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The single market tomorrow

Solutions for the 21st century

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Editorial

Klaus Regling

Dear Reader

The European Commission is conducting a forward-looking Review of the Single Market, to which DG ECFIN is contributing. The single market is at the core of the European endeavour. It is about freedom: for people, goods, services and capital to move freely about the Union to live, work, do business and invest. The Review, which we cover in this issue, looks at what has been achieved, what still needs to be done, and how we can meet the challenges of the future.

The world has changed since 1985. New challenges and opportunities have arisen: the accession of new Member States to the EU and the single market, the creation of an economic and monetary union, globalisation and the growing economic importance of the service sector. In response, a new approach to the single market is emerging – one that is better targeted and more results-oriented, and based on an in-depth knowledge of market functioning. By helping the economy to adjust to economic disturbances, an efficient single market, is also crucial for the smooth functioning of the economic and monetary union. The rapid and free flow of people, goods, services and capital is key to the smooth growth of the EU economy and its rapid adjustment to economic shocks. At the same time, by removing exchange rate barriers, the euro helps perfect the single market.

The Single Market Review will be an important step in optimising the benefits of the single market. If its proposals are accepted we will be able to turn the single market into a more powerful tool to improve the competitiveness of European companies at world level and to increase the welfare of European consumers.

Klaus Regling

Director-General, Economic and Financial Affairs DG

What's new

'Of general economic interest'

Network industries such as telecommunications, energy and transport were discussed at a workshop on 10 September 2007 in Brussels. They are important because they provide critical public services on which many other sectors of the economy, and indeed society, depend – and they employ more than 10 million people in the EU. DG ECFIN and the European Economic and Social Committee organised the workshop 'Evaluation of the performance of network industries providing services of general economic interest'. Increased competition has kept prices down and benefited consumers and business, reported Commissioner Almunia in his keynote speech, but he emphasised that there are marked disparities between Member States and more needs to be done. Other sessions dealt with the impact of reforms in network industries and the methodology used in the evaluation. For more information see 'events' on the DG ECFIN website.

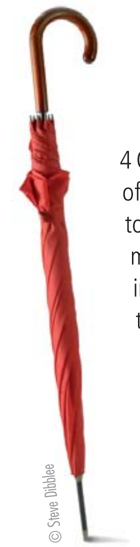
Avoiding the rain in Spain

The brilliant performance of the Spanish economy under EMU is dimming and clouds are on the horizon – adjustments may be needed. This was the context for a DG ECFIN seminar in Brussels on 21 September where participants discussed how the imbalances in the Spanish economy can be addressed to ensure a 'soft landing'. After buoyant growth and remarkable real convergence since the run-up to the euro, Spain now suffers from low productivity growth, external imbalances and a slowing housing sector (which contributed greatly to growth and employment in earlier years). For more information see 'events' on the DG ECFIN website.

OECD highlights 'pivotal woes'

Jean-Philippe Cotis

While swift and forceful interventions by central banks have helped contain turbulence on the global financial markets it is too early to gauge their effects, said OECD Chief Economist Jean-Philippe Cotis. Presenting an interim assessment of the economic outlook for OECD countries on 5 September, Cotis highlighted the fact that this is happening against a global background of strong economic momentum, so OECD growth projections are not heavily revised even though the future may be less buoyant and more uncertain. Uncertainty in the US, upbeat expectations in the euro area, and continued expansion in Japan will provide the framework for growth in the near future, according to the report. For more information see the OECD website. **www.oecd.org**



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Weatherproofing the euro area

In its latest Quarterly Report on the Euro Area (QREA), released on 4 October, the Commission warned of the increased downside risks to growth posed by the onset of market turbulence, and discussed in detail the possible impacts on the EU economy for the future. Within the euro area, after five quarters of vigorous growth, GDP growth decelerated in the second quarter of 2007, partly owing to exceptional weather and statistical effects, but also an indication that the business cycle has probably passed its peak. In addition, a focus section of the report considers cross-border risk sharing in the euro area, which is on the rise as financial integration spreads, but notes that progress is slow. A second focus section analyses the resilience of the euro-area economy – meaning its ability to weather adverse economic shocks – and notes signs that this is improving in some segments of the economy.

Euro roadshow hits Cyprus

DG ECFIN's travelling exhibition is proving popular: 'The euro, our currency' has arrived in Cyprus, after a successful two weeks in Malta which drew around 100 000 visitors. The roadshow, which started off in Brussels, is designed to raise awareness of the single currency among citizens and to answer their questions. Fun is at the heart of this modern, interactive exhibition with touch screens, a quiz and several computer games for school children. Organised in co-operation with the Cypriot Ministry of Finance and Central Bank, the exhibition will open on 22 October and run until 5 November in Limassol. Malta and Cyprus will adopt the euro as their national currency at the beginning of 2008 and the exhibition is part of a broad array of efforts to smooth the changeover.

Portuguese Minister of Finance, Fernando Teixeira dos Santos, and Director of the Egyptian Macro Fiscal Unit, Hany Kadry

Euro-Med discusses common challenges

Finance ministers from the EU and their Mediterranean partners met in Porto on 15 September 2007 to discuss co-operation and coordination in the fields of sustainable growth and job creation. "Our discussions demonstrate that we share common challenges and have much to learn from each other in the implementation of structural reforms," observed Portuguese Finance Minister Fernando Texeira, whose country currently holds the EU presidency. Despite challenges, the countries of the southern Mediterranean have recorded impressive economic growth rates consistently above 4% in recent years. However, this has not translated into enough jobs to dent unemployment figures among their young populations. The EU has its own challenges of dealing with its ageing population and speeding up its economic growth.

Stability in the face of volatility

The Ecofin Council's informal meeting of 14 and 15 September 2007 in Porto, Portugal, brought together finance ministers and central bank governors from the 27 Member States to discuss the recent wave of volatility sweeping across the Atlantic from the United States, as well as the role of public finance reforms in boosting competitiveness. "We are experiencing a period of volatility and reappraisal of risk in global financial markets, triggered by difficulties in the sub-prime mortgage market in the United States," the ministers said in a statement. "However, macroeconomic fundamentals in the EU are strong. World growth is robust, with sustained dynamism in emerging economies and in Europe expected to continue to balance the [US] slowdown." The gathering also discussed the reform efforts Member States are making in the area of public finance and IMF governance issues. For more information see the website of the Portuguese presidency: **www.eu2007.pt**

Absorbing the shocks of a market correction

In August, the European Central Bank took a series of extraordinary measures to inject liquidity – some €300 billion worth – into short-term financial markets and restore general investor confidence, as the crisis in the US sub-prime market showed signs of crossing the Atlantic. "The euro system has shown its capacity to react both promptly and effectively to these challenges. I am convinced that, given the circumstances, we did the right thing at the right level at the right time," ECB chief Jean-Claude Trichet told the European Parliament's Economic and Monetary Affairs Committee. He described the recent turbulence as "a market correction with a significant reappraisal of risk", due to "an under-appreciation of risk in general". Given the EU economy's fundamental health, President Trichet saw no reason to raise interest rates at present but did not exclude the possibility of doing so once financial markets had calmed down. For more information see the websites of the ECB and the ECON committee in the European Parliament:

www.ecb.int

www.europarl.europa.eu

The EU and China: a shared duty to lead by example

"China and Europe have many similarities," Joaquín Almunia told his audience at Qinghua University in Beijing on 18 September. "Europe's 27 Member States must contend with a level of diversity that here in China is well known," he explained, suggesting that the level of variation of languages and traditions among Chinese regions could be even greater than between the countries

Working with the dragon

of the European Union. "However, we also face similar challenges – both domestic and global," said the Commissioner, who went on to highlight ageing populations, regional disparities in growth and income, energy and climate change, and the threat of global imbalances in the world economy as the main areas of mutual interest. Sharing knowledge and experience would allow valuable lessons to be drawn by both the EU and China, he said. "We must work together in this respect. A well-functioning global economy is not a zero-sum game, but a win-win situation for China, Europe and the wider world." For more information see the Commissioner's website: **http://ec.europa.eu/commission_barroso/almunia/index_en.htm**

Smoothing Malta's path to the euro

The euro area is heading south and will embrace Malta and Cyprus on 1 January 2008, bringing the countries using the single currency to 15. To prepare Malta for the euro changeover, DG ECFIN and the Maltese government, together with the ECB, organised a conference entitled 'Malta on the path to the euro' which took place on 30 September-1 October in Malta. After hosting a welcome reception, Malta's Prime Minister and Finance Minister Lawrence Gonzi opened the conference by summarising his country's journey to the euro, while the central bank govenor, Michael C Bonello, looked to the future, beyond the adoption of the single currency. ECB President Jean-Claude Trichet opened the main session and Commissioner Joaquín Almunia examined the achievements of and challenges facing EMU. Debate for the rest of the day focused on EMU governance and the practical aspects of the changeover. For more information see 'events' on the DG ECFIN website, and to see the conference presentations visit:

www.euro.gov.mt/page.aspx?ID=591

ECFIN annual research conference

DG ECFIN's annual research conference took place in Brussels on 11-12 October 2007. The assembled experts and policy-makers discussed the issues raised by European monetary union and the introduction of the euro under the banner 'growth and income distribution in an integrated Europe: does EMU make a difference?'. Speakers included Anthony Atkinson of the UK's Oxford University, Giuseppe Bertola of Italy's University of Turin, Cecilia Garcia-Peñalosa of France's Centre National de la Recherche Scientifique and Robert J Gordon of the US' Northwestern University. Issues for discussion included how wealth distribution has evolved in Europe, the actual and potential impact of EMU, the links between growth and income distribution, and the design of policies that promote both. Proceedings of the conference can be downloaded from the 'events' section of the DG ECFIN website.

EU growth steady, despite transatlantic turbulence

Both the EU economy as a whole and the euro area are set to record healthy growth rates this year, albeit slightly lower than expected in the spring, owing to volatility in global financial markets. This was the conclusion of the Commission's interim autumn forecast released on 11 September 2007. The projections put economic growth for 2007 at 2.8% in the 27 Member States as a whole and 2.5% in the 13-member euro area. This is only 0.1% lower than the figure forecast in the spring. "The sound economic fundamentals of the European economy will help weather the current financial turmoil. But the increased risks to the outlook require governments to hold steady to the reform and budgetary consolidation agenda," said Commissioner Joaquín Almunia. For more information see 'hot issues' on the DG ECFIN website.

Further information

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

A single market for the 21st century

DG ECFIN economists are contributing to the ongoing forward-looking review of the EU single market that the European Commission is preparing. Barriers to a truly single, internal market in the Union still exist, which means that many benefits have yet to be realised and the potential of the single market to contribute to a more dynamic, innovative and competitive EU is not being fully exploited. On the economic aspects of the single market review, DG ECFIN analysts suggest it is time to move towards a more economics-based and results-oriented approach using the targeted monitoring of selected markets and sectors. This could allow better policies and, in turn, bring real improvements to the operations of the single market.

The single market, also known as the internal market, has come far since it was launched in 1985. The vision then was to realise the four freedoms enshrined in the Treaty – the free movement of people, goods, services and capital – and today this vision is a successful reality in many areas. Individuals can live, work, study or retire in any EU country. Consumers have a wider choice of products and services at lower prices. Businesses have lower costs and more opportunities to thrive in a Europe of close to 500 million customers without internal borders. The estimated gains for the EU economy from the single market include an extra 2.2% on GDP and 2.75 million more jobs between 1992 and 2006.

The single market may be seen as a natural coefficient of economic and monetary union (EMU). The euro not only complements the single market by removing the costs and inconveniences of multiple currencies, but it is also the tangible expression of the willingness of the euro-area Member States to work together, within EMU, for a strong, united and sustainable EU economy that can better protect Europe's citizens against global events and turbulence.

Many policies for a single market

However, from the beginning the single market initiative was more than an economic policy decision. Its creation has involved, and still involves, co-operation across a wide range of policy areas. For example, the harmonisation of standards for products and safety issues; a competition policy that ensures a Europe-wide level playing field for businesses; the continuing vital negotiations on an EU patent to protect European innovations; and a common trade policy that gives seamless access to the single market for our global trade partners while promoting EU exports and our social and environmental standards worldwide. In addition, the single market has always been accompanied by a social and regional policy agenda, backed by EU Structural Funding, to ensure that all citizens are linked into the single market and can enjoy the benefits it brings.

Up for review

Despite the recorded successes of the single market, so far its potential has not been fully exploited. It was expected to help launch a more dynamic, innovative and competitive EU economy. Yet this has not materialised: economic growth in the EU, measured by GDP per capita, has been below that of the US over the last ten years. In response, in 2006 the European Commission adopted a Communication entitled 'A citizen's agenda – delivering results for Europe', a major part of which is a fundamental and forward-looking Review of the Single Market in the 21st century that will be presented to the European Council in spring 2008. Many Commission services are involved in the review process, including DG ECFIN analysts who contributed a report in January 2007, entitled *Steps toward a deeper economic integration: the internal market in the 21st century*. Fabienne Ilzkovitz, one of the report's authors, explains the economic perspective of the review; "The single market is not static: it is dynamic and operates in a constantly evolving global economy. In this sense it will never be finalised but must always adapt to new realities. However, today it is clearly imperfect. In our analysis we asked three questions: first, how is the environment in which the single market operates different today from when it was first launched in the late 1980s; second, what evidence is there for the economic impact of the single market; and last, why has it failed to live up to expectations?"

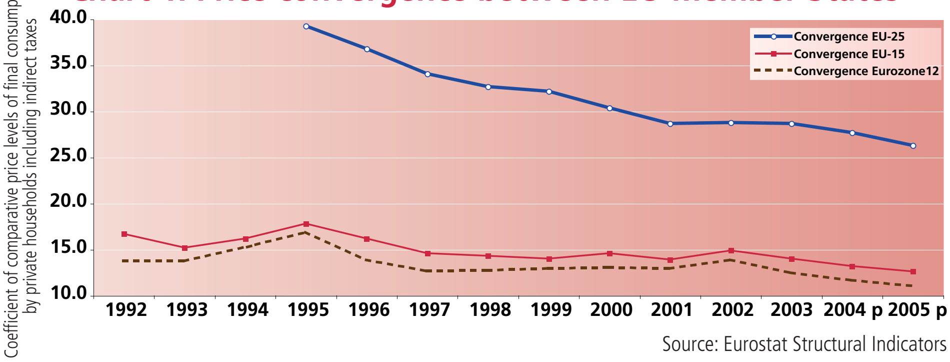
EMU and the single market

Progressive EU enlargements, demographic change and globalisation were all identified by DG ECFIN analysts as contributing to the continuously evolving environment of the single market – however, some of these events have greater significance than others. "A key change in the single market environment since its inception was the implementation of EMU in 1999," says Ilzkovitz. "While the euro complements the single market by reducing costs and increasing transparency and thus increasing integration and competition, the converse, although less obvious, is also true – the single market complements EMU, and in particular its ability to adjust smoothly to external shocks." The ability of prices and wages to respond quickly, and that of people and capital to move easily within the internal market, is essential because this allows rapid adjustments to economic shocks – thus avoiding boom-to-bust cycles in the economy. "The implementation of EMU has put new

"The single market is not static: it is dynamic and operates in a constantly evolving global economy."

Fabienne Ilzkovitz

Chart 1: Price convergence between EU Member States



Source: Eurostat Structural Indicators

requirements on the single market," explains Adriaan Dierx, another of the authors. "In the 21st century a well-functioning and flexible internal market with rapid, market-based adjustment mechanisms that can correct asymmetric shocks, such as changes in supply, is essential to smooth economic cycles and avoid the consequences for jobs and wealth of earlier boom-to-bust cycles."

Growing services

A further development in the single market is the increasing importance of service sectors and the network industries. Services now account for around 70% of employment and added value in the EU, but only 20% of trade between EU Member States. This is partly due to the low tradability of services, which often have a clearly local character, but also there are still significant regulatory barriers to cross-border trade in services. The network industries, such as rail transport, energy or postal services, also have some way to go towards the goal of full market integration.

The economic impacts of the single market

To better understand where further gains might be made in deepening the internal market, DG ECFIN economists then looked at the empirical evidence for its impacts so far. This covered both microeconomic effects, such as on prices, trade flows and the level of competition and innovation; and macroeconomic effects, such as how the single market and liberalisation of the network industries have contributed to higher GDP and employment.

The analyses show that intra-EU trade, cross-border investments and competition have increased, contributing to higher market integration and thus to higher productivity and competitiveness in EU businesses. Tougher competition has also contributed to downward pressure on prices – of benefit both to consumers and businesses – and to price convergence between the Member States (chart 1). Yet there is evidently scope for further trade integration and for price convergence, especially in the service sectors.

A further concern is that the EU continues to have a comparative disadvantage in the high-technology-intensive sectors, suggesting that the single market has been insufficient as a driver of innovation. "The picture that emerges from our analyses is that integration in the single market seems to have lost momentum over recent years," says ECFIN analyst Viktoria Kovács. "To some extent this is quite natural as the remaining barriers become increasingly difficult to remove – but the potential for further progress has not been exhausted. This is seen in the fact that the US is still a more integrated trade area than the EU." (chart 2).

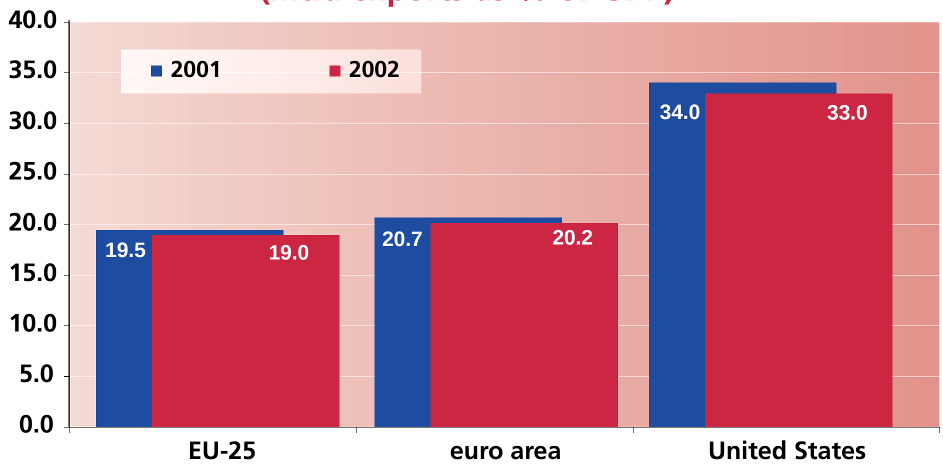
Untapping potential

The report continues by asking why the potential of the internal market has not been fully exploited, and goes on to suggest a number of ideas that could be developed in the review process.

Firstly, it emphasises the importance of the internal markets for services and knowledge for productivity growth, and notes that a more integrated, competitive and flexible internal market can contribute to the smooth functioning of EMU by strengthening its capacity to adjust rapidly to economic shocks. In addition, more common approaches to corporate taxation and immigration could make improve adjustment channels in the more heterogeneous post-enlargement internal market.

It also sets the internal market in a global context. As offshoring of specific parts of production processes becomes easier, industrial and trade policies should enhance the competitiveness of EU businesses. Furthermore, well-designed internal market and external trade policies are mutually supportive, enabling EU standards to be spread beyond its borders while allowing external competition and investment from abroad to drive innovation and productivity at home.

Chart 2: Intra trade in manufactured products (intra exports as % of GDP)



Source: Eurostat

"By closely monitoring markets we can better understand how they function … knowing this, we can then define better polices to make these particular markets more efficient, and more competitive." Marco Buti

As far as the approach to market integration is concerned, the report raises the issue of adjustment costs. Reforms such as opening the services sector to more competition can have short-term costs for some groups, whereas the benefits may only materialise in the longer term. The public acceptance of reforms must be won by providing clear evidence of their overall benefits and addressing the social costs. And lastly, a move from a legalistic approach to a more economic approach based on the monitoring of markets, sector by sector, offers potential benefits, by revealing remaining obstacles to well-functioning markets.

DG ECFIN staff, as part of an inter-service Commission working group, then took this latter idea – on the move towards a more economics-based approach based on sector monitoring – further, and set down some guiding principles. Marco Buti, Deputy Director-General of DG ECFIN, explains. "The suggestion is that by closely monitoring markets we can better understand how they function: what are their characteristics, what are the obstacles, and where the bottlenecks are. Knowing this, we can then define better policies to make these particular markets more efficient, and more competitive. In this way we move towards a more closely targeted and result-oriented approach. A further key element is that we identify those sectors that are important for the future growth and adjustment capacity of the EU economy, so we make the best use of resources to achieve the most beneficial impacts."

Selective targeting

The inter-service group first looked at existing expertise on market monitoring within the Commission and in the Member States – where there is already a wide experience. Building on this, they proposed a two-stage approach: first, a screening of sectors based on: their economic importance, their significance for adjustment capacity and the diffusion of innovations, and signs of market malfunctioning from the perspective of consumers and businesses. Second, an in-depth investigation of selected markets including economic and policy issues is performed to identify whether further action is needed. The guiding principles that emerged from this study were published in an Occasional Paper in June 2007 *(Guiding principles for product market and sector monitoring).*

The group then went on to show how the first stage, sector screening and selection, could operate. Nuno Sousa, a member of the inter-service group, explains, "We first ranked all sectors of the economy on their contribution to growth and jobs, based on their employment and added value today and on high export growth rates in the future. We then ranked all sectors based on their contribution to adjustment capacity – here we used their inter-linkages as measured by their input and output links to the rest of the economy. Then we identified the pivotal sectors for the diffusion of ICT technologies. Finally, we looked for signs of market malfunctioning using productivity performance and customer dissatisfaction as indicators. Bringing all these selection criteria together gave us a list of nine sectors that might bear more detailed inspection."

Together the nine selected sectors account for 30.5% of employment and 22.9% of added value in the EU-25. The majority are services sectors, covering distribution activities, financial services and professional services, and their contribution to employment and added value far outweighs that of the selected manufacturing sectors.

A new approach with new tools

"The work we are doing is a contribution to a new approach to governance of the single market for the 21st century, one that is better suited to the challenges that the EU faces nowadays," explains Fabienne Ilzkovitz. "It is part of a move beyond the emphasis on removing barriers to one of ensuring that markets function better – for the benefit of citizens and business. As well as offering a more results-oriented approach, it would also be more decentralised, requiring close co-operation with national authorities in monitoring and selecting sectors requiring intervention. In this way, market monitoring could contribute to defining the reform agenda for the years ahead in a way that would unleash the internal market's full potential by allowing more effective policy instruments for more open, competitive and innovative markets." ■

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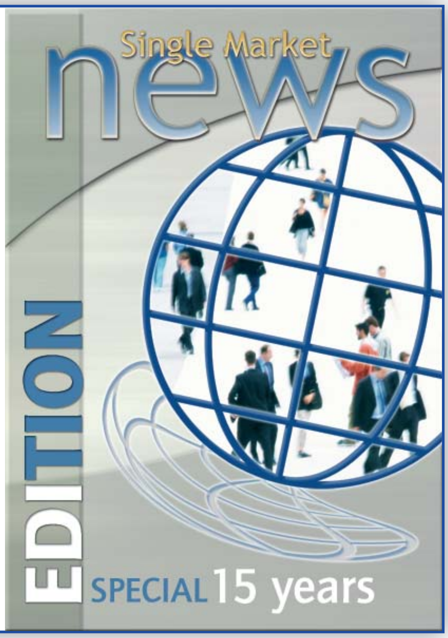


Further information

The Commission's Europa website: Future Single Market Policy

http://ec.europa.eu/internal_market/strategy/index_en.htm

Kosovo: an economy on hold

The undecided status of Kosovo, currently under UN mandate, is hindering economic and social development in the province. The European Commission is providing financial assistance to support the Kosovo public budget, which is currently unsustainable, but a settlement of the final status of the province is badly needed for further economic development. The EU has particular responsibility for economic development in Kosovo, and DG ECFIN has contributed to the economic and financial aspects of the UN proposals for the future status of Kosovo.

© European Commission

EU information campaign – mural in Pristina

Since the Kosovo crisis of 1999, the United Nations Interim Administration Mission in Kosovo (UNMIK) has managed the province. UNMIK exercises civilian executive powers granted by the UN Security Council to build peace, stability and self-government, while contributing to the determination of the future status of Kosovo – an issue of much current political debate and disagreement among the main local and international stakeholders. Until the status is determined, in many ways Kosovo is unable to operate either as an independent sovereign state or as a component of a sovereign state – a situation which brings many restrictions and uncertainties, and puts severe limits on what can be achieved in the political, economic and social spheres. Thus, a rapid resolution of the status of Kosovo is critical to its economic and social development.

The former Finnish President, Martti Ahtisaari, was appointed as the Special Representative for the future status process by the UN Secretary General in 2005. He has worked with all parties to agree on a final status for the province. His report was submitted in March 2006. Since then it has been widely discussed by the main stakeholders, leading to a new round of discussions due to end in November 2007.

Pillars for stabilisation and reconstruction

While discussions on the future status of the province are under way, over recent years UNMIK, with substantial EU support, has been working on building up the machinery of self-government and a modern society across many fields: banking, health, law and order, infrastructure, employment, enterprise and more. Under UNMIK leadership, this work is divided into four 'pillars': pillars I (police and justice) and II (civil administration) are led by the UN; pillar III (democratisation and institution-building) is led by the Organisation for Security and Co-operation in Europe; and pillar IV (covering reconstruction and economic development) is financed by the EU. UNMIK has increasingly handed over responsibilities to the Provisional Institutions of Self Government (PISG) of Kosovo, notably in the economic and fiscal area. The PISG is now in charge of budget preparation and management, even though each annual budget still has to be approved by the head of UNMIK.

Even before the conflict of 1999, Kosovo suffered from isolation and lack of investment, while the conflict itself resulted in damaged infrastructure, a drop in agricultural and industrial production, and a frozen financial sector unable even to make the most basic payments such as wages. Since 1999, large-scale financial and technical assistance from the EU (€2.4 billion in total) and other donors has achieved substantial progress in economic reconstruction and institution building, much of this being channelled through the European Agency for Reconstruction which is currently managing aid projects worth over €1 billion from the EU CARDS (Community Assistance for Reconstruction, Development and Stabilisation) programme. In 2007, the Commission launched its successor, the IPA (Instrument for Pre-accession Assistance) programme.

A key element in the EU efforts to rebuild Kosovo is its inclusion in the Stabilisation and Association Process (SAP) for the Western Balkans, and in particular a European Partnership adopted in 2006. Under the SAP, the EU works together with the Kosovo authorities to identify priorities and reforms which then form the framework for EU support. Importantly, the SAP and European Partnership mechanisms give a European perspective to the partner countries in the Western Balkans. Promoting economic development and establishing a functioning market economy is a key element of the Stabilisation and Association Process.

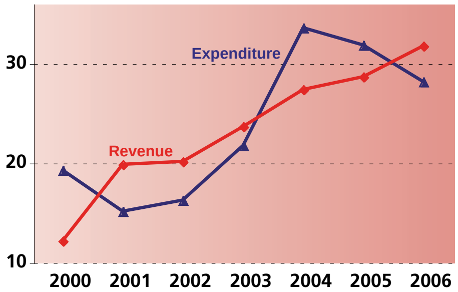
Support to the Kosovan economy

Macro-financial assistance (MFA) (see box) from the EU is of particular importance to Kosovo because, under its current political status, it has very limited possibilities to borrow from institutions like the IMF, World Bank, EIB or EBRD, and hardly any from private financial markets. The province is poor, with an annual per capita GDP of around

A rapid resolution of the status of Kosovo is critical

€1 100, and the World Bank estimates that 37% of the population live in poverty. Unemployment is estimated at 44% (2005), although there is a large grey economy, and many of these are long-term unemployed. Today, Kosovo uses the euro as its currency. After the 1999 war, UNMIK decided to use the German mark – ending the use of the Yugoslav dinar – and the euro later replaced the mark. This means that the authorities do not have the means of an independent monetary policy. Further, for those in work, wages are relatively high, which reduces the province's competitiveness and hinders trade. And Kosovo's current account deficit is very high, reaching over 19% of GDP in 2006. In this macroeconomic framework foreign aid plays an important role in stabilising the economy – in 2006, total foreign aid still amounted to around 18% of GDP – and budgetary policy becomes a critical tool, a sustainable budget being vital.

Kosovo: general government expenditure and revenue (in % of GDP)



Towards a sustainable economy in Kosovo

"The EU provides MFA to Kosovo simply because the fiscal and external positions are currently unsustainable without external assistance. It provides this aid as grants rather than as loans because Kosovo is unable to borrow due to its vulnerable fiscal and external situation," explains Peter Grasmann, Head of Unit for Economic Affairs in the Western Balkans in DG ECFIN. In 2006, following the Commission's request, the Council approved a grant of up to €50 million of macro-financial assistance for Kosovo, although it is currently on hold as the province produced, surprisingly, a surplus close to 4% last year, despite a predicted deficit. "This demonstrates why it can be so difficult to plan and implement economic policy in Kosovo," Grasmann says. "Budgets are highly volatile. So we at DG ECFIN will keep monitoring the situation and intervene later with budget support if needed."

The settlement of Kosovo's status is urgent, as it would allow the economy to move forward by providing higher predictability and certainty for investors and normalising economic relations with the outside world. "On behalf of the Commission, DG ECFIN advised Ahtisaari on the economic and financial elements of his proposal, in particular on three issues," relates Grasmann. "First we proposed a fiscal surveillance and dialogue with the Kosovo authorities, in co-operation with the IMF. We then looked at the sovereign debt of the former Yugoslavia. Here, some form of arbitration may be needed, depending on the outcome of the status settlement. Finally, there is the issue of property rights – where the devil is in the detail."

Ownership issues

Kosovo has inherited many 'socially-owned enterprises' (SOEs) from its Yugoslav parent – for example, services and manufacturing companies – in addition to purely public enterprises, such as utility companies. UNMIK has privatised many of these SOEs and continues to do so, and this has raised strong Serb objections. "There are many appeals concerning the ownership, and thus the beneficiaries, of the privatisation of SOEs. For that reason, the privatisation receipts are now set aside in trust funds and cannot yet benefit the Kosovo economy," warns Grasmann.

These issues are important for the EU because once a settlement of status is agreed, it will take a larger role in Kosovo, with an EU representative leading an international mission which will have to watch and secure the full implementation of the settlement. So, while an eventual settlement will help bring Kosovo and the Kosovan economy out of its present limbo, there is a difficult road ahead for negotiators. ■

Macro-financial assistance

Originally, macro-financial assistance (MFA) was an intra-Community mechanism for granting loans to Member States, usually to help balance their external accounts and relieve tight financial situations. These loans were temporary and administered by the Member State's central bank in support of the national currency. In this form, MFA was an expression of economic solidarity between the Member States in the decades before Economic and Monetary Union. Later, following the break-up of socialist regimes and as the countries of Central and Eastern Europe moved towards accession, a number of them received MFA to ease external financial difficulties and crises and support economic stability on the road to the EU. Today, the main recipients of MFA are countries in the Western Balkans and Central Asia, where it is granted to provide temporary support to central banks, usually as loans but sometimes with grant elements and sometimes as outright grants. In this form, MFA plays a role in the Union's international aid and development programmes, and its deployment is coordinated closely with programmes of the international financing institutions, such as the IMF and the World Bank, and is linked to economic reforms in the recipient countries.

Further information

MFA on the DG ECFIN website
http://ec.europa.eu/economy_finance/about/activities/activities_macrofinancialassistance_en.htm

Kosovo on the DG Enlargement website
http://ec.europa.eu/enlargement/serbia/kosovo/index_en.htm

The European Commission liaison office in Kosovo
http://www.delprn.ec.europa.eu/en/index.htm

Finance for Europe's growing enterprises

In the years leading up to 2013, the European Union will put €1.1 billion into a set of financial instruments which will help small firms throughout Europe gain better access to the funds they need in order to grow. Part of the EU's Competitiveness and Innovation Programme, they are designed to bridge the gap between the financial sector and small enterprises looking for funds. They will build on the success of instruments that have helped more than 330 000 firms, employing close to 1.9 million people, find finance since 1998.

At the heart of the European Union's tasks in coming years is that of fostering economic growth and job creation – the so-called Lisbon Strategy. Creating the conditions in which entrepreneurs are encouraged to put their ideas into practice allows more small enterprises to be created, and making it easier for small firms to grow is fundamental to success in this strategy. The Competitiveness and Innovation Programme (CIP) (see box) provides a funding mechanism for the EU to help develop the environment in which enterprises can flourish. But finding the funds to get an enterprise started, or to expand an existing small firm, remains one of the biggest challenges entrepreneurs face.

Gap in the market

There are many reasons why firms with decent prospects of building a good business face difficulties in finding finance. Where debt financing is concerned, sometimes banks are reluctant to extend loans to firms that do not have sufficient collateral or to start-ups – firms that are just starting their operations. As for equity financing, the amount of funds which small firms seek may be too small for investors to justify the costs related to making the required investment. And some investment funds and banks may simply not have the in-house expertise necessary to assess and manage investments in small firms.

Over the past decade, the European Commission has developed a set of financial instruments, with the aim of encouraging investors to do more business with small firms. "The results achieved by these instruments over that time have been very impressive; so much so that we have almost doubled the funds that will be available in the coming years," says James McGing, Head of DG ECFIN's EIF Programme Management Unit. The financial instruments have been renewed for the period 2007-2013, and with a budget totalling €1.1 billion over that time, are set to enable hundreds of thousands of small companies to obtain finance more easily than they otherwise would. (It is also the case that many small firms are under-prepared for the process of seeking finance, and so fail to convince potential investors of their plans' likely return. The Commission has also developed initiatives to counter this.)

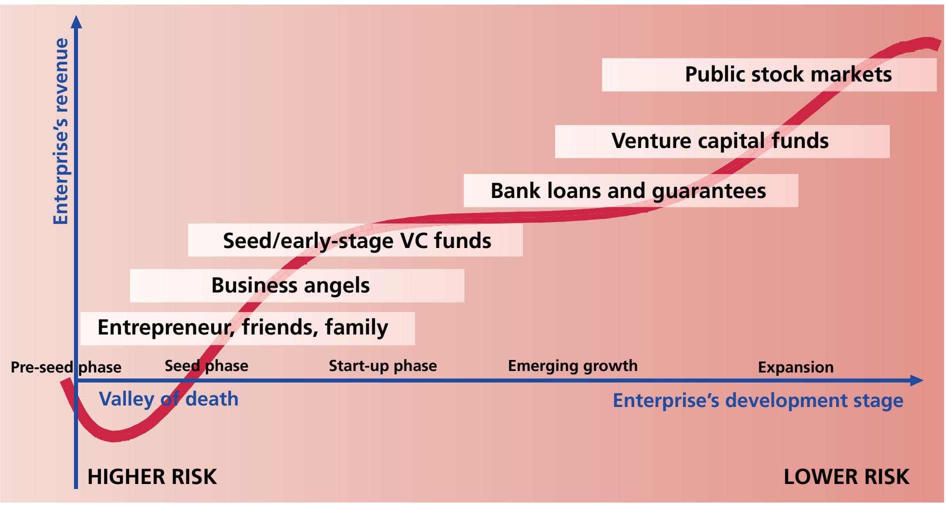
Tailored approach

There is no 'one-size-fits-all' approach to finding finance. Rather, the nature of the business and the stage of the firm's development are key to the investment approach appropriate at any given point in time. Moreover, there are still significant differences in financial markets, and in established practices, between different Member States, so a firm's location also plays a role in determining the type of finance suitable.

The diagram shows the different phases of development of a small firm, with the types of investment appropriate to each stage. The mechanism, amount of funds, and the nature of the partner involved varies, but the partners fall into two categories. First, partners who take a stake (equity) in the business, becoming part-owners, who therefore share in its success, but stand to lose their entire investment if the business fails. Second, partners who simply lend money to the business, with the expectation that they will be paid back with interest, although they bear a risk that the business will fail and they will get little or none of the principal back. Conversely, if the business is very successful, the lender will still only receive back the principal plus interest. In some financing methods, the two categories are mixed, or loans can be converted into equity.

In 2007-2013, the Commission will implement three parallel financial instruments: the Risk Capital Facility, in the area of equity finance; the SME Guarantee Facility, in the field of loans; and the Capacity Building Scheme, to enable the financial sector to work more with small firms. The budget allocated to the first two will amount to around half a billion euros each, with the remainder of the €1.1 billion budget dedicated to capacity building. The European Investment Fund (EIF) has been mandated by the Commission to implement the instruments.

The phases of financing for growing firms



"These financial instruments are amongst the most cost-effective of any public measures to support job creation."

James McGing

© Roman Milert

Risk capital

The Risk Capital Facility (GIF) will invest in venture capital funds which focus on small, high-growth firms. A condition for GIF investment is that all a fund's investment decisions are made on the basis of commercial market principles. Nonetheless, the EU's stake in such funds enables them to raise their profile and attract investors more easily. Funds which specialise in eco-innovation will have the possibility of proportionately higher EU shares in their capital.

The GIF builds on the achievements of its predecessors, which have invested some €309 million since 1998 in 39 funds, leading to investments in a total of 357 small firms. The leverage effect, acting as a catalyst for investment funds raising money, is strong, as the EU investment in these funds amounted to just 17% of their combined total capital. In 2007-2013, there will be 'seed and early-stage' (GIF 1) and 'expansion stage' (GIF 2) interventions from the GIF. Overall, the venture capital instrument will now cover much of the life cycle of small, dynamic firms, and will also be able to work with business angels, supporting their investments.

Loan guarantees

The SME Guarantee Facility enables banks to increase their portfolios of loans to small firms, and extend loans to entrepreneurs and companies with higher risk profiles, or at lower cost, or with less security, than they might otherwise have done. It also supports micro-credits – loans of up to €25 000 – where banks' costs may discourage them from entering this market. In short, the facility means that the EU shares some of the risk of lending to small firms, in return for a commitment from the banks concerned to increase the scope of their lending to small companies.

Since 1998, the EU has provided guarantees to banks and financial institutions to a value of €441 million, covering loan portfolios totalling almost €28 billion. The institutions to whose 74 loan portfolios the Union has extended guarantees have lent funds to a total of more than 330 000 small firms.

Capacity building

The Capacity Building Scheme has two strands, providing grants to financial-sector operators to develop their know-how and abilities to invest in small firms. The Seed Capital Action will enable venture capital funds to recruit additional staff specialised in working with firms in the early stage, i.e. before start-up, when the risks are high and many investment funds steer clear. The Partnership Action will help financial intermediaries and banks to develop stronger credit appraisal techniques and procedures. In particular, it will aim at improving banks' capacities to assess commercial prospects in the field of eco-innovation.

Spreading the benefit

The leverage effect of both the guarantee facility and the GIF ensures EU funding benefits a far higher number of small firms than any system of direct grants could. The increased budget allocated for the next seven years will enable more small companies throughout the EU to benefit than ever before.

"Our research shows that, on average, each investment in a company saves – or creates – 1.3 jobs. When we take into account the income tax paid by these workers, the net investment by the EU is paid back within a few short months," concludes McGing. "And that makes these financial instruments amongst the most cost-effective of any public measures to support job creation." ■

Competitiveness and Innovation Programme (CIP)

The EU's Competitiveness and Innovation Programme, which runs from 2007-2013 with a total budget of €3.6 billion, aims to foster SMEs' competitiveness, promote innovation, in particular eco-innovation, speed up the development of the information society and promote energy efficiency. Three specific programmes make up the CIP targeting: Entrepreneurship and Innovation, Information and Communications Technologies, and Energy Efficiency. Each builds on initiatives undertaken in the years up to 2007, but by bringing them all together within the CIP, the Commission seeks to ensure individual actions better contribute to the overall goals of the Lisbon Strategy and do not conflict with each other.

The financial instruments fall under the Entrepreneurship and Innovation specific programme (EIP), accounting for more than half of its €2.1 billion budget. In parallel to the financial instruments, the EIP will also support initiatives to improve entrepreneurs' and companies' capacities to obtain investment. Other activities within the EIP include initiatives to foster SME co-operation, encourage innovation, develop entrepreneurial culture and improve the administrative environment for businesses.

http://ec.europa.eu/cip/index_en.htm

Further information
http://ec.europa.eu/enterprise/entrepreneurship/financing/financial_instruments.htm
http://www.eif.org/index.htm

The economy of the Czech Republic

Of the mainly Central and Eastern European countries that joined the EU in May 2004, the Czech Republic has one of the most developed and prosperous economies, characterised by strong growth, low inflation and continued heavy inflows of foreign investment. However, like many of its peers it must address persistent long-term unemployment and a high public deficit in order to prepare for eventual euro entry.

Škoda: one famous Czech export

The Czech Republic has traditionally had a strong focus on so-called secondary sectors, including transport and transport-related equipment, oil-refining products and chemicals, machinery production and – famously – brewing, along with a service industry which is currently experiencing stronger growth. The car-making industry has also attracted a number of foreign investors eager to take advantage of a cheap and highly skilled workforce. Czech car-maker Škoda is owned by Germany's Volkswagen AG, Europe's largest car-maker, while Korea's Hyundai Motor Co. plans to build a new plant in the Moravia-Silesia region by 2009, which is expected to churn out 300 000 vehicles annually.

Transition to a market economy

Following the so-called 'Velvet Revolution' in 1989, the first democratic elections led to a comprehensive privatisation programme in Czechoslovakia, one of the region's earliest. Unlike neighbouring countries, Czechoslovakia focused privatisation on domestic ownership, granting no fiscal advantages to foreign investors. These large domestic privatisations and the resulting upsurge in small enterprises fuelled economic growth for several years, aided by cost advantages in export markets and a substantial devaluation of the koruna in 1990. Three years after the 1993 break-up of Czechoslovakia, the Czech economy went into recession amid rising wage costs and inflation and a burgeoning current account deficit. Drawing on the experience of earlier privatisations and pursuing foreign capital, the government introduced an incentive scheme in 1998 for foreign investors. Foreign direct investment (FDI) inflows increased substantially, including an influx of greenfield FDI.

Growth resumed in 1999, with inflation cut to less than 2% and a moderation in wage rises from public sector restraint and a looser labour market. Export growth picked up, benefiting from the currency devaluation and resumed FDI inflows, which accounted for 11% of GDP in 1999. The renewed foreign investment helped modernise industrial capacity across several sectors and boost productivity. From 2001-2005, the contribution of productivity to GDP growth increased substantially. However, the average number of hours worked and participation rates has remained below those of the other new Member States. "Thanks to a well-educated workforce and its central location in Europe, the Czech Republic was able to attract a considerable amount of foreign investment, which is key for enhancing the efficiency of the economy," says Filip Keereman of DG ECFIN, responsible for monitoring and analysing the Czech Republic's economic and budgetary development.

FDI on the up

Since 2000, the economy has enjoyed substantial foreign investment, with the Czech Republic receiving higher FDI inflows than any other Central and Eastern European country as a proportion of GDP. These have been mainly in motor vehicles, food products and tobacco and non-metallic industries, as well as large banks and utilities. An estimated 90% of the country's banking sector is in foreign hands today. In 2005, the government sold its 51% stake in telecommunications firm Český Telecom to Spain's Telefónica SA. In comparative terms, foreign firms appear to have been considerably more profitable than domestic ones.

After growing at record levels of 6% of GDP in 2005 and 2006, real GDP growth is expected to moderate slightly in 2007 and 2008 at around 5.25%, nearer the potential level and pulled mainly by domestic demand. The contribution of net exports, which had been the main economic driver in 2005, has gradually decreased due partly to rising imports.

Progress of the Czech economy towards EU income levels has been uneven. Between 1995 and 2000, the income differential between the Czech economy and the EU average widened significantly, mainly as a result of the recession. Since 2000, there has been steady convergence, with the Czech Republic reaching 73% of GDP in terms of purchasing power standard of the EU-25 average in 2005.

"Further strong growth in the Czech economy, comparable to recent levels, will need to be supported by stable and sustainable public finances."

Filip Keereman

Czech Republic
(Česká republika)

Currency: Czech koruna
Population: 10.2 million
GDP per capita in purchasing power standards (EU-27=100): 79%
Real GDP growth rate: 6% (2006)
Public sector deficit (as a % of GDP): 2.9% (2006)
General government debt (as a % of GDP): 31% (2006)
Source: *European Commission*

Path to the euro

Upon joining the EU in 2004, the Czech Republic pledged to eventually join the euro area and adopt the common currency. This process is governed by 'convergence programmes', prepared by each Member State and submitted to the Commission and the Council for agreement. These programmes, part of the Stability and Growth Pact, outline the economic measures each country will take to ensure price stability, sound public finances and strong, sustainable growth, which lays the groundwork for job creation. Specifically, countries must limit government deficits to within 3% of GDP and debt to within 60% of GDP. They are also obliged to bring inflation down to within 1.5 percentage points of the 12-month average inflation rate of the three EU nations with the slowest annual consumer-price growth.

The Czech Republic submitted its most recent convergence programme, covering the period 2006-2009, on 15 March 2007. Under the corrective arm of the Pact, the Council placed the Czech Republic in excessive deficit in July 2004. It has until 2008 to correct this deficit.

At 30.6% of GDP in 2006, the Czech Republic's public debt is well below the reference value set down in the Treaty, but it is expected to rise by almost two percentage points between 2006 and 2009. Despite better growth prospects and a lower-than-expected deficit in 2007, the programme submitted in March 2007 nevertheless postpones the correction of the excessive deficit by at least one year compared to the 2008 deadline set in July 2004. The Council has recommended that the original deadline be adhered to.

The government has taken a cautious approach to adopting the euro. In its strategy for euro adoption approved in August 2007, the government did not set a target date for entry, after dropping an earlier target of 2010, reasoning that it must first tackle the state of public finances as well as a tight and inflexible labour market.

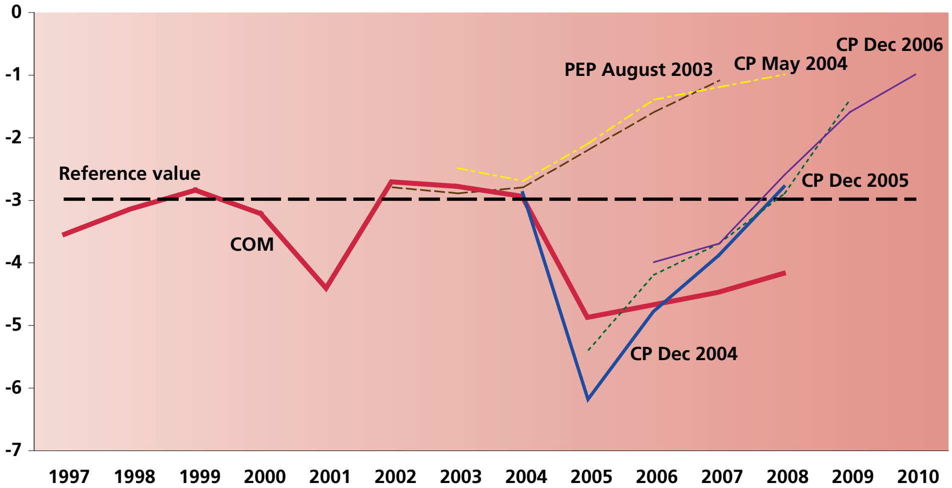
Challenges ahead

While unemployment has fallen since 2000, the proportion of long-term unemployed remains high, with further falls likely to be tempered by structural factors, including a relatively high tax wedge on employment. Long-term unemployment remains stubbornly high due to a skills mismatch between many vacancies and job-seekers. Compared to other new EU Member States, the Czech Republic has a relatively low emigration rate, with Czechs generally preferring to stay home rather than seek employment abroad.

The annual budget includes a high proportion of social expenditures including for pensions and health care, which is increasing amid an ageing population and thereby putting the long-term sustainability of public finances at high risk. While the pension system is broadly in balance, this is expected to deteriorate in the medium term. In its stabilisation package, adopted by the lower house of parliament in August 2007, the Czech government pledged to make cutbacks in social expenditures to decrease the budget overall; pensions and health were not addressed.

The challenge in reducing the inefficiency of public spending will be to focus resources on promoting growth. Recent moves by the government to shift the tax burden from indirect to direct taxation and to lower taxes on labour are a step in the right direction. The Czech Republic also recently introduced measures aimed at improving the transparency and accountability of public finances. ■

General government balance projections in successive convergence programmes (% of GDP)



Note: PEP = pre-accession economic programme
Source: Commission services' autumn 2006 forecast (COM) and successive convergence programmes

Further information
More information can be found on the Member States' country pages under 'EU Economic Situation' on the DG ECFIN website:
http://ec.europa.eu/economy_finance/index_en.htm

Looking ahead

For your diary

19-20 November 2007, Brussels A European Commission-sponsored conference

Beyond GDP: Measuring progress, true wealth and the well-being of nations

The European Commission, European Parliament, Club of Rome, OECD and WWF will host a high-level conference to clarify which indices are most appropriate to measure progress, and how these can best be integrated into the decision-making process and taken up by public debate. The conference will bring together high-level experts and policy-makers to address these critical issues, and Commissioner Almunia will speak. Invitations to the conference can be requested from the conference website: **www.beyond-gdp.eu/index.html**

26-27 November 2007 A workshop

EMU at 10: achievements and challenges

On 1 January 2009 it will be ten years since the move to the final stage of implementing EMU and the launch of the euro. DG ECFIN and the Bureau of European Policy Advisors (BEPA) are organising this workshop as part of the preparations for a strategic review of EMU on its tenth anniversary. It will assess the past, present and future of EMU, its functioning, policy mix and impacts in the context of monetary union.

29 November 2007, Brussels, a DG ECFIN seminar

Germany: from the sick man to the powerhouse of Europe

Is the present economic upturn only a transitory cyclical high or has Germany definitively overcome the distortions related to reunification and can be expected to resume its role as a driver of strong and sustained growth in Europe? What will happen to the German reform agenda? How should the identified obstacles to hiring and job search, to capital formation, innovation and qualification be addressed? These and related issues will be discussed by European economists in a half-day seminar on Germany, hosted by DG ECFIN.

30 November 2007, Brussels, a DG ECFIN workshop

Achieving and safeguarding sound fiscal positions

Taking the SGP as the context, this workshop aims to improve understanding of the tools needed to achieve and then keep a sound fiscal position. Topics will cover the lessons from past successes, the political and institutional settings that support the effective implementation of budgets, the role of medium-term budgetary frameworks, and the arrangements that give incentives to use the good times well and avoid pro-cyclical policies.

30 November to 1 December 2007, Frankfurt, an ECB workshop

Forecast uncertainty in macroeconomics and finance

This fifth ECB workshop on forecasting techniques will present recent theoretical and empirical contributions on forecast uncertainty in the areas of macroeconomics and finance. The assessment of forecasts is of particular interest to those who use them, and who are confronted with the need to evaluate the importance of forecasts from different sources and models. For more information see 'events' on the ECB website: **www.ecb.eu**

March 2008, Brussels European Commission conference

Public finances in the EU

The European Commission, through its Bureau for European Policy Advisers (BEPA), will organise a major academic conference that will focus on the economic aspects of EU budgetary spending and financing, from the perspective of the long-run development of how the EU is funded. Issues to be covered include: the main factors affecting EU policy priorities, the assignment of policy responsibilities between EU, national and regional levels, possible EU taxes, and decision-making on the budget. For more information see the 'events' section of the DG ECFIN website or the BEPA website: **http://ec.europa.eu/dgs/policy_advisers/index_en.htm**

Commission agenda

In November

DG ECFIN will publish 'The EU economy: 2007 review', an annual report on the economic situation and policy issues facing the EU and the euro area. It provides a starting point for the annual round of policy discussion within the EU, in particular by highlighting and analysing topical challenges. This year the focus will be on EMU, productivity dynamics and long-term growth.

In November

The Commission will report on opinion polls in the EU-13 and in the EU-11 Member States. The Commission conducts regular Flash Eurobarometer surveys – annually in the euro-area Member States and twice yearly in the newer Member States – to gauge public perceptions of the euro. The survey in the euro area looks at how accustomed people have become to the common currency and their attitudes towards it. The EU-11 survey examines people's familiarity with the euro, the communication channels they prefer, and the expectations they may have of the euro.

In November

DG ECFIN will publish the autumn economic forecast for the EU and the euro area. Its two-year projections of macroeconomic indicators are published twice a year, in the spring and autumn, and provide a basis for analysis and policy-making. The 2007 autumn forecast will appear on 9 November and will be available on the DG ECFIN website.

In December

DG ECFIN will publish the next 'Quarterly report on the euro area' (QREA) with a special focus on 'euro-area productivity trends – a new industry perspective'. The QREA contributes to a better understanding of economic developments in the euro area and public discussion on economic policy-making.

Further information
http://ec.europa.eu/economy_finance/events/

A new website for DG ECFIN

Together with the publication of this issue of *European Economy News*, the new website of the Directorate-General for Economic and Financial Affairs will come on-line at the end of October 2007. The new website collects all the information from our old website, which has grown organically over the years, and puts it into what we hope is a clearer, more logical, more user-friendly structure. The new website has:

- A bright new design with a more logical organisation and navigation
- A new pdf document search tool allowing keyword and thematic searches
- A new section on the euro aimed at the general public, with a kids' corner for the younger economists
- Multilingual higher level pages – in all 23 EU languages
- More explanation of our activities: what we do, why we do it, and how we do it
- A RSS newsfeed for keeping up to date with the latest news from DG ECFIN

The new DG ECFIN website is located at the same internet address on the European Commission's europa server: http://ec.europa.eu/economy_finance/index_en.htm

Editorial information

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Recent research and analysis by DG ECFIN

European Economy Research Letter


European Economy Research Letter

The Directorate-General for Economic and Financial Affairs publishes a regular web-based newsletter on the research activities of its staff – the European Economy Research Letter. The most recent issue (July) features articles on the economic impact of structural reforms and the use of market monitoring methodology in the internal market. The next issue is planned for November 2007. The European Economy Research Letter is available free of charge by e-mail subscription on the DG ECFIN website: **http://ec.europa.eu/economy_finance/publications/researchletter_en.htm**

Research publications

DG ECFIN also publishes frequently on economic research relevant to the European Union, which is conducted by staff at the DG. These publications appear as part of the *European Economy* series, available as print and web versions. The main *European Economy* series includes major reports and communications to the Council from DG ECFIN on behalf of the European Commission.

Within the *European Economy* series, *Economic Papers* and *Occasional Papers* cover the analytical and policy work done by the staff of DG ECFIN, sometimes in co-operation with external researchers. The fortnightly *Country Focus* series covers topical economic issues affecting one or more Member States. Some recent titles from these publications are:

Economic Papers

Recent publications include:

Testing the EU fiscal surveillance: How sensitive is it to variations in output gap estimates?

By Sven Langedijk and Martin Larch of DG ECFIN. European Economy, Economic Papers, No 285, August 2007, European Commission. ISBN 978-92-79-04638-4

Real-time estimates of potential output are essential in the EU fiscal surveillance framework. They are used in calculating the cyclically adjusted budget-balance, one of the main indicators in the assessment of the fiscal performance of the EU Member States. This paper examines how different degrees of smoothness of potential output would have supported different decisions – of timing and substance –in the budgetary surveillance process in the past.

More titles…

- What drives inflation perceptions? A dynamic panel data analysis
- The potential impact of fiscal transfers under the EU Cohesion Policy programme
- A quantitative assessment of structural reforms: modelling the Lisbon Strategy
- Nominal and real wage flexibility in EMU

Occasional Papers

Recent publications include:

2006 Pre-accession Economic Programmes of candidate countries

By the Staff of DG ECFIN. European Economy, Occasional Papers, No 31, June 2007, European Commission. ISBN 978-92-79-04689-6

In this Occasional Paper DG ECFIN publishes its overview and assessments of the 2006 Pre-accession Economic Programmes (PEP) of the candidate countries (Croatia, the former Yugoslav Republic of Macedonia and Turkey). The PEPs have two objectives. First, to outline the medium-term policy framework, including public finance objectives and structural reform priorities needed for EU accession. Second, to help develop institutional capacities in the candidate countries to participate in EU surveillance processes.

More titles…

- Main results of the 2007 fiscal notifications presented by the candidate countries
- 2006 economic and fiscal programmes of potential candidate countries
- European Neighbourhood Policy: Economic Review of EU Neighbour Countries
- Guiding principles for product market and sector monitoring

Country Focus series

Recent publications include:

The business cycle in Poland: where do we stand?

By Michał Narożny of DG ECFIN. Country Focus, Volume IV, Issue 9, August 2007, European Commission.

This study analyses the statistical characteristics of the Polish business cycle. The author shows that economic fluctuations in Poland differ somewhat from those in other emerging and mature economies, with Polish growth being notably more volatile and government expenditure highly erratic. Available data suggest Poland is currently approaching the peak of the second business cycle since switching to a free market economy, and the author notes that, this time, Poland seems to be better placed to avoid the large macroeconomic imbalances that appeared in the first cycle.

More titles…

- Long-term growth remains a challenge for Slovakia despite the current boom
- Spain's external deficit: how is it financed?
- External imbalances in Croatia: a matter of concern?
- Upswing in Germany: how long will it last?

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