organisers – the world economy in 2006, sustainable pensions, jobs, European growth, trade, China, and more. Past Forum events have had a 'multi-stakeholder' range of speakers drawn from European political leaders, business, labour organisations and international bodies. For more information see the OECD website: http://www.oecd.org

At the ECB tower in Frankfurt, 17 and 18 July 2006

To discuss 'Financial globalisation and integration'

Organised by the European Central Bank, the conference topics cover the interdependencies that are arising as economies become more integrated. This interdependence raises exposure to global shocks and possibly the increased volatility of financial markets and capital flows. What are the dynamics of this process and what are the implications for the global economy, in particular the likely adjustment mechanisms for global imbalances? See 'events' on the ECB website: http://www.ecb.int

The 2006 ECFIN Research Conference, Brussels, 7 and 8 September 2006

For 'Adjustment in the euro area: the financial market dimension'

Speakers at the conference include policy-makers, academic economists and financial market experts. They will contribute to exploring ways in which financial markets could give more timely signals to policy-makers and other EMU actors, and will consider the scope for developing institutions that would enhance such 'signalling'. For more information see 'events' on the DG ECFIN website.

Further information

A list of the events organised by ECFIN is available at:

http://www.europa.eu.int/comm/economy_finance/events_en.htm

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