

No 14

July 2009

# EUROPEAN ECONOMY *news*



## Beyond the crisis?

a changing economic landscape

ISSN 1830-5180

Magazine of the Directorate-General for Economic and Financial Affairs



EUROPEAN  
COMMISSION



Economic  
and Financial Affairs  
DIRECTORATE-GENERAL

# Table of contents



## NEWS UPDATE

A round-up of the most important economic and financial developments affecting Europe

3



## NEWS IN DEPTH

### The clock is ticking... Ageing and the long-term sustainability of public finances

Ageing is one of the most serious challenges facing Europe and its impact will be felt as early as this year

5

### The Brussels Economic Forum Beyond the crisis: a changing economic landscape

Participants in the Forum explored the lessons learned from the crisis and how we can move forward

8

### Europe's proactive response to the economic crisis

The EU continues to propose and implement a comprehensive programme of economic reform

10

### EU public finance takes a battering

Public finances throughout the EU have been battered by the crisis and may take several years to recover

12

### EU steps in with emergency financing for three member states

The EU has stepped in with euro 15 billion of emergency financing for Hungary, Latvia and Romania

13



## LOOKING AHEAD

Important upcoming economic and financial events

14



## RECENT RESEARCH AND ANALYSIS BY DG ECFIN

DG ECFIN's staff regularly produces a newsletter, economic briefs and research publications on a variety of current topics

16

# Editorial



Dear Reader,

As we go to press with this edition of European Economy News, signs of so-called 'green shoots' have started appearing. Let's hope these indicate that the worst is finally behind us.

Nonetheless, we must remain vigilant. We need to continue to implement – and monitor – the European Economic Recovery Plan, a consistent package of measures designed to put us on

the path of full recovery. In addition to measures which have already been implemented or are in the pipeline, the European Commission has made further proposals at the European Council meeting in June. These proposals, based largely on the recommendations of the de Larosière Group, will put in place a new European system of financial supervision.

Many of the ideas put forward by the Commission were discussed by participants in the 10<sup>th</sup> Brussels Economic Forum (BEF) in May, notably reforms in the areas of financial supervision, governance and macroeconomic policy.

We report on the Forum in this issue, including a special focus on the topic of ageing and the sustainability of public finances. The 2009 Ageing Report was presented and debated at the conference.

As Commissioner Almunia noted in his opening address to the BEF, although immediate crisis response is the first priority, we must take a longer-term perspective. We need to address questions such as how to plan for the unwinding of economic recovery plans, how to ensure that history does not repeat itself, and how to position Europe to manage the challenges of globalisation, ageing and climate change.

Indeed, Europe now has a chance to look beyond the immediate crisis. And building – rather than purely crisis response – is what the European project has always been about.

**Marco Buti**

*Director-General, Economic and Financial Affairs DG*





# News in brief

## Quarterly Report on Euro Area released

The latest issue of the Quarterly Report on the Euro Area was released on 25 June. As is customary, the report reviews the most recent economic and financial developments in the euro area. It also proposes an assessment of the effectiveness of financial rescue packages. The June issue features two focus sections with in-depth analysis of 1) the implications of the financial crisis on medium-term prospects for output; and 2) the impact of ageing on growth and public finances (based on new demographic projections).

## Four more countries enter excessive deficit procedure

As Lithuania, Malta, Poland and Romania reported budget deficits of more than 3% in 2008, on 24 June the European Commission concluded that they were in a situation of 'excessive deficit'. It recommended that the Council adopt a recommendation on corrective measures and deadlines for the situation to be remedied. It also recommended a revised deadline for Hungary, in view of the exceptional situation characterised by the depth of the current recession and the fragility of the financial sector. Deadlines are proposed depending on the fiscal starting point and the scope for manoeuvre in line with the European

Economic Recovery Plan (EERP), the economic outlook, macroeconomic imbalances and financing conditions. They are 2010 for Malta, 2011 for Hungary, Lithuania and Romania, and 2012 for Poland. In a reflection of the challenging economic environment, the four countries follow six other countries that have entered the excessive deficit procedure over the past year: the United Kingdom, Spain, Greece, Ireland, Latvia and France.

## European Council endorses financial reforms

Meeting in Brussels on 18-19 June, the European Council supported the creation of a European Systemic Risk Board which will monitor and assess potential threats to financial stability and, where necessary, issue risk warnings and recommendations for action. The European Council also recommended the establishment of a European System of Financial Supervisors, comprising three new European Supervisory Authorities, and called on the Commission and Member States to accelerate their work on countering the procyclical effects of regulatory standards.

[www.consilium.europa.eu](http://www.consilium.europa.eu)

## June ECOFIN Council approves reform of EU supervisory framework for financial affairs

Meeting on 9 June, the Economic and Financial Affairs (ECOFIN) Council approved proposals by the Commission on reform of the EU's supervisory framework for financial services, based on the recommendations of the de Larosière group, which it subsequently submitted to the June European Council. In addition to the European Systemic Risk Board, the new framework will establish supervisory authorities dealing with the banking, insurance and securities industries. Working in a network with national supervisors, they will prepare technical standards, ensure the consistent application of EU law and resolve disputes between national supervisors. The Council also adopted conclusions on the international financing of climate change measures and on the international promotion of good governance in tax matters.

## Commissioner praises Central and Eastern European countries

Speaking in Warsaw to commemorate the 20th anniversary of the collapse of communism, Commissioner for Economic and Monetary Affairs Joaquín Almunia praised Central and Eastern European countries for the progress they have made. He also noted that the 20th anniversary of the fall of the iron curtain coincides with the 5th anniversary of European enlargement, and that enlargement has provided "an anchor for stability and peaceful change." According to Almunia, there are still areas which need improvement, however. Long-term unemployment, high external deficits and overheating are some of the problems that must be addressed.

## ECB eases credit markets with bond purchase plan

The euro hit its highest level against the dollar for a month on 7 May, after the European Central Bank (ECB) cut its main interest rate to 1.0 percent and announced plans to buy €60 billion of covered bonds. The Governing Council of the ECB decided to conduct liquidity-providing longer-term refinancing operations (LTROs) with a maturity of one year. The move was part of a package of measures it hopes will pull the euro



EUROPEAN COUNCIL - Brussels, 18 and 19 June 2009 - Group photo



©European Parliament

area out of recession and boost confidence in credit markets.

### Parliament backs tighter capital rules for banks

The European Parliament adopted tougher bank capital rules on 6 May. The new rules are designed to restore confidence to markets shaken by the financial crisis. Under the new rules, banks will be required to retain five percent of the securitised products they originate and sell. The reform also puts a ceiling on how much a bank can lend to another bank, to protect the wider financial system from being hurt should loans turn sour, and approves the establishment of colleges of supervisors for all big cross-border banks. EU banks will have to comply with the new rules from 2010.

[www.europarl.europa.eu](http://www.europarl.europa.eu)

### May ECOFIN Council eases access to funds

At its regular meeting on 5 May, the ECOFIN Council adopted regulations that facilitate access to grants from the European Social Fund. The new regulations are intended to mitigate the social impact of the financial crisis. The Council also decided to make energy efficiency improvements and renewable energy schemes eligible for support from the European Regional Development Fund. Both texts are part of the European economic recovery plan approved in December.

### Commission releases spring economic forecasts

GDP in the European Union is projected to fall by 4% this year and to broadly stabilise in 2010, according to the Commission's spring forecast, published on 4 May. The main factors behind the recession are the worsening of the global financial crisis, a sharp contraction in world trade and ongoing housing market corrections in some economies. However, with the impact of fiscal and monetary stimulus measures kicking in, growth is expected to regain some momentum in the course of 2010.

### Countries contribute to the pot at IMF-World Bank spring meetings

Attending joint meetings of the World Bank and the IMF in Washington, DC on 25 April, finance ministers and central bank governors agreed to increase the resources available to the IMF through immediate financing from members of US \$250 billion. They also agreed that this amount could be increased by up to US \$500 billion, and that market borrowing would be considered, if necessary. Commitments by Japan, Canada, members of the EU, Norway, Switzerland and the US ensured a doubling of the Fund's loanable resources. The government officials also agreed to

enhance IMF surveillance by improving its analysis of macro-financial linkages, cross-border spillovers, and sources of systemic risk.

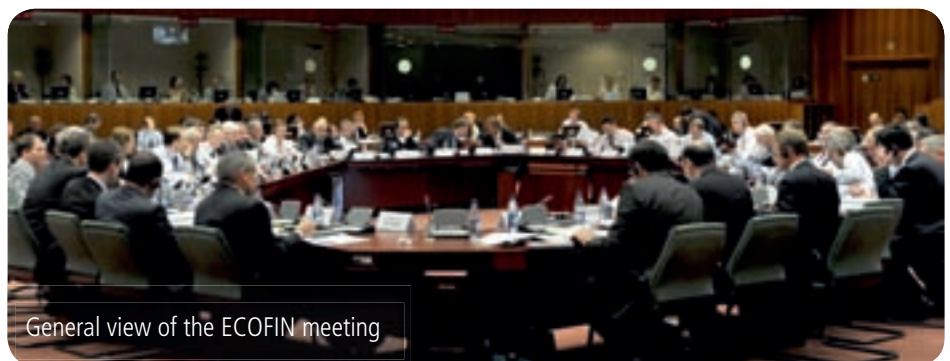
[www.imf.org](http://www.imf.org)

### SME Finance Days held in Madrid and Vienna

Three SME Finance Days took place this spring, most recently in Sofia on 28 May, following earlier events in Vienna on 10 March and in Madrid on 23 February. These were the latest in a series of events being organised in all EU capitals to explain the policy behind the financial instruments. Through the Competitiveness and Innovation Framework Programme (CIP), the EU helps SMEs across the EU to access loans and equity to grow and develop their businesses. The financial instruments are operated by the European Investment Fund (EIF) in cooperation with national, regional and local financial institutions. In Sofia Richard Pelly, CEO of the European Investment Fund, was the keynote speaker. In Vienna, the Commission's Heinz Zourek, Director-General for Enterprise and Industry, topped the bill. In Madrid Commissioner Almunia topped an impressive line-up of speakers, including the Spanish Minister for Industry, Tourism and Trade, Mr. Miguel Sebastián. The event received extensive coverage in the Spanish media.

[www.sme-finance-day.eu](http://www.sme-finance-day.eu)

[www.access2finance.eu](http://www.access2finance.eu)



General view of the ECOFIN meeting

#### Further information

- The latest news and press releases from DG ECFIN are available at:  
[http://ec.europa.eu/economy\\_finance/index\\_en.htm](http://ec.europa.eu/economy_finance/index_en.htm)
- More information can be found on the website of Commissioner Joaquín Almunia:  
[http://ec.europa.eu/commission\\_barroso/almunia/index\\_en.html](http://ec.europa.eu/commission_barroso/almunia/index_en.html)
- More on the financial crisis at:  
[http://ec.europa.eu/economy\\_finance/focuson13254\\_en.htm](http://ec.europa.eu/economy_finance/focuson13254_en.htm)



# The clock is ticking...

## Ageing and the long-term sustainability of public finances

*While exiting the financial and economic crisis is an immediate priority, the effects of ageing are already expected to impact some European countries within the next ten years and will have long-term consequences for Europe. Commissioner for Economic and Monetary Affairs Joaquín Almunia said we cannot afford a return to business as usual. Given the gravity and urgency of the situation, the Brussels Economic Forum devoted an entire afternoon to the issue. The presentation of the 2009 Ageing Report was followed by reactions of experts and a policy panel discussion on ageing and the economic crisis that included European Commissioners and Ministers of Finance from several European countries.*



**Gert Jan Koopman,**  
Director, Economic Service and Structural Reforms, DG ECFIN

Europe's ageing population was already a challenge before the financial crisis. Experts presenting the new 2009 Ageing Report published by the EPC<sup>1</sup> and the European Commission at the Brussels Economic Forum showed, however, that in the aftermath of the crisis, the outlook is even bleaker, and called for a stronger commitment to reforms that would make Europe more dynamic.

According to Gert Jan Koopman of the European Commission and Henri Bogaert, Chairman of the EPC's Ageing Working Group, elderly people will account for an increasing share of Europe's population, whereas the population of working age (15-64 years) is projected to drop by 15% through 2060. As a result, labour will act as a drag on growth and per capita income starting from the 2020s. Moreover, it will impact public finances; age-related public expenditure in the EU is expected to increase to about 4% percentage points of GDP by 2060.

Pension, healthcare and long-term care spending will be most impacted by ageing, although infrastructure, housing and education may also be affected. Moreover, even the current projections may be optimistic. According to Carlo Cottarelli of the International Monetary Fund, technological change, while offering new cures, will increase spending on healthcare to as high as 11 percent of GDP by 2060. Cottarelli cited the historically high cost of technology in the US and other countries to support his assertion.

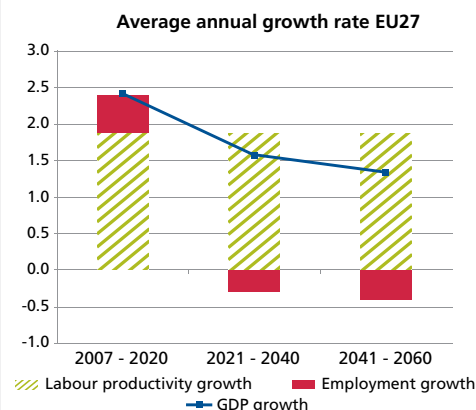
### The demographic trends

Over the next 50 years, the EU will move from having 4 working-age people for every person aged over 65 to a ratio of 2 to 1. There will be more workers over the age of 65 and more women working, but overall the workforce is expected to shrink by about 19 million people by the year 2060.



**Carlo Cottarelli,**  
Director, Fiscal Affairs Department, IMF

### Potential growth rates decline due to shrinking working age populations



Already as of 2020, labour growth will give a negative contribution to growth potential in the EU. As a result, average potential growth will fall below 2% per year in about ten years' time.

Source: 2009 Ageing Report, European Commission

The demographic picture is not promising, and no easy solutions present themselves. Fertility rates, for example, are expected to rise slightly across the EU but remain below the natural replacement rate of 2.1.

Immigration to Europe should help release some of the pressure, but not much of it, the Forum heard. Net inward migration to EU countries is projected to decelerate, and the bulk of net migration flows (nearly 40% by 2060) will be concentrated in a handful of countries: Italy, Spain, Germany and the UK.

### The impact of the crisis

"The impact of the financial crisis pales compared to demographic problems," said Robert Holzmann of the World Bank. Yet the crisis has made a bad situation even worse. It has, for example, reduced the value of assets to finance retirements by 20-25%, according to an estimate by Holzmann, and has hit state-supported and private pension funds alike. Additional scenarios included in the Ageing

<sup>1</sup> The EPC (Economic Policy Committee), made up of senior officials from national finance ministries and central banks, prepares the work of the ECOFIN Council, notably on structural policies.



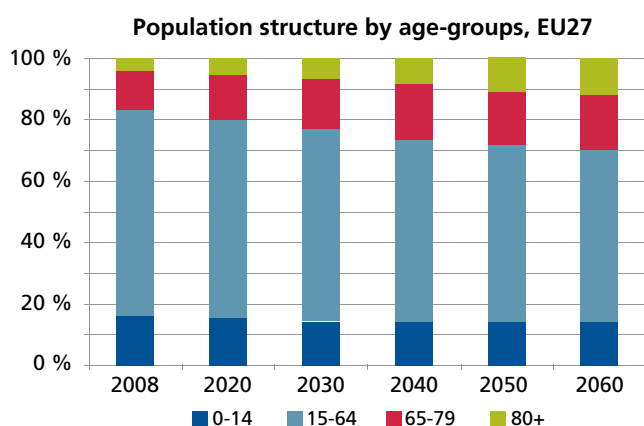


## "Future retirees may demand higher pensions benefits through the ballot box."

**Dick Sluimers**

*Chairman, Executive Board of APG Group*

### The greying of society



By 2060, nearly 1 in 3 citizens in the EU27 will be over the age of 65. While the proportion of people aged 65 to 79 will increase by almost 50%, the most striking change in population structure will occur in the oldest age group, people aged 80 and above. This group will nearly triple in size.

With the proportion of the working age population falling, the support ratio of dependents to people of working age is set to soar. By 2060, the EU will have 2 working age people for every dependent person over 65 years, compared with 4 to 1 in 2009.

Report suggest that the impact of the economic downturn depends upon whether it's a temporary or permanent shock.

In any case, addressing the ageing issue is one of the key elements for negotiating an exit from the current crisis, according to Joaquín Almunia, Commissioner for Economic and Monetary Affairs. Almunia warned that delays in turning around Europe's fiscal and social structures would only make the problems worse – especially in the current economic crisis. "The crisis is increasing public debt, and that increases the urgency of our task," he said. He called for long-term fiscal sustainability, an increase in overall employment rates, and reforms to adapt social systems to the changing situation.

Czech Finance Minister Eduard Janota reiterated that ageing was one of the biggest challenges for the EU even before the economic crisis, and he chastised countries that had not used the good times to reform their public finances.

Portuguese Finance Minister Fernando Teixeira dos Santos agreed the crisis would exacerbate public debt dynamics across Europe. He urged three responses. "We need a fiscal stimulus that is timely, targeted and temporary. We must then continue fiscal consolidation. And we must

continue implementing structural reforms aimed at fostering long-term growth – to invigorate labour markets and boost human capital," he said.

### The impact of ageing across Member States (2007-2060)

**High impact countries:** increase in public spending of 7 percentage points of GDP or more – Luxembourg, Greece, Slovenia, Cyprus, Malta, the Netherlands, Romania, Spain and Ireland.

**Medium impact countries:** increase in public spending of 4-7 percentage points of GDP – Belgium, Finland, Czech Republic, Lithuania, Slovakia, the United Kingdom, Germany and Hungary.

**Low impact countries:** increase in public spending of 4 percentage points of GDP or less. Most of these countries have implemented substantial pension reforms, in several cases involving a partial switch to private pension schemes – Bulgaria, Sweden, Portugal, Austria, France, Denmark, Italy, Latvia, Estonia and Poland.

### Potential solutions

The panel of experts on ageing agreed that more reform was urgently required. Given that many Member States are now burdened with huge debts, governments will have to change their approach to healthcare and pension entitlements. Facing down increased pension costs by reducing debt is an option that has been "derailed by the crisis," Cottarelli said. Instead, further increases in retirement ages may be required, as may some rationalisation of healthcare – a much more politically sensitive issue. Balancing the costs and benefits of healthcare will be "the key question for fiscal policy over the next decades," said Cottarelli.

"We need to emerge from this crisis with more and better employment opportunities for older people," said Vladimír Špidla, EU Commissioner for Employment, Social Affairs and Equal Opportunities. "We should reverse the trend for early retirement. Old people have lots of skills that we should make better use of: they have experience, they are usually available, and they have a maturity that younger workers usually lack."

Almost all of society's institutions will need to be re-thought, according to Holzmann. "People need to be kept healthy and skilled for as long as possible."

According to the Ageing Report, there is a window of opportunity – a period of about ten years



**Anders Borg,**  
Minister of Finance, Sweden



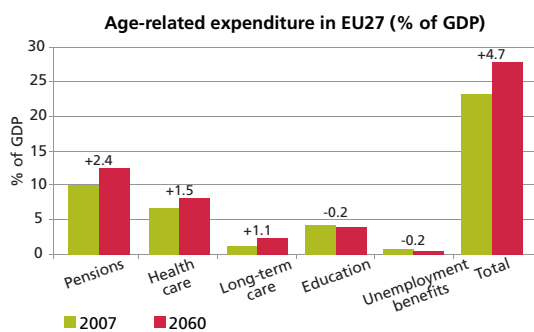
## "The impact of the financial crisis pales compared to demographic problems."

**Robert Holzmann**

Sector Director, Human Development Network, World Bank



### Age-related expenditure will cost the EU27 4.7% more of GDP by 2060



A breakdown of age-related expenditure in the EU27 as a percentage of GDP clearly shows the effects of an ageing population. Spending on education and unemployment benefits will decrease slightly while spending on pensions, healthcare and long-term care will increase by large percentages.

during which labour forces will increase – for implementing the structural reforms needed by ageing societies. In the future, growth will have to come from increased productivity.

But Swedish Finance Minister Anders Borg warned that the general public still didn't appreciate the gravity of the ageing trends, which need to be dealt with now. "If we want people to return to the labour force, there is a need for further labour tax cuts, especially for women and low-skilled," he added.

#### Possible political fallout

With public finances already under increasing pressure due to the weight of pension expenditure, the new debt burden resulting from the rescue of the banking system makes the need for further

development of private pension funds pressing.

Dick Sluimers of the APG ALL Pensions Group said the private sector was an "essential" element to any solution. "Further development of funded pension systems – preferably collective funded pension systems – is essential to supplement future generations with an adequate and sustainable retirement income."

But he underlined the political risks of fundamental reform, pointing out that "future retirees may demand higher pensions benefits through the ballot box." In the Netherlands, political parties for the elderly already have considerable power, he noted.

In addition, pension funds should be better organised and regulated, it was argued, to insure against a repeat of the implications of sharp falls in assets seen over the last year. Martine Durand, deputy director with the OCED, also emphasised the human consequences of pension reform. Cutting entitlements for low-income pensioners might be sustainable on a fiscal level, she said, but probably not on a social level.

### Europe's long-term policy strategy

The Stockholm European Council in 2001 identified a three-pronged strategy to cope with the economic and budgetary challenges posed by ageing populations:

- (i) reducing debt at a fast pace;
- (ii) raising employment rates and productivity;
- (iii) reforming pension, healthcare and long-term care systems.

The European Commission identified five policy goals in October 2006 in its communication on the demographic future of Europe:

- promote demographic renewal in Europe by creating better conditions for families;
- promote employment in Europe with more jobs and longer working lives of better quality;
- make Europe more productive and dynamic;
- receive and integrate migrants in Europe;
- secure sustainable public finances in Europe, thus guaranteeing adequate social security and equity between the generations.

#### Further information

- The 2009 Ageing Report:

[http://ec.europa/economy\\_finance/publications/publication\\_summary14911\\_en.htm](http://ec.europa/economy_finance/publications/publication_summary14911_en.htm)





# The Brussels Economic Forum

## Beyond the crisis: a changing economic landscape



*While economic forecasters now believe the worst is behind us, speakers at the 10<sup>th</sup> annual Brussels Economic Forum nonetheless urged Europe to make broad and lasting reforms – in the areas of governance, financial supervision and surveillance, macroeconomic policy, social relations, industrial relations and educational systems. They also noted that Europe needs to find ways to gracefully exit from current interventions and to fix government budgets. Reforms should not only help Europe to exit from the immediate crisis, they said, but also address longer-term issues such as ageing and the sustainability of public finances. In that sense, the crisis can be seen as a window of opportunity.*



**Joaquín Almunia,**  
European Commissioner for  
Economic and Monetary Affairs

### Sowing seeds

Joaquín Almunia, European Commissioner for Economic and Monetary Affairs, set the scene, opening the event with a tone of cautious optimism. He underscored the need to look beyond the immediate crisis to questions such as how to plan for the unwinding of economic recovery plans, how to ensure that history does not repeat itself, and how to position Europe to manage the challenges of globalisation, ageing<sup>1</sup> and climate change.

"Medium term economic performance depends a great deal on action taken during a crisis," said Almunia. "We can sow the seeds for future growth and prosperity."

### Risks and opportunities for Europe

In the first keynote address of the Forum, former Commissioner Mario Monti was less optimistic: "If the world economy is in crisis, the market economy is in even bigger crisis." He warned that "the crisis

has exposed the insufficiencies of the present structure of governance of the EU." Tensions and tax competition between EU Member States have, he argued, undermined the viability of the Union. The major fault line is between countries that adhere to the "Anglo-Saxon", free market economic model and those like Germany and France that follow social market economy models.

But the crisis had a silver lining, said Monti, in that the two sides now had an opportunity to compromise and conclude a strategic pact that would address each other's concerns. Such a pact should include a renewed, binding commitment to the single market, together with limited measures of tax co-ordination.

Monti said the pact could address the tendency of social market countries to dispute or circumvent single market rules on issues like competition and state aid, and at the same time give them more scope to meet social objectives through their budgets. "The pact would give new vigour to the faltering European project," he stated.

### Europe and the global economy: weathering the storm

In Session I of the Forum<sup>2</sup>, "Europe and the global economy: challenges, options and policies", Jørgen Elmeskov of the OECD neatly categorised the causes of the crisis into narrow financial market reasons and broader economic reasons.

As for potential solutions, there appeared to be a general consensus on the measures required including the possibility of further fiscal stimulus, cleaning up toxic assets, better regulation, and finding ways, longer-term, to gracefully exit from current interventions and fix government budgets.

### Better governance

Governance was an issue raised at several points during the Forum. According to André Sapir, Professor of Economics at Université Libre de Bruxelles and Senior Fellow at the thinktank Brueghel, Europe should make changes in both its external and internal governance.

Sapir is a strong advocate of a unified EU or euro area representation at the IMF. "We have many seats but very little influence," he said. And a unified EU representation would not only be good for Europe but would also benefit emerging countries by "freeing space at the table for them."



**Jacques de Larosière,**  
President, High-Level Expert Group  
on EU Financial Supervision

### Better supervision

Jacques de Larosière, chair of the high-level group on EU financial supervision, urged the European Union to seize the opportunity provided by the global economic crisis to agree the "modest reforms" the group recommended. The de Larosière report calls for an EU-wide scheme to oversee risks and give early warnings.

"This is a modest report. It considers national authorities can do the job very well, but does propose a modest strengthening of the existing safeguarding committees," he said. "It is not about putting new regulation on layers of past regulation. It's not just more regulation; it's better regulation."

<sup>1</sup> For extensive coverage of Session II, Ageing and the long-term sustainability of public finances, please see the separate article on pp. 3-4.

<sup>2</sup> Other panellists in Session I included Marco Buti, Chair, Director-General, Economic and Financial Affairs, European Commission; Reza Moghadam, Director, Strategy, Policy and Review Department, IMF; Aladdin D. Rillo, Head of Finance and Integration, ASEAN.





**"We need to monitor the distributional impact of the crisis, just as we monitor its macroeconomic impact. We should be certain that the burden of recession is being fairly spread."**

**Sir Tony Atkinson**

*Professor of Economics, Nuffield College, Oxford University, and Fellow of the British Academy*



### More ambition

Former Spanish Prime Minister Felipe González issued an even more forceful call for reform, starkly assessing the European Union's response to the economic crisis as "inadequate... too national and not 'communitarised' enough". In his view, for example, crisis-related state aid is threatening the single market.

González is Chairman of the Reflection Group on the future of the European Union 2020-2030, which was set up in 2007 to review of the long-term challenges faced by the EU. According to González, Europe is losing its relevance in the world, and needs to re-engineer the social and production model which made Europe a success back in the 60s, but is no longer up to the task. "We should be more ambitious," he said. "We need an efficient Europe that can stand its ground in the global economy."

### Revising the rule book

José Viñals, the IMF's Director for Monetary and Capital Markets, opened the second day of the conference with a passionate plea for reform, although of a more gradualist kind. He said that Europe didn't

### Financial reasons for the crisis

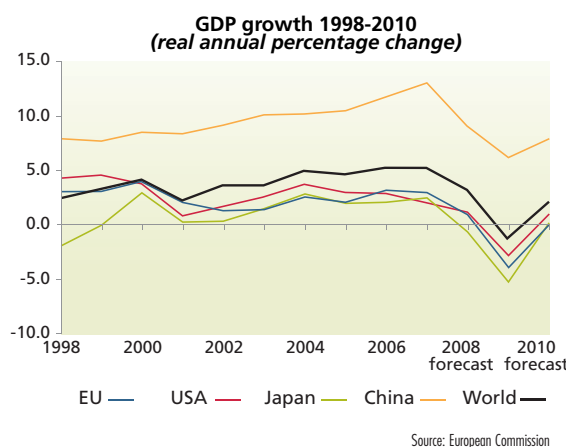
- The moral hazard created by entities that were too big or too interconnected to fail
- The procyclical effects of financial regulation
- The absence of balance sheet consolidation and transparency
- Securitisation
- The role of rating agencies
- Skewed incentives

### General economic reasons for the crisis

- Undervalued Asian currencies and an overvalued US dollar leading to the accumulation of dollar reserves by emerging market economies
- The "global savings glut"
- Easy monetary policy

This combination created the excess liquidity which fuelled the now well-known asset and credit bubbles.

### Crises compared: A deeper, more protracted recession



The graph puts the current crisis in context. The financial whirlwind which caused today's crash will have a much more profound impact on the real economy than the so-called 'dot-com' crisis of the turn of the century. On that occasion, the crash was also caused by a speculative bubble, in internet stocks. But as the graphs show, when the bubble burst in 2000, growth as measured by GDP declined but did not turn negative. World growth, in fact, remained at 2% or higher throughout the period before recovering quickly. This time, however, big falls in the EU, the US and Japan will pull the world economy into negative territory for the first time since the Second World War. Growth should return to positive territory next year, but a full recovery will take longer.

need to throw out the old rule books for financial supervision but simply to revise a few chapters and add new ones that extend the perimeter to include parts of the banking system that are currently unregulated or only lightly regulated.

He advocated measures to deal with excessive pro-cyclicality, improve the transparency of banks' balance sheets, and ensure more effective cross-border regulation, supervision and dispute resolution. "We need a rule-based framework that allows difficult political decisions to be taken in times of stress," he said.

### Undone by global imbalances

During Session III: Financial Stability and the design of a new rule book<sup>3</sup>, Ignazio Angeloni, an advisor to the European Central Bank, emphasised that "the crisis would not have happened, or not in the way it did, had there been no global imbalances." According to Angeloni, undervalued Asian currencies and an overvalued US dollar had resulted in the accumulation of dollar reserves by emerging market economies, and created the excess liquidity which eventually fuelled the growth of asset price bubbles.

Gary Schinasi, an advisor to the IMF, also found a link between global imbalances and the current crisis, and advanced a plan that would include more stringent

capital requirements and supervision of interbank markets at the global level.

### Who is the recession hurting most?

In a thought-provoking closing address, Sir Tony Atkinson, Professor of Economics at Oxford University, evoked the social and human dimension of the crisis. He asked "Who is bearing the burden of the recession?" His answer was that it would be very "generally spread" this time, unlike in the Great Depression of the 1930s, because the bulk of shares are now held by institutions, on behalf of individuals who are not necessarily well-off, rather than by wealthy individuals, who bore the brunt then. Nevertheless, "We need to monitor the distributional impact of the crisis, just as we monitor its macroeconomic impact. We should be certain that the burden of recession is being fairly spread."

Atkinson advocated stress testing of social protection institutions to assess the impact of the crisis on income and employment for individual families. "Distributional effects matter," said Atkinson, both for reasons of social inclusion, at the heart of the European project, and "even if you're not concerned with fairness", because they are important for forecasting outcomes and targeting policies effectively.

<sup>3</sup> Other panellists in Session III included Alexander Italianer, Chair, Deputy Secretary-General, European Commission; Mår Gudmundsson, Deputy Head, Monetary and Economic Department, Bank for International Settlements; Marco Annunziata, Chief Economist, UniCredit Group; Andres Sutt, Deputy Governor, Bank of Estonia; Pervenche Berès, Chair, Committee on Economic and Monetary Affairs, European Parliament.



# Europe's proactive response to the economic crisis

***Amidst an economic downturn that is deeper and more protracted than originally expected, the European Commission is advancing a coherent programme for economic recovery. The proposed measures address regulation of the financial sector and structural reforms including support for the unemployed. The major elements of the Economic Recovery Programme will be proposed at the European Council on 18-19 June.***

The deepening economic gloom in Europe has added urgency to the European Commission's Economic Recovery Programme. The most recent EU forecast now predicts "a deep and widespread recession" across the continent and says unemployment among the 16 nations that use the euro will rise to a postwar record of 11.5 percent in 2010.

## The dark clouds...and the silver lining

GDP is forecast to contract by 4 percent in both the EU and the euro area in 2009, a downward revision of 2 percentage points compared with the interim forecast of January 2009. Joaquín Almunia, European Commissioner for Economic and Monetary Affairs, blamed the downgrades on an "exceptionally bad" first quarter as industrial output slumped at a record pace, exports stalled and business and consumer confidence hit new lows.

The downturn is expected to be broad-based, with almost all Member States expected to post negative growth rates this year. Differences in the nature of the downturn across EU countries persist, however. Strongly export-oriented economies have been particularly affected by the collapse in global manufacturing, with real GDP set to contract by a massive 5½ percent this year in Germany. Other countries remain subject to a deeper and more protracted downturn due to their direct exposure to the financial crisis or a substantial housing-market correction. Still other countries are facing deterioration in external financing conditions due to the build-up of macroeconomic imbalances and vulnerabilities that have weakened investor confidence.

Amidst this gloom, the good news is that the EU economy is expected to bottom out in mid-2009. Almunia said that "the fiscal stimulus measures, the bank rescue plans and the monetary easing are expected to start bearing fruit in the next quarters." Recent surveys of euro area and German

confidence "appear to confirm that the economy is no longer in free fall."

## Opportunity in crisis

Regardless of hopes for the future, the European Commission will propose a package of measures to deal with both the short-term and long-term effects of the crisis. The measures are designed to help Europe exit the crisis while putting the continent on the path of long-term, sustainable economic growth.

Economic experts have noted that there can be no recovery without first cleaning up the toxic assets on banks' balance sheets and re-structuring the financial sector as a whole. A major thrust of the new EU proposals, therefore, is financial market reform. The EU's supervisory system has failed to adjust to the complexity, internationalisation and inter-linkages of financial markets. To address these defects, the Commission will present a European financial supervision package, based largely on the recommendations of the de Larosière Group. The package will include measures to establish a European body to oversee the stability of the financial system as a whole, so-called macro-prudential surveillance, as well as the architecture for a European financial supervision system.

The EU's crisis management and intervention mechanisms will be strengthened to allow Member States to intervene early in ailing banks or insurance firms. And EU measures will also seek to prevent problems from happening in the first place. The crisis exposed shortcomings in European and national regulatory frameworks; parts of the financial system were free from any effective regulatory oversight. The Commission will therefore propose improved oversight and regulation of hedge funds, private equity and other systemically important market players. Capital requirements for trading book activities and complex securitisations will be proposed. The issue

of excessive procyclicality will also be addressed by encouraging the buildup of additional reserves in good times while allowing banks to reduce capital buffers during difficult times.

Investors, consumers and small companies will also receive increased protection. The Commission has proposed new rules on retail investment products and plans to review the adequacy of deposit guarantee schemes. On the supply-side, the Commission will seek to improve corporate governance by reforming remuneration. Pay incentives inside many financial institutions encouraged excessive risk-taking.

## Structural reform

Structural reform measures are a central part of the European Economic Recovery Plan (EERP). They can be grouped under four broad policy types: i) measures and reforms aimed at supporting industrial sectors, businesses and companies; ii) measures and reforms aimed at supporting a good functioning of labour markets; iii) measures and reforms aimed at supporting investment activity; iv) measures and reforms that support household purchasing power, including social policies. It is too early to fully assess the impact of these measures, but some initial conclusions can be drawn. A substantial share of the measures (32%) are for supporting investment activity. This includes investment in physical infrastructure, energy efficiency, R&D and innovation. About half of all physical infrastructure investments are co-financed from Structural Funds.

A further one-third of all structural measures are classified as "supporting industrial sectors, business and companies." The majority of these measures are designed to alleviate the financing constraints facing SMEs and other businesses. Measures to support demand in specific sectors, such as the automotive industry, have also been implemented.

## Employment: Europe's No. 1 priority

Measures in support of the labour market have received the least attention, although this may reflect the lagging impact of the slowdown on the labour market. Nonetheless, José Manuel Barroso, President of the European Commission,



**“It is likely that we will emerge from this crisis in a new economic and financial context with new challenges to tackle, even as we grapple with the old. We cannot expect a return to business as usual.”**

**Joaquín Almunia**

*European Commissioner for Economic and Monetary Affairs*



has stated that employment is Europe's number one objective. Moreover, an Employment Summit was held on 7 May in Prague to assess the impact of the recession on employment, to identify good practices in mitigating the worst effects of the crisis, and to stimulate coordination between the EU, its Member States and social partners. Speaking at the Summit, Barroso said: “We all know we must succeed on employment because there can be no economic recovery on the foundations of social collapse, just as there can be no social progress in an economic desert.”

The aim of EU policy is to prevent immediate job losses from turning into long-term unemployment, and to combat the effects of demographic ageing and a declining workforce. A list of 10 concrete actions was agreed upon at the Employment

Summit. These include flexicurity strategies such as the temporary adjustment of working hours as well as creating an environment that is more conducive to entrepreneurship and job creation. Programmes at the national level should also provide intensive counselling, training and job search support. To support these objectives, the EU will also consider how best to make use of tools and resources at the European level such as the European Social Fund and the European Globalisation Fund.

### **Respecting Union principles**

While economic recovery is priority number one, the Commission is anxious that such recovery not come at the expense of internal market rules. In designing domestic recovery initiatives, it is important that Member States do not undermine

the fundamental principles of the internal market. Indeed, focusing on intra-EU trade, recent research has confirmed the important role of the internal market for productivity growth.

### **How effective?**

Although it's clearly too early to fully gauge the effectiveness of implemented or proposed measures, the crisis will undoubtedly leave a lasting imprint on EU policy. As Almunia stated, “it is likely that we will emerge from this crisis in a new economic and financial context with new challenges to tackle, even as we grapple with the old. We cannot expect a return to business as usual.” ●

## **Examples of measures which are not compatible with Articles 28-30 of the EC Treaty**

- 1. Quantitative restrictions or quotas:** state measures that establish quantitative restrictions or quotas favour national production or the national economy, and therefore result in a total or partial restraint on imports or goods in transit.
- 2. National campaigns to promote or incite the purchasing of national products:** measures which encourage or give preference to the purchase of domestic products only are considered as breaching the free movement of goods principles.
- 3. Financial incentives for consumers:** national measures to promote the sale of new goods linked to the scrapping of old ones can be discriminatory if linked to purchases of national origin.
- 4. Tax benefits/subsidies scheme:** national recovery measures comprise tax cuts or fiscal deductibility measures and various incentives/subsidies schemes (e.g. for the purchase of “greener” products including cars, better building isolation, benefit schemes for biofuels, etc.). On occasion it has been held that tax benefits schemes or subsidies schemes contravened the free movement of goods rules where restrictive conditions (technical or not) were attached to these schemes.
- 5. Price fixing regime:** a price fixing regime cannot make the sale of an imported product either impossible or more difficult than that of a domestic product.
- 6. Guaranteed prices for exportation:** national insurance schemes aimed at guaranteeing to exporters the stability of the cost prices of the elements included in tenders for export (supply contracts, provision of services, etc.) will be contrary to Article 28, if only the domestic elements of the tender may benefit from the insurance.
- 7. Public procurement restrictions:** public investment measures designed to award a supply contract or work contract to tenderers offering/using national products might violate the free movement of goods rules. This is the case when a public works contract specification stipulates that the materials used must be certified as complying with a national technical standard. These types of measures will be covered by public procurement directives. However, below the thresholds they provide for, Article 28 EC is still applicable.

### **Further information**

- See ECFIN's dedicated website on the crisis:

[http://ec.europa.eu/economy\\_finance/focuson/focuson13254\\_en.htm](http://ec.europa.eu/economy_finance/focuson/focuson13254_en.htm)







# EU public finance takes a battering

**Public finance throughout the European Union is under unprecedented stress. Collapsing economic activity has sharply reduced tax revenues. At the same time, rising unemployment has led to increasingly large state benefit payments. Governments have increased spending to stem further job losses while reducing certain taxes to support the most vulnerable groups in society and underpin consumer spending. The result is a dramatic increase in deficits that will take years to reverse. Together with measures to shore up the financial system, these high deficits are leading to ballooning government debt. DG ECFIN examines these developments in detail in its recently published Public Finances Report for 2009.**



© Karen Roach - Fotolia.com

Due to collapsing economic activity, public coffers throughout the European Union have come under unprecedented strain.

Breathing life back into the economy is the main tool governments have at their disposal for limiting the damage from the crisis. By agreeing to the European Economic Recovery Programme, EU leaders have made a commitment to work towards a common solution. If governments acted individually, any one-off boost would leak across borders, limiting its effectiveness.

The Programme, approved at the end of last year, calls for a combination of tax cuts and spending increases of at least 1.5% of gross domestic product – an amount EU Member States have by and large already put in motion.

These fiscal stimulus packages are designed to be timely, temporary and targeted and are expected to together translate into a shot in the arm of around 0.75% of GDP this year alone.

While essential to getting Europe back on its feet, this injection of economic adrenalin comes at a high cost. The average EU budget deficit was already up sharply last year at 2.3% of GDP, compared to 0.7% in 2007. It is sure to continue rising – the average EU deficit is forecast to hit 6% of GDP this year. This is in large part due to collapsing tax revenues and Europe's social security safety net, which is more extensive than in other countries such as the US.

The figures for public debt are even more startling. Increased deficits will combine with low or negative economic growth to create a spike in debt. When compared to GDP, average EU debt was 58.7% in 2007. It topped 60% last year and is now expected to jump to a massive 79.4% in 2010, possibly rising even further in subsequent years.

When you factor in the increased costs Europe's ageing population will have on pensions and health care, it is easy to see that these upward curves cannot be maintained for long. Government spending will have to be brought back under control to avoid long-term damage to growth prospects, employment and welfare.

Member States know this, and many have already made plans to rein in spending from next year, when hopefully the economic crisis will begin

to subside. Some however have made economic predictions that seem too optimistic. Hard-hit countries need until 2013 to get spending back on the right track. To help them, the Commission oversees a mechanism called the excessive deficit procedure. It is activated when spending risks getting out of line.

Room for manoeuvre on fiscal policy (i.e. taxation, spending and borrowing) varies from government to government within the EU. Those that entered the crisis with relatively low levels of debt have more room than those already burdened with high debt. Borrowing more when already burdened can be very costly. Member States have not only supported the banking sector directly, by buying equity for example, but have made guarantees that if called in will see debt spiral up further still. High debt levels can be difficult to reverse.

How well will these fiscal measures work? The global nature of the crisis and the complexity of the financial instruments at stake make this question difficult to answer. In total, public resources approved in the EU for the support of the banking system equal around 35% of GDP, most of which are guarantees which may never been called upon. What will the final costs be? To judge by the average of past crises, net direct fiscal costs could add up to 15% of GDP. Depending on how the economy and markets progress, the final figure could be lower or higher. A lot depends on how quickly the banking systems can be restored to full health.

The current crisis should help some Member States improve fiscal policy. Hungary, Latvia and Romania have already received balance of payments support from the EU as part of an international package of measures that include fiscal reform. These countries should hopefully emerge stronger from the crisis. Several Member States could use last year's events to look again at their rules for taxing, spending and borrowing. Some did not use the 'good times' prior to the crisis to reduce levels of borrowing – this is a lesson that should be taken on board.

## Further information

- Public Finances in EMU - 2009 report:  
[http://ec.europa.eu/economy\\_finance/publications/specpub\\_list9257.htm](http://ec.europa.eu/economy_finance/publications/specpub_list9257.htm)



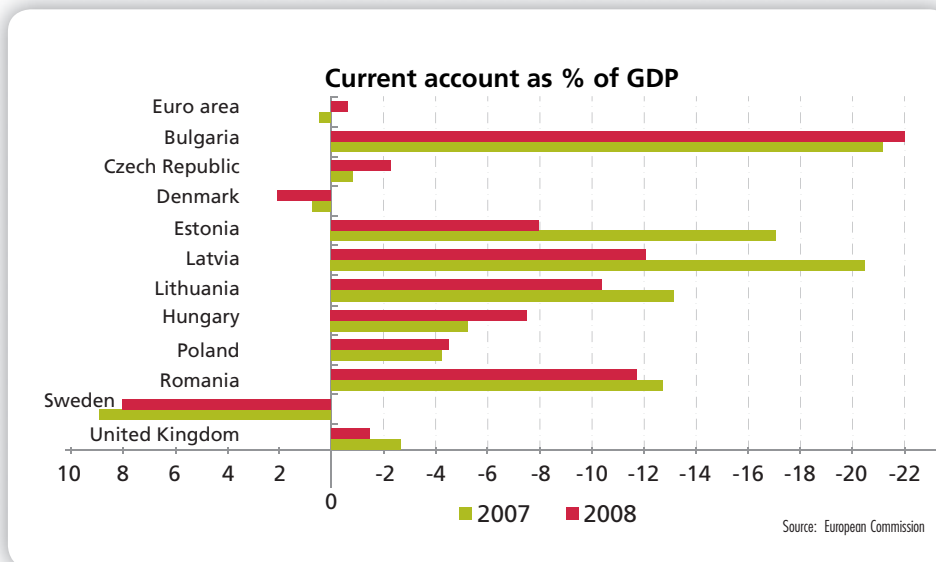
# EU steps in with emergency financing for three member states

**European Union crisis funding is available to Member States in distress. Such is the severity of the financial whirlwind that has hit the Continent, the emergency mechanism has already been triggered three times over the last eight months.**

ceiling was lowered from €16 billion to €12 billion following the introduction of the euro before being brought back up to €25 billion and more recently €50 billion to ensure there was enough funding available if more Member States need help in the future.

Funding comes in the form of loans and is usually granted as part of a package of aid put together with international institutions such as the International Monetary Fund and the World Bank. It is designed to ease a country's external financing constraints, when a country cannot access the international capital markets at reasonable interest rates. The EU, with its first-class creditor status, steps in and borrows at favourable 'AAA' interest on world markets. The funds raised are passed on to the Member States in need, which benefit from the better EU credit rating. The aid, however, does not come without strings.

The EU, the international institutions and the government concerned come to an agreement on measures designed to overcome the country's difficulties, which could for example include reform of taxation and spending or measures to increase administrative capacity so as to better absorb EU transfers. Implementation of these measures and the setting up of systems to guard against fraud are conditions for the aid payments, which are made in instalments. The loan should normally be repaid in about five years.



Technically known as 'balance of payments assistance,' the EU funding has amounted to €15 billion and has been granted to three countries: Hungary, Latvia and Romania. To qualify, recipients have to have short-term balance of payments "difficulties" or need

to be "seriously threatened with difficulties." It is only available to Member States outside the euro area, of which there are eleven (see chart). With economic conditions worsening, the EU has had to raise the overall ceiling of available money twice. The original

## Hungary

Following a Council of Ministers decision on November 4 it was agreed to lend Hungary €6.5 billion as part of a €20bn package. The International Monetary Fund vouched to put up €12.5 billion, and the World Bank EUR 1 billion. The first instalment, of €2 billion, was paid in December and the second, also of €2 billion, was paid in March. In the meantime the economic situation worsened and the programme was adapted. The 2009 deficit target, initially below 3% of GDP, was increased to almost 4% of GDP. Structural measures to improve the long-term sustainability of public finances were also agreed.

## Latvia

The Council decided on January 20 to lend Latvia €3.1 billion of a total of €7.5 billion. The remainder was pledged by the International Monetary Fund (€1.7 billion) the World Bank (€0.4 billion), Sweden, Denmark, Norway, Finland and Estonia together agreed to put up €1.9 billion, and the European Bank for Reconstruction and Development, Poland and the Czech Republic another €0.4 billion. A first instalment of €1 billion was paid in February and a second one is expected in the second quarter of 2009 conditional on meeting the programme requirements. As with Hungary, Latvia's programme is being adapted in the light of the worsening economic situation.

## Romania

On May 5 the Council approved €5 billion for Romania. In addition, the International Monetary Fund provided €13 billion, the World Bank €1 billion, and another €1 billion was pledged by the European Investment Bank and the European Bank for Reconstruction and Development. Unlike the two previous cases, where the support packages responded to an acute crisis situation involving problems at systemically important banks (OTP in Hungary and Parex in Latvia), the financial assistance to Romania had a precautionary character and was designed to ensure continued macro-financial stability. The first instalment is expected to be paid by mid-July.



If a Member State fails to pay back its loans, the EU steps in as guarantor. This would involve the Commission calling on other Member States to send additional funds to the EU budget. This has never happened.

Quick decision-making is key throughout the process. Clear and swift statements of intent can in themselves sometimes be enough to calm market jitters.

International banking groups, which over recent years have made big profits in the new Member States, are expected to make their contribution to the multilateral support effort. In gentlemen's agreements they pledge to maintain their exposure in the Member State concerned and to provide additional capital if stress tests indicate this may be necessary.

Such commitments were made for Hungary, Latvia and Romania.

Committee and the Committee of Permanent Representatives (COREPER).

Loan agreements are standardised where possible to ensure equal treatment among Member States. The recipient country accepts to give the Commission 'preferred creditor status,' making any default less likely.

This is necessary because periods of financial and political turmoil can lead to restrictions and controls on foreign currency payments.

***The mechanism is a good example of the spirit of solidarity that is at the heart of the EU project***

*said Filip Keereman of the European Commission's Directorate-General for Economic and Financial Affairs.*

While the Commission suggests a course of action, it is ultimately up to the Council of Ministers to decide whether to approve a loan, as well as to define to length of time such support is available. The EU has been able to speed up decision-making with the cooperation of the Economic and Financial

#### Further information

- More information on balance-of-payments assistance at:

[http://ec.europa.eu/economy\\_finance/financial\\_operation\\_instruments/market\\_operations15402\\_en.htm](http://ec.europa.eu/economy_finance/financial_operation_instruments/market_operations15402_en.htm)

## Looking ahead

### For your diary September 2009

#### G20 – 3-4 September

Commissioner Almunia will attend the G20 finance ministerial meeting on 3-4 September in London, and the G20 summit in Pittsburgh on 24-25 September. Key priorities will be the delivery of the commitments made at the London summit to monitor the implementation of macroeconomic policies to address the crisis, implement comprehensive reforms of the financial system, increase the resources of the IMF, and review the responsiveness and adaptability of the International Financial Institutions. The maintenance of the momentum of the G20 summit process is crucial for supporting confidence.

#### BIS/ECB Workshop in Basel, Switzerland Monetary policy and financial stability 10-11 September

In co-operation with the Bank for International Settlements (BIS) the European Central Bank is organising this workshop to discuss the role of monetary policy in both crisis management and crisis prevention. Bringing together central bankers and academics, the workshop will consider the effectiveness of monetary policy measures, the costs of boom/bust cycles, transmission channels of monetary policy during cycles, and the lessons of the current crisis for central bank strategies.

[www.ecb.int/events](http://www.ecb.int/events)

#### Interim economic forecast – 14 September

DG ECFIN's twice-yearly interim economic forecast updates the fully fledged forecast published in

spring and autumn. The interim forecasts are more limited in scope and cover a shorter time horizon (one year rather than two). They update the data for the biggest EU members and key indicators for the EU and euro area as a whole.

#### QREA

The third 2009 issue of the Quarterly Report on the Euro Area will focus on international issues with an assessment of the impact of the financial turmoil on global imbalances and an analysis of the causes of the ongoing slump in world trade.





## Annual Statement and Annual Report on the Euro Area

This annual report will discuss how economic policies at euro area and Member State level should be geared towards meeting the specific challenges that the euro area faces as a single economic entity. The statement highlights the main policy and political messages. A debate will follow at the European Parliament leading to a resolution.

## EU Economy Review 2009

The Commission will publish in September a special edition of the EU Economy Review on the financial crisis. This issue will analyse the causes of the crisis and its transmission to the real economy and examine the future consequences of the crisis for the EU economy's growth potential, labour market and public finances.

## Annual review on labour market developments

DG ECFIN will publish the annual 'Labour market and wage developments' report. The report will shed light on the interaction of employment trends with other macroeconomic developments such as GDP and productivity growth, analyse the implications of the financial crisis for labour markets, and provide a country-specific assessment of the implementation of short-term measures to minimise the impact of the crisis and their compatibility with long-term flexicurity policies. It will summarise labour market policy measures enacted in 2008 and the first half of 2009 using the LABREF database.

## Sustainability report 2009

This report assesses the sustainability of Member States' public finances over the long term, once the common projections of age-related expenditure published in the Ageing Report by the Commission and EPC (Economic Policy Committee) earlier this year have been incorporated into future spending requirements. It follows up the 2006 Sustainability Report and considers how an overall weakening of the underlying fiscal position adds additional concerns to long-term sustainability, over a period when ageing related costs are set to put significant pressure on the public finances of most countries.

## October 2009

### 2009 Annual Meetings of the World Bank Group and the International Monetary Fund Istanbul, Turkey – 6-7 October

The Commissioner will attend these meetings, which are still expected to be dominated by the global financial crisis. Discussions among Ministers from both the advanced and the emerging market economies will likely focus on the implementation of the measures taken. The timing and strength of the possible recovery will be centre stage.

### DG ECFIN's 6<sup>th</sup> Annual Research Conference in Brussels

#### Crisis and reform – 15-16 October

The 2009 research conference organised by DG ECFIN will bring together economists and policymakers to discuss three interrelated key issues relevant to fundamental economic thinking on the current crisis and the lessons that can be drawn from it. 'The political economy of reform', 'the design of financial systems', and 'revisiting

the economic paradigm' are the topics that will be covered in the conference sessions which will include an array of European and international speakers. The conference will seek insights into the interplay between political and economic issues in the reform process, the pros and cons of proposals for reforming financial systems in the light of lessons from the current crisis, and the challenges that the crisis is posing to classical economic thinking on market behaviour.

[http://ec.europa.eu/economy\\_finance/events/](http://ec.europa.eu/economy_finance/events/)

### ECB conference in Frankfurt "Key developments in monetary economics" 29-30 October

This conference will bring together leading academics and central bank researchers to provide a comprehensive account of the state of the art in monetary economics. The conference papers will present a critical review of the most important developments in this field and indicate interesting directions for future research. A related conference on the same topic will take place at the Federal Reserve Board on 8-9 October 2009. The papers presented at the two conferences constitute the initial drafts of chapters that will subsequently be published in an updated edition of the Handbook of Monetary Economics.

[www.ecb.int/events/conferences/](http://www.ecb.int/events/conferences/)

## November 2009

### Autumn economic forecast

DG ECFIN produces various economic forecasts on behalf of the Commission. The next fully fledged economic forecast will be published in November 2009. This will be an important opportunity to gauge the effectiveness of measures to stimulate an economic recovery.

## Editorial information

*European Economy News* is published by the External Communication Unit of the European Commission's Directorate-General for Economic and Financial Affairs.

Editor-in-chief: Marco Buti. Coordinator: Sophie Bland. Published quarterly, *European Economy News* is available in English. Subscription is free (see next page). For more information, please contact the External Communication Unit.

Fax: (32-2) 29-80998

E-mail: [ecfin-european-economy-news@ec.europa.eu](mailto:ecfin-european-economy-news@ec.europa.eu)

*European Economy News* website:  
[http://ec.europa.eu/economy\\_finance/een](http://ec.europa.eu/economy_finance/een)

## Legal notice

Neither the European Commission nor any person acting on its behalf may be held responsible for the use to which information contained in this publication may be put, or for any errors which, despite careful preparation and checking, may appear.

Luxembourg: Office for Official Publications of the European Communities, 2009

ISSN 1830-5180

© European Communities, 2009

Front cover image © Mi Ran Collin

Design by Tipik communication agency

Reproduction is authorised provided the source is acknowledged.

Printed in Belgium



# Recent research and analysis by DG ECFIN

## European Economy Research Letter

The Directorate for Economic and Financial Affairs publishes a regular web-based newsletter on the research activities of its staff – the European Economy Research Letter. The July issue features an in-depth analysis of the 2009 Public Finance Report. It also looks at the Commission's recent Ageing Report, notably some of the underlying methodological issues relating to demographic projections. In addition, it reports on the research underpinning a new study of the economy of the Baltic states. The European Economy Research Letter is available free of charge by e-mail subscription on the DG ECFIN website.



## Research publications

DG ECFIN publishes frequently on economic research relevant to the European Union which is conducted by staff of the DG, sometimes in cooperation with external researchers. Most of these publications appear in the two subseries of DG ECFIN's European Economy imprint, namely the European Economy Economic Papers (with an analytical focus) and Occasional Papers (with a policy focus).

In addition, the Country Focus series covers topical economic issues affecting one or more Member State. Finally, a recently launched occasional series, Economic Briefs, showcases new policy-related analysis and research by DG ECFIN staff on a variety of topics. Both of these series are published online only.

### Recent publications include:

#### Economic Papers

- The euro and prices: changeover-related inflation and price convergence in the euro area
- Price rigidity in the euro area – An assessment
- Understanding Labour Income Share Dynamics in Europe
- The so-called "sovereign wealth funds": regulatory issues, financial stability and prudential supervision

#### Occasional Papers

- Impact of the Global Crisis on Neighbouring Countries of the EU
- The functioning of the food supply chain and its effects on food prices in the European Union
- The Western Balkans in transition

#### Economic Briefs

- Labour market prospects and policies to soften the impact of the financial crisis

#### Country Focus series

- Regional disparities in Poland
- Impact of social expenditure on regional disparities in Poland
- The efficiency of public expenditure in Malta
- Romania: unwinding imbalances – need for fiscal consolidation

All research publications can be downloaded free of charge from the DG ECFIN website: [http://ec.europa.eu/economy\\_finance/publications/](http://ec.europa.eu/economy_finance/publications/)

## Subscriptions

If you wish to continue receiving *European Economy News*, please subscribe using the form below.

I wish to receive a free quarterly copy of *European Economy News*

Name: .....  
Organisation: .....  
Street: .....  
PO Box: ..... Postcode: .....  
Town: ..... Country: .....  
Tel.: ..... Fax: .....  
E-mail: .....

### Mail or fax this form to the European Commission:

Directorate-General for Economic and Financial Affairs  
Unit R-4, External Communication  
Rue de la Loi/Wetstraat 200, B-1049 Brussels  
Fax: (32-2) 29-80998

### You can also subscribe on-line at:

[http://ec.europa.eu/economy\\_finance/een/online\\_subscription\\_en.htm](http://ec.europa.eu/economy_finance/een/online_subscription_en.htm)

### To receive our mail alerts, you can register at:

<http://ec.europa.eu/coreservices/mailing/index.cfm?serviceid=1735>

