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Sustainability

Today's economics for tomorrow's economies

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Editorial

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

Dear Reader

'Sustainability' is a term we hear frequently today and in particular with regard to the natural environment and the impact that our activities have on its long-term health. Yet 'sustainability' – meeting today's needs without compromising the ability of future generations to meet theirs – is not limited to environmental matters, but is a core requirement of all EU policies and strategies. This fourth issue of *European Economy News* presents an article on the sustainability of public finances, based on recent research by DG ECFIN. National public finances can also be classified on their sustainability and this is important for Europe where future spending commitments, such as for pensions, must be planned for today to avoid unsustainable burdens on tomorrow's generations. DG ECFIN researchers have produced an assessment of the long-term sustainability of public finances in the EU on a country-by-country basis using common indicators. This important work will provide a framework for discussion with the Member States and contribute to the long-term economic strategies aimed at preserving European social models and values in the future.

Continuing the theme of economic research, we also report on the annual DG ECFIN Research Conference entitled 'Adjustment under monetary unions: financial market issues', which took place on 7-8 September. The theme reflects growing interest in how EMU may have fundamentally changed the contribution of financial markets to economic adjustment in those Member States using the euro. The elimination of exchange-rate risk in financial flows between these Member States has resulted in more integrated financial markets, as the supply of and demand for cross-border services has increased. Speakers at the conference tackled a range of issues relating to how integrated financial markets can help in smoothing economic adjustment, for example, by allocating resources more efficiently and improving opportunities to share risk. However, it is clear that financial integration can also create adjustment problems, for example, by weakening market discipline and encouraging boom/bust cycles. Lessons were drawn from the behaviour of financial markets in other large economies, notably the United States. The conference ended with a high-level policy discussion on priorities for the EU financial sector in the coming years.

A third article describes the newly formed 'Euro Team'. Not a football team (though while I am on the subject of football let me draw your attention to fact that all the last four teams in this year's football World Cup were euro-area member countries!) – but rather a team of independent experts, drawn from the EU-10 Member States, with extensive knowledge of the single currency and the process of euro adoption. Euro Team members will help prepare the general public within the EU-10 for euro adoption by giving talks and seminars to a wide variety of organisations, such as NGOs, social clubs and industry groupings. While the launch of euro cash in 2002 was a great success, research has shown that some citizens felt uninformed on the changeover process and its consequences for their daily lives. These same concerns are revealed by polls among EU-10 citizens today. The Euro Team is a DG ECFIN initiative to respond to these concerns. Euro Team experts can talk to groups of citizens, in their own language and in their own regions, towns and clubs, explaining the steps of the changeover process for their country and the impact this will have on their daily life. In this way we aim to help the citizens in the EU-10 to approach the single currency with confidence, both during the changeover process and for their future in the euro area.

Klaus Regling
Director-General, Economic and Financial Affairs DG

Editorial information

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What's new from ECFIN

Euro-Med Ministers

Commissioner Almunia

Speaking to the Euro-Mediterranean ECOFIN Ministers at the Euro-Med meeting in Tunis in June, Commissioner Joaquín Almunia stressed the importance of the European Neighbourhood Policy as a framework to unlock jobs and create growth in the Mediterranean region, and highlighted the need for more reforms to boost growth. The 4.8% economic growth seen in 2005, while better than in the past, still lags the 7.2% achieved by developing economies globally. Although there has been considerable progress on improving the business climate in the region, vulnerability to external shocks, significant deficits and relatively high national debt are widespread. These challenges are similar in some respects to those facing the EU, said the Commissioner, and reforms in the region must be accelerated if Mediterranean countries are to benefit from macroeconomic stability, a promising global outlook and expanding economic activity in Europe. For more information see the Euro-Med website: http://ec.europa.eu/comm/external_relations/euromed/

Macro-financial assistance to Georgia

Since the Rose Revolution (November 2003), Georgia has emerged as a top reformer in the CIS region. DG ECFIN has supported this reform process through close contacts with the Georgian authorities, leading to the launching of the EC's macro-financial assistance (MFA) in January 2006. The Council Decision provides a total grant amount of EUR 33.5 million to Georgia in 2006/2007. In August 2006, the first tranche of EUR 11 million under the MFA operation was released. The assistance is linked to the government's economic programme supported by the IMF and progress with public finance management reforms. EU-Georgia relations are deepening following a recent agreement on a European Neighbourhood Policy Action Plan. For more information see 'activities' on DG ECFIN's website.

Tbilisi, Georgia

"Ageing is not the problem..."

"...retirement is the problem facing Europe's welfare systems" was the blunt message Commissioner Almunia gave in his opening address to the June conference of the EFRP, the European Federation for Retirement Provision. While statutory national retirement ages are mostly 65 years, actual retirement ages are close to 60 years of age – meaning many senior citizens are inactive for the latter 20 to 30 years of their lives. It is this feature that is putting pressure on welfare systems and pension provision said the Commissioner, so people must be encouraged to work longer. "Ageing is not a tsunami that will overwhelm European economies in 2010...", he said, describing it rather as inevitable but slow-moving and predictable and "...it is also manageable provided policy-makers take timely and well-designed actions." He went on to present the actions being taken at national level as well as those the EU can take to ensure that "we can afford to grow old". For more information see Commissioner Almunia's website. http://ec.europa.eu/commission_barroso/almunia/index_en.htm

New Member States give the euro the thumbs up

The euro is gaining popularity in the EU's ten new Member States, according to the third annual Eurobarometer poll on the subject. Eurobarometer, the Union's public opinion gauge, has been organising this poll every year since the historic enlargement of 2004. The canvassing was carried out by Gallup Europe in April 2006. "The overall perception of, and support for, the euro has improved markedly, even exceeding September 2004's levels which were more favourable than September 2005's," the poll found. More than half the 10 000 people polled believed that the introduction of the euro was positive, with support highest in Slovenia (58%) which is due to join the euro area next year. Citizens also considered that the overall political environment has become more in favour of their country joining the single currency. However, the level of support varies widely between countries. Familiarity with the euro was also relatively high: most people have seen euro banknotes (80%) or euro coins (75%).

New Deputy Director-General appointed

Marco Buti

Marco Buti was recently appointed Deputy Director-General at ECFIN. An Italian by birth, Mr Buti is no stranger to the DG having been Director of Economies of the Member States since 2003 and, beforehand, head of unit for public finances and economic aspects of integration. In his new position, Mr Buti will be in charge of economic studies and research, the economies of the Member States, structural reforms and the Lisbon Strategy. His main task will be to ensure the coordination of the macroeconomic policy surveillance under the reformed Stability and Growth Pact and the implementation of structural reforms under the Lisbon Growth and Jobs reform agenda.

Fiscal indicators workshop

Among his early tasks, the new Deputy Director-General Marco Buti opened a workshop organised by DG ECFIN on fiscal indicators in EU budgetary surveillance. Held on 22 September, the workshop discussed the various indicators used to assess budgetary measures and budgetary positions, for example for their sustainability. Speakers at the workshop came from across the EU and from the US. For more information see 'events' on the DG ECFIN website.

Taxing times for corporate taxation

In a globalising economy where barriers to foreign investment and the movement of goods are coming down, corporations are increasingly tending to shop around when deciding where to locate their operations. One important factor in their decision is the corporate tax rate, which has sparked a certain amount of competition between countries. This has triggered fears of a 'race to the bottom', particularly when it comes to competition from emerging economic powers with skilled and low-cost labour forces, such as India and China. Although corporate tax rates have been declining in Europe, tax revenues have remained stable, according to an ECFIN-organised workshop. It brought together national and European policy-makers, experts from academia, national authorities, the European Commission and other international organisations to discuss the state of play in corporate taxation, the channels and the consequences of corporate tax competition and coordination across the EU.

Economic growth surges ahead

Economic growth in Europe is gathering pace. In its interim forecast, DG ECFIN has revised annual growth for 2006 upward to 2.7% in the EU and 2.5% in the euro area. The Commission's spring economic forecast had predicted growth would reach 2.3% and 2.1% respectively this year. In 2005, actual growth stood at 1.7% and 1.4%. Job creation was also given a shot in the arm, with the unemployment rate dropping to 8% in the EU-25 and 7.8% in the euro area in July. "Economic growth this year is set to be the best we have had since 2000. Let's use these good times to press ahead with further structural reforms and budgetary consolidation. Only this way will we be able to increase the growth potential where it is low and manage the necessary safety margin for when the going gets rough," said Economic and Monetary Affairs Commissioner Joaquín Almunia. The interim forecast is released midway between the spring and autumn forecasts.

Euro-area update

The European Commission released this year's 3rd issue of its 'Quarterly report on the euro area' on 2 October. This periodical report helps to foster a better understanding of economic developments in the euro area and to improve the quality of the public debate surrounding the area's economic policy. This third-quarter report assesses the recent positive economic developments in the euro area and its short-term prospects. It contains a focus section on labour market developments in the euro area. It also examines recent developments in bond and equity markets, and the recycling of petrodollars and the implications for the euro area. The final report for 2006 is due out in December.

Further information

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

Looking ahead

November 2006

Twice a year, in the spring and the autumn, the European Commission produces **economic forecasts** covering the euro area and the EU as a whole. These projections also cover individual Member States, acceding and candidate countries, and other major economies outside the Union. These are short-term projections of the main macroeconomic variables over the next two years. This economic forecasting is part of DG ECFIN's surveillance activities. This year's autumn macroeconomic forecast is due to be released by DG ECFIN on 6 November.

November 2006

The introduction of euro notes and coins in 2002 was billed as the largest logistical operation of its sort in history. The Commission will publish a **communication** intended to review progress being made by Member States preparing themselves for the introduction of the euro. This will notably cover their changeover plans – particularly that of Slovenia since its changeover date of 1 January 2007 is rapidly approaching, the state of practical preparations, such as the introduction of banknotes and coins, and preparations being made by various sectors for the changeover. Reference will also be made to the results of the latest Eurobarometer opinion poll in the Member States.

November 2006

The EU Economy Review 2006 explores specific topics of particular importance and relevance for economic policy-makers. After more than seven years since the creation of the euro area, this year's Review provides an analysis of how economic adjustment is progressing in the euro area.

November 2006

Eurobarometer – the EU's public opinion gauge – will be releasing the results of two opinion polls measuring public sentiment towards the euro, carried out on behalf of DG ECFIN. One of the polls will cover the 12 existing euro-area Member States, while the other will cover the ten new EU members. According to the third annual Eurobarometer poll on the subject, conducted in April, the euro is gaining ground in the popularity stakes in the new Member States. "The overall perception of and support for the euro has improved markedly, even exceeding the levels of September 2004 which were more favourable than those of September 2005," the poll concluded.

December 2006

At least every two years, the Commission and the European Central Bank each prepare a convergence report on EU Member States which are not yet members of the euro area in accordance with the procedure laid down in Article 121(1) of the Treaty. The two reports examine to what extent and how sustainably they have managed to meet the four convergence criteria to adopt the single currency. The compatibility of their national legislation with Community law also forms part of the assessment.

December 2006

In March 2005, the ECOFIN Council agreed that the medium-term budgetary objectives (MTOs) that Member States are now required to set under the reformed Stability and Growth Pact should pursue the aim of ensuring rapid progress towards sustainability of public finances. It also stated that implicit liabilities (i.e. potential future budgetary expenditure – particularly that related to ageing populations) should be taken into account in assessing the path towards the MTO. The Council asked the Commission to report on the incorporation of public finance sustainability paths into MTOs by the end of 2006. DG ECFIN will release this report in December.

A European round-up

Energy fuels debate between finance ministers

Under the auspices of the Finnish presidency, EU finance ministers and central bank governors gathered in Helsinki on 8 and 9 September for an informal meeting. Top of the agenda was the European energy sector, and the participants reaffirmed their commitment to reduce the vulnerability of the Union's energy system and avoid distortionary fiscal and other policy interventions. Next up was the role of financial markets in the globalisation process, focusing particularly on their role in boosting R&D, innovation and productivity. The gathering also discussed reform of the International Monetary Fund (IMF) and hammered out a common message for the annual meetings of the Bretton Woods Institutions which took place in Singapore in September.

Price stability is the goal and the means

At the regular 'monetary policy dialogue' meeting between the President of the ECB, Jean-Claude Trichet, and the European Parliament Economic and Monetary Affairs Committee (ECON) on 21 June, Mr Trichet gave robust arguments for the primary role of price stability in supporting growth and employment. The idea that we can achieve higher growth rates by accepting a somewhat higher rate of inflation is not supported by history, he said, which shows us that inflation only leads to higher prices, leaving growth and employment unchanged and hitting hardest the weaker groups in society who are least able to protect their savings against inflation. The experience of the 1970s, when higher inflation clearly failed to bring durable higher growth rates and lower employment, is in strong contrast to the high credibility of the stance of the ECB today – where recent oil price increases have had only a limited effect on inflation, output and employment. "Price stability," said President Trichet, "is both a precondition for and a means to enhance durable economic growth and welfare." For more information see the ECON website.
http://www.europarl.europa.eu/committees/econ_home_en.htm


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ECOFIN premieres on European screens

The Economic and Financial Affairs Council (ECOFIN) of 11 July became the first gathering of the EU's Council of Ministers to stream out live to European citizens via a webcast. This followed a decision in June by Member States to transmit the Council's open sessions in real time via the internet. The sessions are currently transmitted in five languages: English, French, German, Italian and Spanish. There are plans in the pipeline to broadcast the open sessions of the Council of Ministers in all 20 official languages. Live streaming of meetings under the Finnish presidency of the EU, which runs until the end of the year, are available at:
http://www.eu2006.fi

IMF feels the euro area's pulse

In a special assessment, the International Monetary Fund concluded that recovery in the euro area is picking up speed, albeit slowly. "Further ahead, however, the risks move to the downside, given uncertainties in oil, currency, and financial markets," it cautions. The IMF agreed with the European Central Bank's assessment that the current upswing could affect price stability. "But further withdrawal of accommodation should await a broadening of the upswing," the IMF report suggested. The IMF expressed its concern regarding whether the euro area would be able to boost both employment and productivity growth simultaneously.
http://www.imf.org

Charting a course for global financial integration

The European Central Bank hosted an international conference on the subject of financial globalisation and integration which drew top experts and policy-makers in the field. Keynote speakers at the two-day gathering included ECB president Jean-Claude Trichet, Joseph W Gruber and Steven B Kamin of the US Federal Reserve, as well as Hans Genberg from the Hong Kong Monetary Authority. Barclays Global Investors and Citigroup represented the commercial banking sector. The participants delved into a number of issues, such as global imbalances in the financial sector, home bias and risk sharing, and financial integration. For further information see:
http://www.ecb.int

ASEM celebrates 10th anniversary

Helsinki hosted the sixth Asia-Europe Meeting (ASEM) on 10-11 September under the auspices of the Finnish presidency of the EU. The summit brought together the leaders of 38 Asian and European countries and the European Commission for open, face-to-face discussions and genuine dialogue under the overarching theme of 'global challenges, joint responses'. The top-level forum addressed topical international issues, including support for the multilateral international system; global health threats, such as avian flu; energy security; international efforts to curb climate change; and resuming as soon as possible the WTO Doha Development talks suspended in July 2006.
http://www.asem6.fi

ASEM 6
Ten years of ASEM

Meetings in Singapore

At the International Monetary and Financial Committee on 17 September in Singapore Commissioner Joaquín Almunia welcomed the resolution on the reform of quotas and voice at the IMF intended to address the legitimate claims of the most underrepresented countries, adding that "a comprehensive reform will enhance the legitimacy, credibility and governance of the IMF." The reforms increased the voting power of China, Korea, Mexico and Turkey. In the margins of Annual Meetings of the IMF and the World Bank, Commissioner Almunia held talks with Haruhiko Kuroda, President of the Asian Development Bank and Jin Renqing, Minister of Finance of China, among others. At an IMF seminar, he shared experiences of regional economic integration in the EU – an issue of great interest to Asian counterparts. For more information see the IMF website.
http://www.imf.org

Out of the red and into the grey

Ageing populations pose a major challenge to public finances across the EU. Under current policies government debt is set to rise from 63% of GDP today to nearly 200% by 2050. But, if resolute action is taken to ensure fiscal consolidation and implement broad structural reforms, this challenge need not turn into a crisis in the coming decade, concludes a new Commission report that compares the gaps in public finances between the 'business as usual' case and more prudent economic responses to the challenges.

We are facing a historically novel situation in Europe and much of the industrialised world, that of ageing populations. In the coming decades, there are likely to be as many people over 60 as under 25 in many European countries.

Europeans are leading longer and healthier lives. Life expectancy at birth has increased by an average of eight years since 1960. A recent projection estimated that children born today in the EU-25 can expect to live, on average, to a ripe old age of 82 if they happen to be girls and nearly 76 if they are boys.

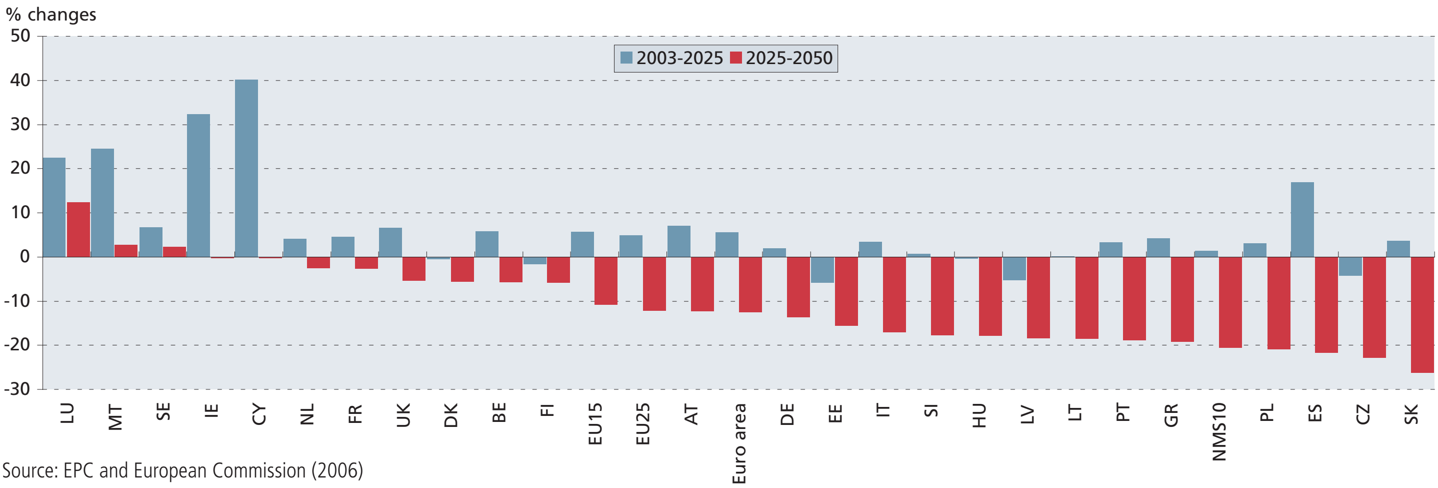
This increased life expectancy has been coupled with a declining fertility rate, which will stand at around 1.5 children by 2050. This effectively means that the post-war 'baby boom' generation is not being replaced in full. To top it all off, net migration into the EU is also projected to fall unless immigration policies change.

The demographics of public finance

Not surprisingly these demographic shifts will have implications for public finance, in terms of pensions, health and long-term care expenditures and other age-related items, as demonstrated in a new report entitled 'The long-term sustainability of public finance in the EU' which is published by the Commission's Economic and Financial Affairs DG. The implications of a greying population will not bite straight away, particularly while the EU labour force continues to grow. However, rising employment rates can only provide a temporary cushion, and eventually the weight of demographic change will prevail (see chart 1).

"The budgetary impact of ageing populations is a concern for all EU Member States, although the degree of risk for public finances is different across Member

Chart 1: Labour force projections (% change of persons aged 15-64 between 2003 and 2050)



Source: EPC and European Commission (2006)

"EU Member States need to put in place the appropriate combination of reforms and ambitious fiscal policy."

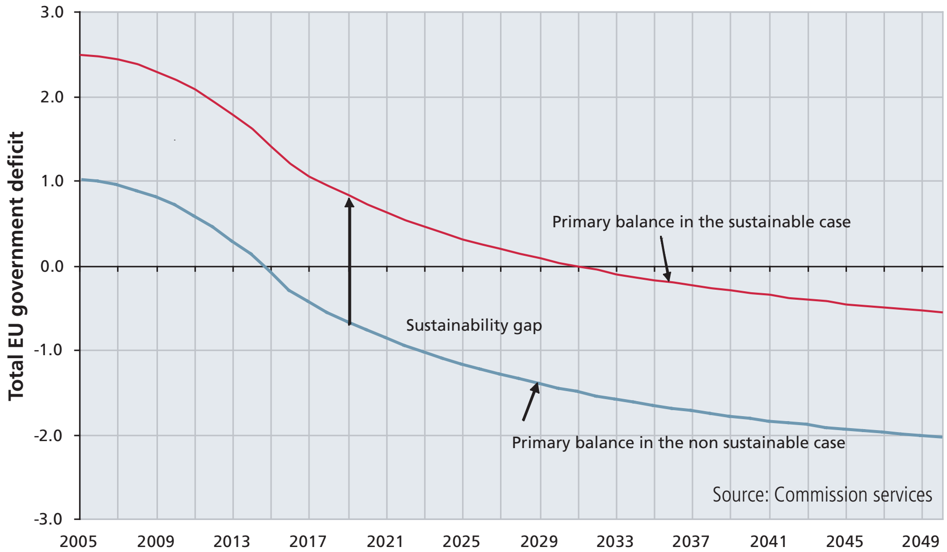
Elena Flores, Head of Public Finances Unit, DG ECFIN

Box 2: Mind the sustainability gap

In order to ensure the long-term sustainability of public finances amid an ageing population, a certain balance between public finance revenues and projected public finance expenditures needs to be struck. Sustainability gap indicators can help indicate how much of a permanent budgetary adjustment is required to maintain the sustainability of public finances.

This report uses two sustainability indicators, S1 and S2. S1 indicates the adjustment needed to meet the so-called Maastricht government debt target of 60% of GDP by 2050. S2 indicates that needed to fulfil the inter-temporal budget constraint over an infinite period.

Chart 2: Sustainability gap and required primary balance



States," said Elena Flores, head of the public finances unit at DG ECFIN. "Ageing populations will pose major economic, budgetary and social challenges."

Through a number of sustainability indicators (see box), the report projects the long-term feasibility of current public financing for the EU as a whole, in the euro area and on a country-by-country basis. It also identifies the size of the sustainability gaps. Of course, the projections reflect the underlying assumptions and hypotheses used to construct them. "The results of the indicators are sensitive to the different hypotheses used in the calculations and as such the exact level of the sustainability gap is not known." In addition, it is important to note that these projections do not take into account the impact of policy measures that might be taken in the future.

The sustainability indicators also provide information on the extent to which the risks to public finance sustainability can be attributed to the current budgetary position and/or to the long-term impact of ageing. The report divides EU Member States into three groups according to the long-term budgetary impact of ageing. This is mainly due to the characteristics of their pension systems and their reforms. There are nine countries in the most-affected group, including Spain, Belgium and Slovenia. The least-affected group contains eight countries, including Sweden, Italy and Lithuania.

Over the coming decades, the share of age-related public expenditures in GDP (see related box) will grow by 3.4% by 2050. This is mainly due to the rise in pensions spending which is set to occur across most of the EU, with the exception of some new Member States, such as Poland. The Union currently ploughs just over 10% of its combined gross domestic product into pensions. By 2050, this will have risen by an additional 2.2%. Healthcare, which currently accounts for 6.4% of GDP will rise by an additional 1.6%. Education is the only major area set to shrink, but by a relatively modest 0.6% by 2050.

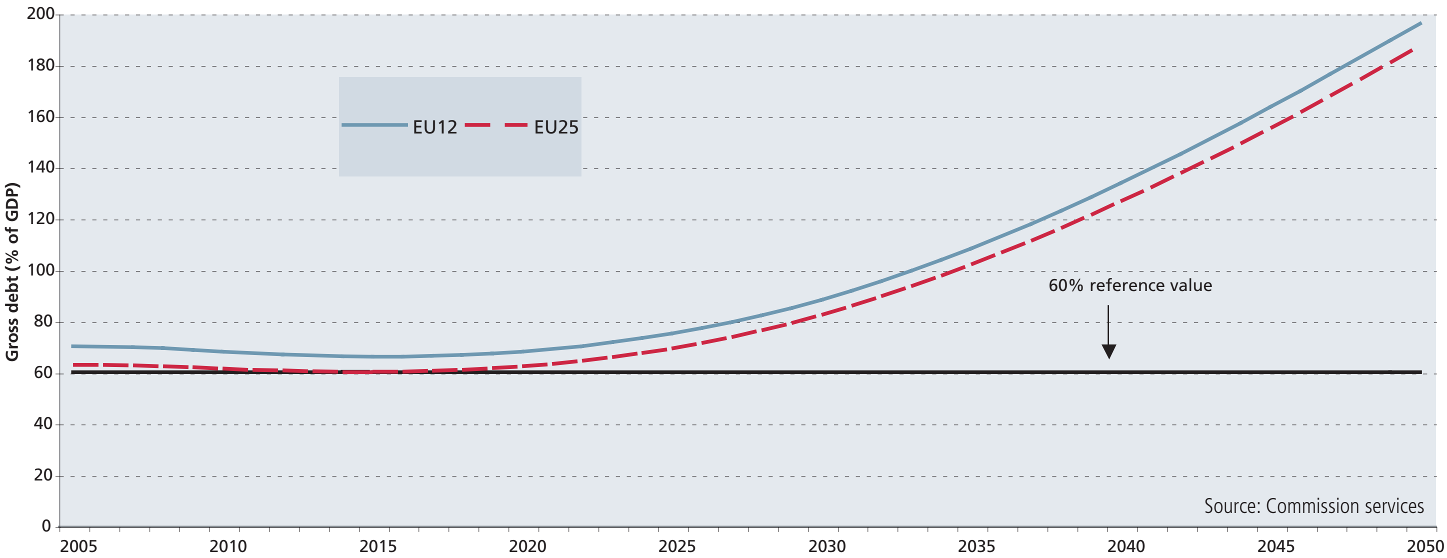
Box 1: No expense spared

At both ends of the age pyramid, there are certain age-related expenses borne by government. The report categorises these expenses into five groups.

- **Public pensions**: The largest and most obvious expense item in Europe related to ageing is the pensions paid out to people who have retired from the workforce.
- **Healthcare**: Even if older Europeans are leading healthier lives, they still tend to require more healthcare – such as routine checkups and constant monitoring for age-related diseases – than their younger compatriots. In addition, older people carry more of the disease burden. This will undoubtedly push up public health budgets.
- **Long-term care**: Although many older Europeans are leading largely independent lives, there are many whose health challenges compel them to require the care of others. This has public finance implications, particularly in northern Europe where long-term care is more institutionalised than in the more family-based model favoured in the south.
- **Education**: Despite the recent focus on lifelong learning, most state-funded education occurs early in life. Therefore, as the European populations gets older, education budgets are bound to fall.
- **Unemployment benefits**: Given that the labour force will shrink and employment will rise, the amount spent on unemployment benefit looks likely to fall. However, the drop in education and unemployment expenditure is unlikely to offset the growth in other age-related expenses.

"The level of outstanding government debt is arguably the most important additional factor."

Chart 3: Gross debt in the EU on current projections (% of GDP)



Source: Commission services

Complicating factors

In addition to these direct impacts, a number of supplementary complicating factors could inhibit Europe's ability to age gracefully. One is the large debt burden carried by many European governments. "The level of outstanding government debt is arguably the most important additional factor," the report notes. This is because countries with high public debt levels are more vulnerable to fluctuations in the economic cycle and interest rates.

"The debt/GDP ratio is projected to remain above 60% of GDP over the coming decades for the EU as a whole and towards 2020, it is projected to start rising considerably, revealing that the public finances are on an unsustainable path," the report observes. This unsustainable path arises mainly from future pension and health commitments – both related to ageing.

How much the population is currently taxed also plays an important role. "A high current tax ratio leaves limited room [for] manoeuvre for using tax increases to finance additional public expenditure," the document explains.

The report divides EU Member States into three risk groups, according to the sustainability of their public financing in the face of these expected demographic shifts. The high-risk group contains six countries; ten countries are judged medium-risk, and nine low-risk. The document then goes on to analyse the situation in each country and draw policy conclusions for it.

For the EU as a whole the report conforms to a three-pronged strategy. Firstly Member States need to quickly achieve sound budgetary positions as defined by the Stability and Growth Pact – this alone would halve the EU-wide sustainability gap by 2010. Secondly, employment rates must be raised, particularly among women and older workers – thus raising total pension contributions and the level of pensions. Third, individual Member States must consider the appropriate reforms of pension and welfare systems they need to ensure they are viable while remaining adequate and accessible.

In order to meet these public finance challenges, many national governments will need to undertake difficult structural reforms or continue their ongoing reform efforts. "EU Member States need to put in place the appropriate combination of reforms and ambitious fiscal policy," concluded Flores.

No crystal ball

An exercise such as this does not, and cannot, actually forecast what will happen in the future – it is not meant to. The value of this report is to project the policy consequences of a particular set of alternatives for the future. The document demonstrates what would happen if public finance continues with a 'business as usual' mentality in the face of these changing conditions, and considers how much of an adjustment would have to be made to keep public finances afloat. "Budgetary projections over the long-term are based on a set of assumptions which can potentially have a very large impact on the results," the report explains. However, such common assumptions are fully part of any long-term projections exercise. "In a multilateral context, having a common setting for the projections for the purposes of analysing and assessing the long-term sustainability of public finances is therefore essential to ensure comparability of results and equal treatment."

Further information

More information can be found on DG ECFIN's website:

http://ec.europa.eu/economy_finance/publications/european_economy/2006/ee0406sustainability_en.htm

Financial markets: adjusting to change, adjusting to EMU

Every year, DG ECFIN hosts a research conference on a topical subject in European economics. On 7 and 8 September 2006, economics researchers from the EU and the US gathered in Brussels for the third annual DG ECFIN research conference on the subject of 'Adjustment under monetary unions: financial market issues'. In an open market economy the financial markets are the main mechanism by which capital is allocated and flows: between industrial sectors, between countries and regions, and between banks and consumers. The introduction of the euro brought a huge boost to the single market for capital by reducing the costs and risks of transferring money between countries and offering the opportunity for a more efficient allocation of capital. However, while there has been some convergence, financial integration in the EU still has a long way to go. Participants at the conference discussed recent research on how the financial markets in the EU Member States have adjusted to the challenges and opportunities of monetary union and what are the lessons for the future.

"The euro area has responded relatively well to common shocks, such as the oil price rises or the dotcom collapse. People forget the currency turmoil caused by similar shocks in the 1970s, 80s and 90s," said Klaus Regling, Director-General of DG ECFIN, in his keynote remarks during the opening session. "But there is no room for complacency," he continued: "as a priority, we need to develop channels to influence country-specific shocks within the euro area; we need a better spread of risks." He pointed out that financial integration can play a great role in smoothing economic shocks, and this is particularly relevant when, unlike the US, the euro area has no large federal budget to make such transfers. "Being able to adjust well to shocks requires a resilient system, one which allocates resources efficiently. In the USA, labour mobility fulfils a major role in adjustment, but without this mechanism in Europe it is critical that capital can move easily." He concluded, "We need to shape policies – fiscal, structural and financial market policies – that will steer markets successfully."

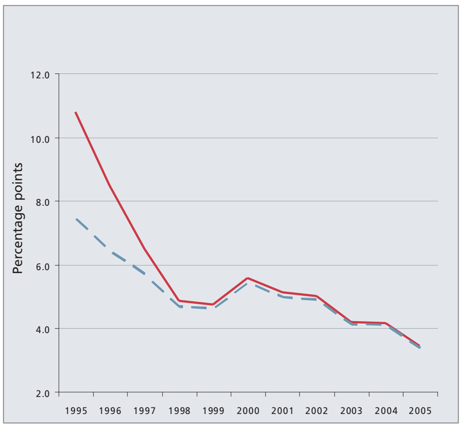
Spending on the up

Opening the session on 'Key policy questions', Vitor Gaspar of the Bank of Portugal, presenting a paper co-authored with Gabriel Fagan of the ECB, spoke about 'adjusting to the euro'. Pointing out that participation in monetary union brings complex consequences, he presented an analytical model that explains several of these. Preparations for EMU caused a number of Member State economies to converge more than others. This is because their initial economic situation was further from the Maastricht entry criteria. In particular he cited Greece, Spain, Ireland, Italy and Portugal, which had relatively high interest rates that converged on those of Germany and other states with lower interest rates. In addition to lowering the cost of borrowing, EMU brought these countries easier access to international financial markets and encouraged liberalisation and integration. The consequence of this, argued Gaspar, was easier access to cheaper money in these countries, which gave a significant impulse to consumer and household expenditure and borrowing, thus producing a fall in savings and an increase in current account deficits as spending pulled in imports and external capital was widely available to finance the resulting imbalances.

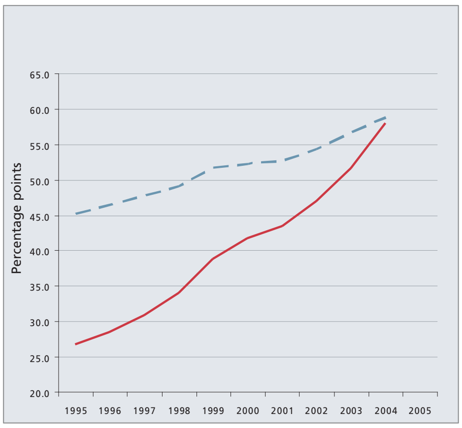
Shocking matters

In the second session, Werner Roeger, presenting a paper written jointly with Sven Langedijk of DG ECFIN, presented a model-based analysis of economic adjustment in the euro area. The model, which distinguishes between tradable and non-tradable sectors and further disaggregates non-tradables into

Nominal long-term interest rate



Household sector debt (ratio over GDP)



Source: Gaspar and Fagan (2006)

Converging countries — Core countries

The charts display averages for each variable and country group.
"Core countries" include Austria, Belgium, Finland, France, Germany, Luxembourg and the Netherlands.
"Converging countries" include Ireland, Italy, Portugal and Spain.

"The euro area has responded relatively well to common shocks..."

Klaus Regling, Director-General, DG ECFIN

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housing and services, analyses the experience of four countries with different economic-adjustment experiences under the euro. These countries are: Germany, Spain, Ireland and Portugal. The results suggest that, to a large extent, diverging growth, inflation and current account developments may be attributed to one-off adjustments to the euro-area framework, which seem to have broadly run their course. Country-specific shocks to housing investment, the labour market and total factor productivity also play a role in explaining the persistence of output and inflation differentials in the euro area.

Michael Bergman of the University of Copenhagen also considered economic shocks – in particular, how sectoral real exchange rates (which reflect price and exchange rate differences between countries) react to shocks and how they recover over time. Using price data from 24 manufacturing sectors and ten euro-area members, Bergmann presented modelling results that suggest the introduction of the euro has not had a significant effect on the recovery rates of price differentials resulting from economic shocks. Rather, the industry type plays a larger role with more competitive capital-intensive sectors adjusting prices more rapidly than less-competitive sectors that maintain price differentials longer.

Liquidity and fragility

Ramón Adalid and Carsten Detken of the European Central Bank spoke on the links between excessive liquidity and boom/bust cycles in house prices. Normally, a central bank designs its monetary policy (raises or lowers interest rates) in order to keep consumer price inflation on target. However, some recent thinking proposes that monetary policy should also consider asset (house) price developments as well as consumer prices. Asset prices are susceptible to 'booms' and 'busts' that can affect the whole economy. Using data from 18 OECD countries since 1970, the authors identified and analysed 42 asset price 'booms' that they divided into 'benign booms' with little impact on subsequent growth, and 'nasty booms' that brought high costs to growth. Cautious conclusions are that excessive money and credit growth in a booming economy can help explain the depth of subsequent recessions, and property price developments are a key factor. Further research is needed to show whether these findings could be useful to central banks in setting monetary policy in real time.

Laura Rinaldi of the University of Leuven and Alicia Sanchís Arellano then presented their research results on household debt sustainability and the explanations for non-performing loans. The sound financial condition of households is important for economic stability and therefore the high household debt accumulation in the euro area, up by 50% since 1990, is a cause for concern as short-sighted lending by banks in the good times can lead to an increase in defaults on debt repayment. The key aim of the research was to determine whether the observed increase in household debt reflects movement towards a new equilibrium or if it is related to a riskier, more fragile financial position for the sector and indebted individuals. By extending earlier models, their research suggests it is the latter – namely that the recent rise in household debt has put households in a riskier financial position, mainly because incomes have not risen at the same rate to offset this risk.

Cross-border integration

'Cross-border banking: challenges for deposit insurance and financial stability in the European Union' was the title of the presentation by Robert Eisenbeis of the Federal Reserve Bank of Atlanta and George G Kaufman of Loyola University (Chicago). The foreign ownership of banks can be desirable because large, financially healthy, acquisitive banks can help bring professional practices and new technologies to entrenched domestic banks that have benefited from protection in the past. However, despite the benefits that foreign ownership can offer, the costs of a subsequent bank failure in the host country can be very large and can more than offset any gains. Therefore, effective regulatory structures governing cross-border banking are important to resolve the competing interests of host-country and home-country stakeholders. Existing incentive problems in the current EU set-up might raise problems in the event of a cross-border bank failure. Professor Kaufman therefore spoke on alternative regulatory structures to address these issues, with an emphasis on the EU. In his conclusions he proposed recommendations that cover the closure, reopening and recapitalising of failing institutions and the treatment of claims and losses.

Philipp Hartman of the ECB, in a paper co-authored with Elena Carletti from Wharton and Steven Ongena of Tilburg University, also considered banking matters in their paper entitled 'The economic impact of financial laws: the case of bank merger control'. When designing institutions and regulatory systems, policy-makers face the challenge of finding the right balance between efficiency on the one hand and other sector-specific objectives on the other. Hartman presented results from an analysis of 19 industrialised countries that studied the influence of changes in competition and supervisory controls of bank mergers. The research showed that the introduction of competition controls on bank mergers – which reduces the role of the bank supervisors and their often non-transparent merger assessment procedures – could improve bank financial performance, particularly for the target banks. As competition controls have been substantially strengthened over the past two decades, their design and implementation is important for the health of the sector, a conclusion of particular relevance as the EU banking sector consolidates and integrates within the single market.

Lessons from other monetary unions

Bent E Sørensen of the University of Houston then spoke on why capital moves to rich regions, using the United States as an example. Analysis of net capital income flows within the US (between states) suggests that capital moves into those states with relatively high output growth, and income from this capital then flows outwards. The model predicts the

"We need to shape policies... that will steer markets successfully."

Klaus Regling

volume of such flows within the US to be an order of magnitude greater than that actually observed between countries worldwide – evidence for 'frictions' associated with national borders that might distort the efficient allocation of investments. In a second, very preliminary, paper, Sørensen reported on capital flows between regions and countries within Europe. While capital flows between regions in Northern European countries behave similarly to those observed between states in the US, the flows between regions in Southern European countries and between EU Member States themselves do not conform to the model, suggesting that financial integration is not yet sufficiently advanced in the EU.

John Landon-Lane of Rutgers University, in a study co-authored with Hugh Rockoff of Rutgers University, considered the development of monetary union in the US since 1880 and how centralised monetary authorities have coped with asymmetric shocks – economic shocks that only affect some regions or sectors and not others. They found that asymmetric shocks have diminished over time, highlighting the key role played by financial integration, in particular the development of an integrated, cross-state banking system.

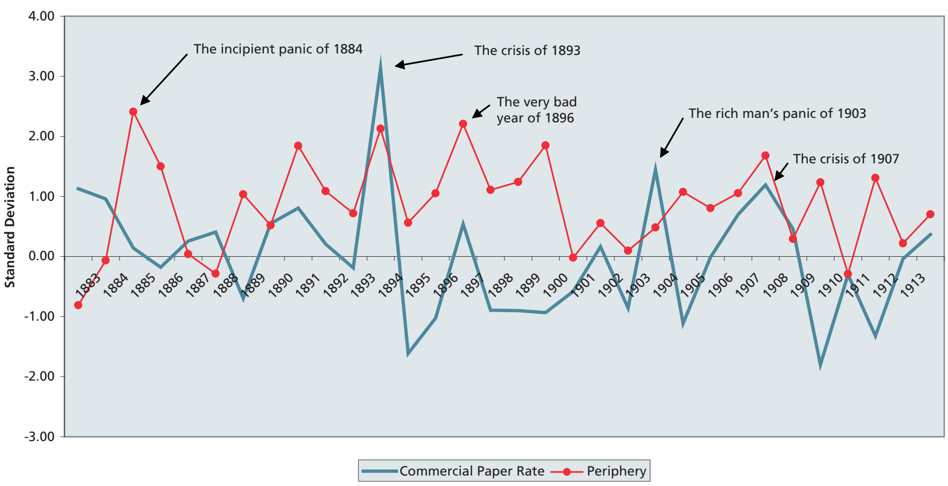
In the final paper, Peter Hoeller of the OECD spoke on 'Housing markets and adjustment in monetary union'. Housing markets are important in the transmission of monetary policy because sensitivity to interest rates on the part of borrowers helps to dampen cyclical economic behaviour. However, the characteristics of housing and mortgage markets differ widely in the euro area and this leads some economies to react differently than others to economic developments, creating problems for monetary transmissions and making national economies susceptible to differing business cycles. For this reason, argued Hoeller, countries within EMU – which have given up control of monetary policy and have fiscal policy constrained by the Stability and Growth Pact – must ensure robust financial systems are in place to meet the challenges of housing price bubbles.

Discussion on the priorities

The conference concluded with a policy panel discussion chaired by Max Watson of DG ECFIN consisting of two conference speakers, Vitor Gaspar and Peter Hoeller, joined by Alberto Giovannini of Unifortune Asset Management, advisor to the European Commission on financial market issues, and Peter Praet, Director of the Belgian National Bank. Vitor Gaspar underlined that while small, open economies, completely integrated in the world market, should be able to cope with asymmetric shocks, the problem is that it is not obvious how far the euro area has gone in terms of integration. He emphasised the importance of budgetary discipline as the bedrock of stability. Alberto Giovannini reminded the audience that the financial system is a mixture of private contractual arrangements and public governance rules. "Many policy-makers seem to have thought that declarations on market opening were sufficient, but this takes no account of the incentives that will encourage or discourage private operators from acting in a given way," he said. "Likewise, even if we eliminate the barriers, that still does not tell us how the market will develop. When we look at the banks we see highly regulated, even state-owned institutions, with many conflicts of interest and therefore low efficiency. But if we allow or encourage foreign ownership of banks, we break the conflicts of interest and closeness with regulators, creating more effective competition and more efficiency. In the end, we already know what sort of infrastructure we would like, but the big question is how to get there."

Peter Hoeller stressed that efficiency in financial markets is the most important factor. "Harmonisation on its own does not make sense – it is vital that the trade-offs which come from following a particular policy, for example in the housing market, are clear and not hidden," he argued, calling for careful studies of the current system and regulations of the retail banking sector. Peter Praet emphasised the governance of risk, pointing out that banks, pension funds and insurance companies are top of the list for carrying risk on their balance sheets. "Securitisation has to be a priority for Europe," he said, "When it comes to cross-border bank ownership, we currently have a system which works in the good times, but there is no burden sharing in the bad times. In the end, problems are national responsibilities. And we can see the potential for conflict in releasing information in one or other of the jurisdictions concerned, and even the possibility of games being played in an attempt to protect either the host or subsidiary institution." He concluded by noting a recent survey which shows that banks feel the biggest risk they face is regulation, and in particular the politicisation of regulation.

Shocks to regional and national interest rates, 1882-1913



Source: Landon-Lane and Rockoff (2006)

Further information

The papers presented at the DG ECFIN research conference can be found on the DG ECFIN website:

http://ec.europa.eu/economy_finance/events/2006/events_research_conference_0906_en.htm

Showing the way to the euro

What do I need to do to prepare my company for the introduction of the euro? What will happen to my savings? Questions like these are widespread amongst the citizens of the new Member States, now preparing to adopt the euro in place of their national currency. To improve understanding of the challenges of euro introduction, the Commission has set up a group of experts in each country – the Euro Team – who can explain to citizens first hand how the euro will affect them, in their own language.

© Anja Peternelj

Each of the Member States that joined the European Union in May 2004 will join the euro area, once their economies have achieved sustainable convergence with current euro-area members. These economies are converging at different rates (and from different starting points), so the immediate needs of their citizens for concrete information on the euro vary. But there is, nonetheless, growing demand in all ten of these countries for details, and particularly for more clarity over what the coming changeover will mean for both business and private life. Unfortunately, there are too many incidences of incomplete or incorrect information circulating in the media and by word of mouth, which can lead to confusion and worry – and worse, to citizens taking unnecessary actions and losing money.

To address this demand for information – which needs to be provided in each Member State's national language(s), using terms familiar to local citizens from their business and private transactions – the European Commission's Directorate-General for Economic and Financial Affairs (DG ECFIN), has set up a network of expert speakers in each country. The network was officially launched on 29 June, with a first training seminar in Brussels. Coordinated by the Commission's Representations in the national capitals, Euro Team members are professionals from relevant fields, working in organisations such as government ministries, national banks, academia, chambers of commerce and the media. Jointly appointed by DG ECFIN and the Commission Representations, they act as independent, expert speakers and do not represent their home institutions.

"...overcoming the myths and misconceptions..."

Members of the Euro Team will be available to give lectures, and participate in seminars and events across their country. The aim is to reach the widest possible range of citizens, giving them accurate, tailored information on the euro changeover, overcoming the myths and misconceptions which have grown up. For example, a town's small business association may invite a speaker to explain the steps in the changeover to their members. Or a speaker could address the specific concerns of a local group of senior citizens, helping to ease their worries. Members of the team will also assist in programmes to help schoolchildren learn about the euro.

The Commission will organise training seminars for the members, and develop and supply them with information materials. And whilst each member's work will address the specific characteristics of their own country's economy, they will benefit from being able to exchange experiences with their counterparts from other countries.

A Eurobarometer survey(1) carried out in April shows that some 60% of citizens feel they are not adequately informed about the euro, and three-quarters have worries about price rises during the changeover. The members of the Euro Team will help individuals find answers to the specific questions they have, and provide the information to dispel their worries. In doing so, they will benefit from the experiences of current euro-area members – from worries in the run-up to the changeover to the situation today, with the euro successfully established. These experiences will be analysed by those planning the changeover in each country, to ensure it runs smoothly, and the Euro Team members will also be able to draw on them to demonstrate to citizens in their country that the changeover will not cause problems.

© European Commission

The first Euro Team training seminar.

Further information

Organisations, groups, schools, companies and individuals in the new Member States may request participation of speakers from the Euro Team in specific activities or events. Requests should be made to the European Commission Representation in the country concerned. Further information is available on the Euro Team website:

http://ec.europa.eu/economy_finance/euroteam/euroteam_en.htm

(1) The state of public opinion on the euro in the new Member States', Flash Eurobarometer 183; http://ec.europa.eu/economy_finance/publications/euro_related/2006/eurorelated_eurobarometer183_en.htm

The economy of Hungary

Hungary began its transition to a market economy earlier than other Central European economies, with a significant private sector developing well before the communist period ended. After some years of turbulence following the collapse of the Soviet bloc, Hungary began to build on these foundations, implementing structural reforms and stabilisation measures – resulting in an impressive macroeconomic performance by the end of the 1990s. However, in recent years results have been much more mixed and a period of large fiscal slippages is now threatening long-term growth and sustainability. The Government has adopted a new programme to address the situation.

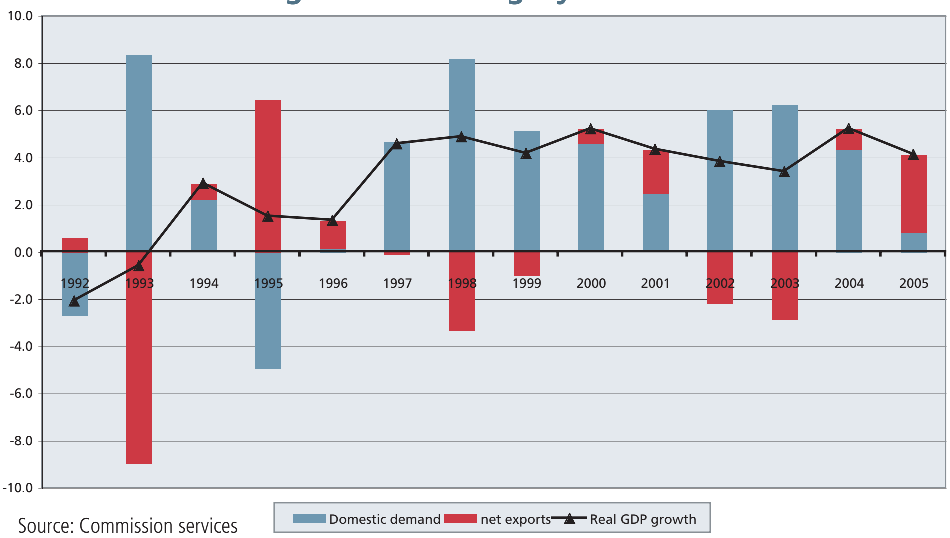
Under communism, Hungary was an important manufacturing and engineering centre for electrical goods, chemicals and the automotive sector. This manufacturing base declined after the collapse of communism, but then recovered to power economic growth and attracted much foreign direct investment (FDI). Hungary has a relatively open economy, with export and import levels around 70% of GDP, a reflection of Hungary's integration into the EU economy and supply chains. Following aggressive privatisation in the 1990s, the private sector now accounts for around 80% of GDP – one of the highest shares in the region.

Transitional problems and success

After the break-up of the Soviet bloc Hungary suffered a period of economic crisis as the loss of eastern markets caused exports and industrial output to fall, while government overspending pushed deficits to 10% of GDP and drove public debt upwards from already high levels. One third of jobs were destroyed in the period from 1990 to 1995 and Hungarians suffered the consequences of double-digit inflation and negative growth.

The turnaround came in 1995 when a comprehensive economic reform package was launched to restore macroeconomic stability and accelerate the pace of reforms and privatisation. Expenditures were cut, revenues increased, and labour and product market reforms were introduced – helping to improve exports and encourage foreign investment. Economic growth accelerated to 5% per year in the late 1990s, inflation dropped from 30% in 1995 to less than 10% in 2000, the currency stabilised and the current account deficit was reduced. The Hungarian economy, and Hungarian economic policies, were a model for other transition economies at the time. By 2000 Hungary had reduced its government deficit to 3% of GDP and debt from over 80% of GDP down to 55%.

Chart 1: Economic turnaround: GDP growth in Hungary 1992-2005



Source: Commission services

Hungary (Magyarország)

Currency: forint

Population: 10.1 million

GDP per capita in purchasing power standards: 60.9 (2005)

Real GDP growth rate: 4.1% (2005)

Public sector deficit (as % of GDP): - 6.1% (2005)

General government debt (as % of GDP): 58.4% (2005)

Source: *European Commission*

Expansionary fiscal policies bring imbalances

In 2001 however, the disciplined approach of Hungarian macroeconomic policy-making faltered. Public expenditure increased significantly and the wage policies were fairly loose. The minimum wage was increased by 60% and large increases were awarded to the public sector – which then spilled over into private sector wage demands. While stimulating domestic demand and growth, this expansionary stance has resulted in high budget deficits over the past four years, with large deviations from the original deficit targets, rising imports and an increasing current account deficit (see chart 1). Measures taken in 2003 to reverse the expansionary orientation were unsuccessful and the exchange rates of the Hungarian currency, the forint, against other currencies became turbulent, a situation which was exacerbated by an unexpected devaluation, resulting in a further loss of investor confidence. These events reduced foreign portfolio investments, and also decreased FDI inflows thus hampering the modernisation of the economy. By the end of 2003 the economic situation had stabilised but the country

Hungary's deficit ratio is, at the moment, by far the highest in the EU

was left with high interest rates (12.5%) resulting from efforts to support the forint.

A spiralling deficit

On joining the EU in 2004 Hungary committed to eventual entry to the euro area and the adoption of the euro. This process is governed by 'convergence programmes', prepared by each Member State and submitted to the Council for agreement. These convergence programmes, part of the Stability and Growth Pact, detail the economic measures the country will take to ensure price stability, sound public finances and strong sustainable growth conducive to employment creation.

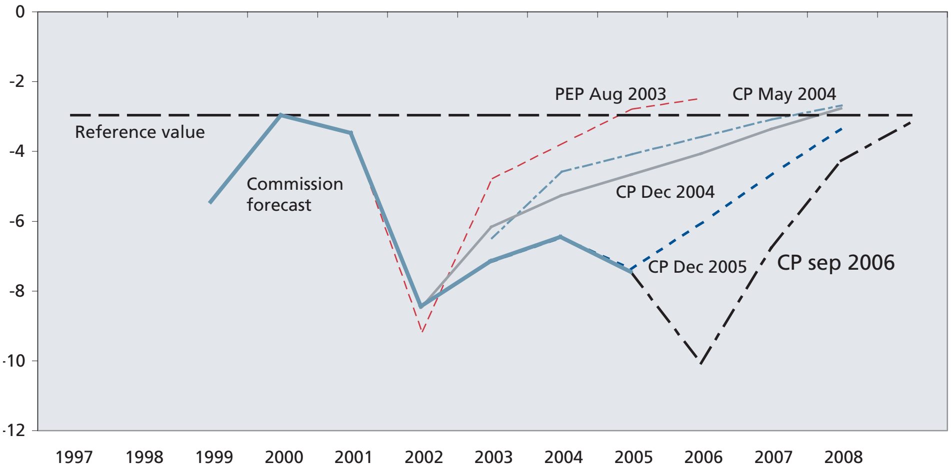
In May 2004, Hungary submitted its first convergence programme which envisaged euro adoption in 2010(1). The Council decided in July 2004 that Hungary was in 'excessive deficit' (i.e. above the 3% of GDP threshold) and recommended correction by 2008 in line with Hungary's planned budgetary adjustment path. However, the government deficit targets have not been met several times in a row leading to several revisions of the adjustment path in successive convergence programmes (see chart 2). This not only delays Hungary's entry into the euro area, but also jeopardises its prospects of catching-up and the long-term sustainability of public finances. Against this background, the Council concluded twice in 2005 that Hungary had not done enough to reduce its excessive deficit. Moreover, in January 2006 it concluded that the consolidation in the December 2005 convergence programme update was not backed by concrete measures and invited Hungary to present an adjusted convergence programme update by 1 September 2006.

Long due corrective measures

Driven by a surging budget deficit, following the April 2006 general elections the Hungarian authorities announced that there would be very large upward

Budapest

Chart 2: General government balance projections in successive convergence programmes (% of GDP)*



Source: Ameco and successive convergence programmes
* For the sake of comparability, all deficit targets include the burden of the pension reform.

revisions of the 2006 deficit, compared to the target of 6.1% (including the burden of pension reform)(2) set in the December 2005 update of the convergence programme. The Government took some measures to limit the budgetary slippage in 2006. These include cutting government spending and increased taxes on individuals and businesses to improve revenues. The authorities have announced a new deficit target for 2006 of 10% of GDP (including the burden of pension reform) for the 2006 government deficit, which is still by far the highest in the European Union.

On 1 September 2006, Hungary submitted an adjusted update of its convergence programme in response to the Council opinion of January 2006 on the convergence programme update of December 2005. The adjusted programme outlines a new adjustment path, with a view to correcting the excessive deficit by 2009, one year later than in the previous programmes. The planned reduction of the budget deficit by almost 7 percentage points of GDP between 2006 and 2009 is to be achieved by a mix of revenue increases (some 3% of GDP) and expenditure reductions. More than half of the planned revenue increases result from already adopted rises in taxes. On the expenditure side, on top of immediate cuts in pharmaceutical and gas price subsidies, healthcare expenditures and public administration expenditure, additional cuts are foreseen such as the across-the-board nominal freezes of most expenditure items in for 2007 and 2008. Reforms to government administration, healthcare and education have been announced, and pension system reforms are planned to achieve a lasting improvement in public finances. The challenges faced by the budgetary consolidation are formidable and will require strong political determination.

Hungary's adjusted convergence programme update, which includes a new strategy for the correction of the excessive deficit by 2009, was examined by the Commission on 26 September(3). The Commission welcomed the fact that some important measures have already been taken to secure additional revenues and cut expenditures with a view to reaching the deficit target of 6.8% in 2007, but stressed that substantial risks remain in both the short term and the outer years of the programme. It concluded that it is essential for Hungary to detail and rigorously implement the envisaged structural reforms and to strengthen and enforce the expenditure controls and rules without any further delay. On the same day, the Commission also recommended under Article 104(7) of the EU Treaty that Hungary take the necessary measures to correct the excessive deficit by the revised target date, starting with a large correction in 2007. Based on the Commission's assessment, on 10 October the Ecofin Council is expected to issue an opinion on Hungary's adjusted convergence programme update and a new recommendation to Hungary under Article 104(7).

"A strong and credible budgetary retrenchment is absolutely paramount to put Hungary's economy on a path of sustained growth and wealth creation,"

(1) The Hungarian authorities have officially abandoned 2010 as the target year for euro adoption but have not yet announced a new one.

(2) With the recently submitted adjusted update of its convergence programme, Hungary has discontinued the practice of reporting fiscal targets and statistics excluding the cost of pension reform. This practice was allowed by the Eurostat decision of 23 September 2004 that will in any case expire on 1 April 2007.

(3) All relevant documents can be found on the following website: http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm

says Barbara Kauffmann, head of the unit responsible for monitoring and analysing Hungarian economic and budgetary developments. "First important steps to back this commitment have been taken, but important risks and challenges remain. We will continue to closely monitor the situation to verify that the announced measures are fully implemented and that the Government continues to develop its agenda for structural reform and expenditure control and acts upon it decisively."

Further information

Economies of the Member States
http://ec.europa.eu/economy_finance/about/activities/countryeconomy/main_en.htm

Recent research and analysis published by DG ECFIN

Globalisation: trends, issues and macro implications for the EU

EUROPEAN ECONOMY, ECONOMIC PAPERS, No 254, July 2006, European Commission, ISSN 1725-3187

This report seeks to quantify the gains and pains of globalisation for the EU. It finds that, even if one holds the consensus view that globalisation will improve economic welfare in the long run, one should not ignore the existence of short-term, negative effects. While these effects should be viewed as inevitable transition costs linked with changes in specialisation, they may be relatively severe for individual sectors and skill groups. However, transition costs should be kept in perspective given their one-off nature in comparison with the permanent gains from restructuring.

Social cohesion in the Czech Republic: a blessing or a trap?

By Marek Mora of DG ECFIN. COUNTRY FOCUS, Volume III, Issue 10, September 2006, European Commission

The Czech Republic has one of the highest levels of social cohesion in the EU, in terms of inequalities in income distribution and the at-risk-of-poverty rate. Although social transfers play a significant role in reducing the Czech poverty rate, it is the relatively equal income distribution that contributes most to the level of social cohesion. But is this social cohesion an unqualified success or is it a mixed blessing? Although social cohesion can have a positive economic impact on growth, the tax-transfer system, if badly designed, may have harmful consequences for labour supply and for the sustainability of public finances, as seems to be the Czech case.

Assessing the factors of resilience of private consumption in the euro area

Edited by Servaas Deroose of DG ECFIN. EUROPEAN ECONOMY, ECONOMIC PAPERS, No 252, June 2006, European Commission, ISBN 92-79-01193-6

This report investigates how strongly private consumption behaviour – household spending and saving decisions – is affected by the economic situation. Private consumption is a crucial component of a country's economy as increased spending can drive economic growth. Further, private consumption in the euro area over recent years has been persistently weaker than in countries outside the euro area and policy-makers need to understand why this is so.

Corporate tax competition and coordination in the European Union: What do we know? Where do we stand?

By Gaëtan Nicodème of DG ECFIN. EUROPEAN ECONOMY, ECONOMIC PAPERS, No 250, June 2006, European Commission, ISBN 92-79-01191-X

Corporate tax rates, the taxes that companies pay on their profits, are set by national governments not by the EU. This has led to fears of 'tax competition' encouraging firms to move to countries with low corporate tax rates, thus reducing employment and increasing other taxes in the countries they move from. This article looks at the empirical evidence for corporate tax competition and how this fits the various theories on the subject – concluding that there is no strong evidence for a 'race to the bottom' on tax rates, although they are falling.

European Neighbourhood Policy: economic review of ENP countries

EUROPEAN ECONOMY, ECONOMIC PAPERS, No 25, June 2006, European Commission, ISBN 92-79-01352-1

The European neighbourhood runs from Morocco in North Africa, through the Middle East, to Russia – including those countries whose growth and welfare is of particular importance to Europe. This paper assesses economic reforms and developments in each of these countries. It concludes that current growth rates may not be sustained and will not reduce unemployment or the income gap with the EU, particularly in the Mediterranean countries without significant reforms.

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://ec.europa.eu/economy_finance/publications_en.htm

Selected upcoming publications:

- Monetary and exchange rate agreements between the European Community and third countries (Economic Papers)
- Labour migration patterns in Europe: recent trends, future challenges (Economic Papers)
- Pension systems, intergenerational risk sharing and inflation (Economic Papers)

KC-AJ-06-004-EN-C

For your diary

In Osaka, Japan on 27 October

'A Euro Conference'

A conference on all things euro. Organised by the EU Delegation to Japan in co-operation with Osaka University and the Council of the East Asian Community, this conference is supported by DG ECFIN. It will cover the main developments in the euro area and looks at the lessons to be learned from European integration for economic and political integration in Asia and the opportunities it presents to Japan. For more information see 'events' on the DG ECFIN website.

And on to Istanbul, Turkey on 6-7 November

'Global forum on international investment – enhancing the investment climate: the case of infrastructure'

This year's annual OECD Global Forum on International Investment will focus on the emerging issue of international investor participation in infrastructure. Governments around the world are increasingly inviting such investment into their infrastructure sectors in order to leverage public finance and reap efficiency gains. Not all projects have been successful. The GFII will discuss the experiences so far and try to establish success criteria.
http://www.oecd.org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Istanbul, Turkey

In Frankfurt, Germany on 9-10 November 2006

'The role of money: money and monetary policy in the twenty-first century'

The two-day event, organised by the European Central Bank, will consider the role of money in the contemporary financial system. It will look into the importance of money in the monetary transmission mechanism, the relation between monetary policy and stock market boom-bust cycles, a history of monetary policy from the 19th century until the present, and much more.
http://www.ecb.int

And on to Spain for the 8th ECB-CFS Research Network conference on 30 November and 1 December

'Financial integration and stability in Europe'

Hosted by the Bank of Spain, this conference will investigate matters of financial integration and stability and how these are related to each other. Other topics include supervisory issues relating to financial integration and the challenges ahead. Keynote speakers include Alexandre Lamfalussy, former president of the European Monetary Institute, the forerunner of the ECB. For more information see 'events' on the CFS website.
http://www.eu-financial-system.org

In Brussels with DG ECFIN on 27 November 2006

'The future of corporate financing in an integrating EU financial market'

A workshop organised by DG ECFIN with the goal of exploring the evolution and prospects of corporate financing, focusing on the implications for efficiency, investment, profitability and economic growth – all this in the context of an increasingly integrated EU and global financial environment. Participants will include policy-makers and researchers interested in the field. For more information see 'events' on DG ECFIN's website.

In Nicosia, Cyprus for a DG ECFIN supported conference on 30 November

'Preparing for EMU and euro adoption'

This is part of a series of conferences on preparations to adopt the single currency in the new Member States. Commissioner Joaquín Almunia, the Minister of Finance of the Republic of Cyprus, Michalis Sarris, and the Governor of the Central Bank of Cyprus, Christodoulos Christodoulou, will speak at the event. For more information see 'events' on the DG ECFIN website.

In Washington DC at the Federal Reserve Board on 1 and 2 December

'The 4th conference of the International Research Forum on Monetary Policy'

This research forum encourages research on monetary policy issues that are relevant to policy-making in interdependent economies. Its membership includes the Federal Reserve Board and the ECB. Regular conferences are held alternately in the US and the euro area. For more information see 'news and events' on the website of the Federal Reserve Board.
http://www.federalreserve.gov


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Further information

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

http://www.ec.europa.eu/economy_finance/events_en.htm

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