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European Economy Research Letter

Contents

From the editor 1

Public finances in EMU – 2009 2

The EU's eastern neighbours and the crisis 5

2009 Ageing Report
- Population ageing in the EU: Projections, consequences and policy challenges 7
- Interview with Axel Börsch-Supan 11

A cross-country study on the Baltic economies 12

MACMIC: database on the impact of reforms 13

Recent ECFIN publications, visiting fellows, events 14

DG ECFIN's Annual Research Conference 2009 16

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Time is the essence

We are going through the biggest crisis in the world economy since the Great Depression. There is immense pressure on policy makers everywhere in the world to come up with measures that can mitigate the negative social and economic consequences of this crisis. Looking ahead, the relative positions of countries and regions in the world economy will depend on how they address the new challenges of the post-crisis period. So not surprisingly, the premium on the timeliness of policy-oriented research has increased significantly. DG ECFIN is no exception. Right now, we are devoting most of our resources to finding the answers to the economic challenges that Europe is facing.

The content of this issue of the EERL reflects this race against time. The article on this year's Public Finance Report highlights our research on the short- to medium term implications of the crisis on public budgets, while the piece on the Ageing Report summarises our work on the longer-term budgetary implications, with special emphasis on the underlying population projections. In an interview with DG ECFIN, Professor Axel Börsch-Supan, one of the most distinguished researchers in this field, points out that ageing should be seen as a gift for mankind rather than a problem. While these contributions focus on the EU as a whole, the articles on ongoing work in ECFIN on the Baltic countries and the EU's eastern neighbour countries zoom in on selected regions. The final article continues our series on ECFIN's databases, describing MACMIC, the database for simulation exercises on structural reform.

No doubt, our focus will remain on crisis-related issues in the period ahead. This year's DG ECFIN Annual Research Conference on 15-16 October will concentrate on Crisis and Reform. You will find the programme, together with information on how to register for this event, on the back page of this issue. We shall report on the presentations and discussions in our next issue, as well as on our work on the impact of the crisis on potential growth in Europe and the necessary reforms to restore the EU's growth potential. Hopefully, by that time there will be more green shoots in the European economy.

István P. Székely
Research Director

The European Economy Research Letter provides information on current research projects of staff or visiting fellows of DG ECFIN. It is published three times a year.

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Public finances in EMU - 2009

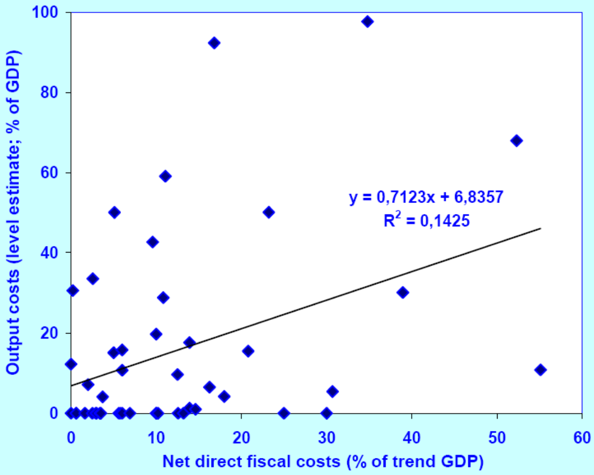
Analytical work in this year's issue of the report on "Public Finances in EMU" mainly focuses on financial crises and public finances (Part III), and on fiscal policy in the context of adjustment to domestic and external imbalances (Part IV). The former in particular can be decomposed into lessons from experiences with past crises and the calculation of the fiscal costs of the current crisis. The report also covers current developments and prospects in the EU's public finances, the development of budgetary surveillance in the context of the Stability and Growth Pact, and country-specific budgetary developments.

This overview article highlights some of the most important results from the analytical work. For more detailed results and information about the methods the reader is referred to the Report[1].

Experiences with past crises yield some lessons on potential fiscal costs

In order to get an idea about the potential fiscal costs of crisis responses it seems useful to look back to past crisis episodes. This indicates that in past financial crises public intervention was generally very costly. When analysing a subset of 49 crisis episodes from the 122 systemic financial crises that have been identified around the world since 1970, one finds that net direct fiscal outlays to rehabilitate the banking system averaged 13% of GDP, but sometimes considerably exceeded this value (Graph 1). These figures already account for the values recovered (up to six years after the crisis broke out) from assets acquired by the public sector. In general, recovery rates were rather low, at only 20% on average.

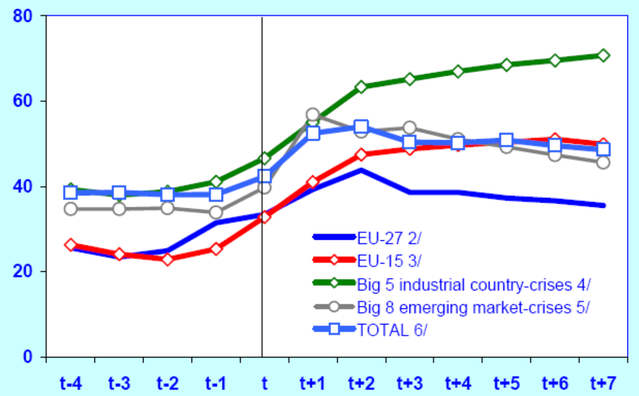
Graph 1: Net fiscal costs and output costs of financial crises (1970-2007)



Note: Net fiscal costs are government outlays during the crisis minus recovery values during period t to t+5, where t is the first year of the crisis. Gross fiscal costs are used for Spain, Hungary, Israel, Poland, Romania, Slovenia and Turkey (1982). For the United States, net fiscal costs are from Spilimbergo et al. (2008). Output losses are calculated as the cumulative deviation (from t to t+3) of real GDP level from average trend real GDP before the crisis.

Source: Data from L. Laeven and F. Valencia, Systemic banking crises: a new database, *IMF Working Paper* 08/224, 2008.

Graph 2: Gross public debt crises episodes[1]
(% of GDP)



Notes:
1 Based on 49 crisis episodes as shown in Annex Table III.1 of the Report. Unweighted country averages. t = start of the crisis.
2 Including crisis episodes in Czech Republic, Finland, Hungary, Latvia, Poland, Slovak Republic, Spain and Sweden. For new Member States data from 1991.
3 Including crisis episodes in Finland, Spain and Sweden.
4 Including crisis episodes in Finland, Norway, Sweden, Japan and Spain.
5 In principle including Argentina, Indonesia, Korea, Malaysia, Mexico, Philippines, Thailand and Turkey. But data for Korea, the Philippines, Thailand and Turkey are missing.
6 Without Nicaragua that in 2003 (t+4) received a public debt relief.

Source: Calculations based on IMF IFS and AMECO.

The process of rising debt ratios has proved difficult to reverse (Graph 2). Indeed, even a decade after the start of the crisis, most governments were running public debt-to-GDP ratios above pre-crisis levels. However, increases in public debt ratios, the most comprehensive measure of fiscal implications from financial crises, went far beyond the direct costs attributable to tackling the financial sector problems and amounted to, on average, 20% of GDP during the crisis, which lasted on average 4½ years. That these increases were linked to the crisis is corroborated by the Commission services' econometric evidence.

Most of the ratcheting up of debt ratios occurred in the first two crisis years and was rooted on the expenditure side. This includes crisis-related budgetary outlays ensuing from the operation of automatic stabilisers against the backdrop of widening output gaps. Increased discretionary fiscal stimulus to counter the economic downturns also added to the overall budgetary deterioration of an average of 2% of GDP during the full duration of the crisis. However, country case studies indicate that

[1] See report on "*Public Finances in EMU*" (23 June 2009).

active fiscal stimulus was not as widespread as one might expect, since countries' fiscal space was frequently constrained. In the few cases of relatively large fiscal activism, such as Sweden, there are many indications that the success of the policies put in place in the wake of a financial crisis was rather limited.

Experience shows that some factors contributed to limit the taxpayers' bill from crisis intervention by containing the level of direct fiscal costs, i.e. outlays from rescuing and rehabilitating the financial sector. Lower direct fiscal costs and higher recovery rates were notably achieved when the bank resolution strategy was implemented swiftly, was transparent and received broad political support backed by strong public institutions and legal frameworks, and included a clear exit strategy. Within this broad framework, econometric results suggest that some individual measures were associated with higher recovery rates. These include recapitalisation and liquidity support, presumably reflecting the fact that they were extended to viable institutions that recovered after the crisis.

The econometric analysis shows that the use of asset management companies (so-called 'bad banks') was linked to significantly higher recovery rates only when government effectiveness - the quality of public administration as well as the legal and judicial system - was strong. The size and complexity of the asset portfolio also seems to have impacted on the effectiveness of asset management companies. Thus, experience suggests that they can be a useful tool in managing non-performing assets when certain conditions are in place, but that they are not a panacea.

High fiscal costs of resolving the current crisis

What do these experiences imply for the direct fiscal costs of today's crisis (Table 1)? The global nature of the current crisis adds to the factors of fiscal risks and reduces the policy options. Firstly, banking systems in the EU today are much larger than in past crises and consequently impaired assets and recapitalisation needs are much greater. Secondly, recovery values of impaired assets may be much lower than in the past due to several factors. The complicated nature and high leverage of many financial assets makes them more difficult to manage, unwind and recover than in past crises, when assets included predominantly real estate and other loans. Moreover, a protracted slowdown in the global economy compared with many V-shaped output developments in earlier crises, supported by sharp real depreciations in national currencies and export-led growth, is likely to depress recovery values, inter alia through a lower availability of foreign and, more generally, private investors. And lastly, delays in the implementation of a comprehensive strategy for a resolute clean-up of bank balance sheets across the EU and the use of regulatory forbearance may add to the fiscal bill, as uncertainty and constraints to providing loans and stimulate private demand prevail. Against this background, today's crisis provides only a few reasons for being more optimistic on containing fiscal implications by positively impacting on recovery rates. This is particularly the case for the generally stronger legal and judicial systems and the greater transparency and more uniform applications of national bank resolution policies than in the past.

Table 1: Risk scenarios for direct fiscal costs

		(% of GDP) Based on effective measures	Based on approved measures
A	**Recapitalisation**		
A.1	As of 22 June 2009	1,8%	2,9%
A.1.1	Loss rate (80%)	1,4%	2,3%
A.2	Assuming a doubling of recapitalisation needs	3,6%	5,8%
A.2.1	Loss rate (80%)	2,9%	4,6%
B	**Liquidity and bank funding support**	**2,6%**	**2,5%**
B.1	Loss rate (10%)	0,3%	0,3%
B.2	Loss rate (30%)	0,8%	0,8%
C	**Govt. guarantees on bank liabilities and relief of impaired assets 1/**	**8,5%**	**28,6%**
C.1	Loss rate (15%)	1,3%	4,3%
C.2	Loss rate (30%)	2,6%	8,6%
	TOTAL net fiscal costs		
	Lower bound (=A.1.1+B.1+C.1)	**3,0%**	**6,9%**
	Higher bound (=A.2.1+B.2+C.2)	**6,2%**	**14,0%**

Note: In percent of 2009 GDP (European Commission Spring Forecast 2009). Figures include blanket guarantees (AT, ES, IE, NL) but not potential shortfalls of deposit insurance schemes nor government guarantees where amounts have not been specified (e.g. BG, IT, PL, UK).

Source: Commission services.

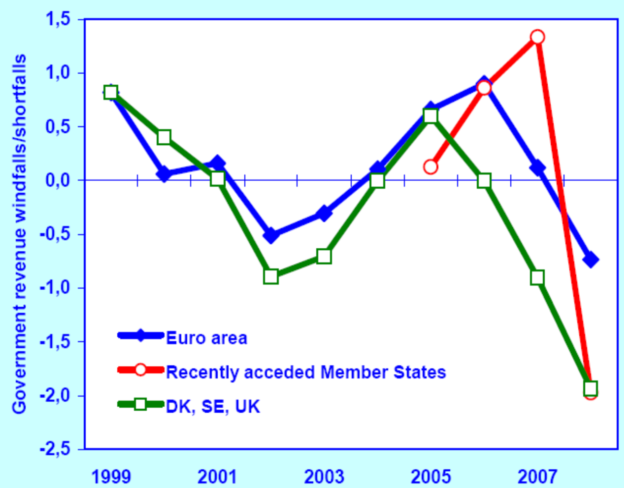
On balance, there is a considerable risk that rehabilitating the EU's banking system will require substantial public outlays. Of the total public resources approved for the support of the EU banking system (about 44% of GDP so far), most are guarantees that may not be called upon. In a benign scenario much of those outlay may either be recovered or not even materialise. However, in a more adverse scenario, net direct fiscal costs could add up to about 16½% of GDP. This broadly matches the average bank rescue costs from past systemic crises. This cost estimate is derived by assuming that capital injections would be doubled from the currently approved amount of 2.6% of GDP, which appears rather small in comparison with recent estimates of impaired assets in Europe. Moreover, the scenario calculation uses already approved amounts for other public bank interventions (including guarantees) and applies to this the lower end of a range of recovery rates in line with past crises.

Going forward, efforts to restoring the health of the financial sector need to be stepped up - even if this implies high upfront fiscal outlays - to ensure the full effectiveness of fiscal measures in support of an economic recovery.

Asset price and credit booms and busts

Going beyond the particularly distressing effects for public finances which systemic financial crises can have in general, the more specific role played by the recent episodes of asset prices and credit booms and busts on EU countries' public finances has also been analysed. This includes the conditions under which active fiscal stimulus might (or might not) help to smooth the potential economic costs of a bust. Indeed credit markets and asset price evolutions played a key role through buoyant tax revenues and catching up public expenditure during the booms, followed by large tax revenue shortfalls (Graph 3). In the run-up to the financial crisis, key macro-financial and economic developments, which reflect the credit and property price boom and its characteristics, reveal large differences across Member States.

Graph 3: Tax revenues windfalls/shortfalls in the EU, 1999-2008 (% of GDP)



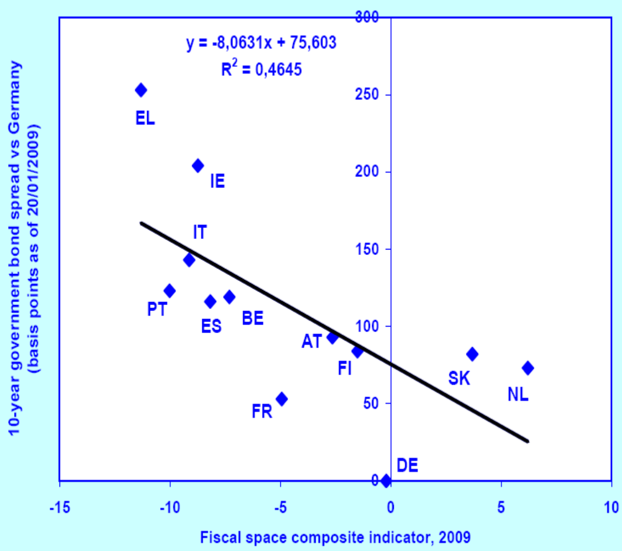
Source: Commission services.

In order to analyse the impact of property price developments on public finances during the boom period, recent public finance developments in the EU have been linked to the build-up of asset price and credit booms using VAR analysis. Impulse-response functions have been constructed to check to what extent the fiscal variables react to house price variations for 10 years after the shock.

Government revenues tend to react more swiftly - and in a more pronounced way - to a positive shock to house prices than government expenditure. In most cases, government expenditures catch up with government revenues, suggesting that potential improvements in the budget balance are only temporary. The VAR model is also used to analyse the link between variables that may fuel the interaction between house prices and fiscal variables, illustrating the mechanisms at play. Results indicate that the credit channel is by far the most influential variable in transmitting house price fluctuations to total government revenues. It also indicates important differences across countries. Further econometric analysis of the determinants of tax revenue surprises suggests that the effects of internal and external imbalances on public finances are strongly interconnected. However, the most important determinants of revenue windfalls appear to be expectations that are not validated by subsequent business cycle developments. Illustrative simulations using the Commission services' QUEST III model with credit constrained households indicate that prudent fiscal policy during good times can help to contain the output drop following a boom, especially in countries that have limited fiscal space, preventing counter-cyclical policies or requiring pro-cyclical tightening during the bust.

The consequences of the bust in property prices for public finances have been looked at by analysing the effects of fiscal constraints for different degrees of fiscal space (Graph 4). The analysis shows that the increase in government debt-to-GDP ratios can be very substantial as deficits mount and output drops. In some Member States, buoyant domestic demand, accompanying the credit expansion and property price appreciation, led to appreciating real exchange rates, growing current account deficits and net foreign liabilities. As the financial crisis set in and global risk aversion increased, these features influenced financial market perceptions of Member States' prospective fiscal space, and thus their capacity to finance expansionary fiscal policies. The ability to conduct active fiscal policies aimed at cushioning the negative impact of the financial crisis may therefore be limited by adverse financial market reactions. Simulations with the Commission services' model QUEST III indicate how in countries with small fiscal space the benefits of a fiscal

Graph 4: Fiscal space and government bond spreads in the euro area



Note: Details about the indicator are provided in Annex IV.2 of the Report on Public Finances.
Source: Commission services.

stimulus in the short run may be nullified by movements in risk premiums. While financial market reactions to fiscal policy and expectations of fiscal space developments cannot be accurately forecast, these simulations highlight the need to differentiate fiscal policy across Member States according to their fiscal space and the market spreads on sovereign, corporate and financial sector bonds.

Finally, future work should focus in particular on the medium-term effects of building-up and unwinding imbalances on budgetary developments and the role that fiscal policy can play in this context.

Roland Eisenberg (DG ECFIN)

The EU's eastern neighbours and the crisis

The global downturn brought a decade of strong growth - not only for the EU economies, but also for the EU's neighbouring countries - to a grinding halt. A recent DG ECFIN study[1] has investigated the impact of the crisis in these countries. This article reports on the results obtained for one subgroup, the EU's eastern neighbours[2], which had formed the second fastest growing area on the planet and which have a clear strategic importance for the EU. The article describes recent region-wide macroeconomic developments from a regional and forward-looking perspective and it concludes by discussing a set of policy issues that the ongoing economic crisis has brought to the fore.

Macroeconomic developments

In the wake of the global recession, average GDP growth in the EU's Eastern neighbours fell sharply from 8.4% in 2007 to 5.6% in 2008, although this figure was still significantly above the global average (3.2%). The deceleration was general, with all western CIS countries (except Belarus and Moldova) experiencing lower growth than in 2007. Additionally, all countries (except Azerbaijan and Georgia) are expected to experience recessions in 2009. Russia, by far the largest regional economy, accounting in 2008 for over 84% of the combined output of the area at market exchange rates (its GDP is worth over EUR 1 trillion: Russia is one of the 8 largest economies in the world), saw real GDP growth fall from 8.1% to 5.6%. However, the sharpest fall in the region was in the second largest CIS economy, Ukraine (responsible for almost 10% of regional output). There, growth fell from 7.3% in 2007 to 2.5% in 2008, as the country was the hardest hit in the region by the collapse in commodity prices and the abrupt loss of access to international capital. Aggregate real regional GDP is set to fall by around 4% in 2009 (largely due to an expected 4% fall in Russia and 10% fall in Ukraine, according to ECFIN forecasts, as those two economies are responsible for almost 95 % of regional GDP). In the wake of this downturn, several Eastern neighbours (but not Azerbaijan and Russia) are now under IMF programmes. The general nature of the shock and consequent deceleration can be easily seen from the similar trends in GDP (see Graph).

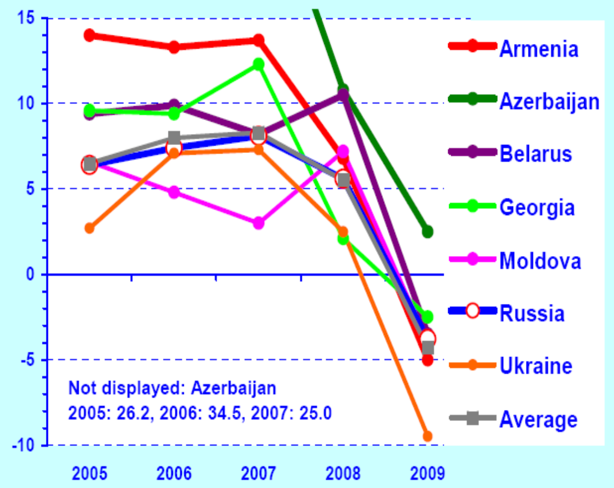
The GDP-weighted regional government deficit in 2008 fell to 3.3%, from 4.4% a year earlier. In 2009, the region will see a fiscal deficit of over -5% of GDP. At national level, only one Eastern neighbour — Russia — has had any significant fiscal surpluses (and consistently so, since 2000), with the worst non-oil imbalances to be found in Azerbaijan (where the fiscal deficit is financed with transfers from the off-budget local oil fund). In 2009, even the Russian Federation is expected to face a deficit, and a very significant one at 6.5%, while all other countries (except Belarus) will see an increase in their fiscal deficits. Consequently, the total external indebtedness of the countries of the region (public and private debt), which fell to around 33% of regional GDP in 2008, is expected to increase to almost 41% in 2009, largely as a consequence of the IMF loans across the region. The figure will be particularly worrying for Ukraine, where it will effectively reach 100% of GDP.

The region-wide depreciation in exchange rates — real and nominal — will also reverse a decade-long trend. In some cases, notably in Russia, this depreciation was the result of a policy choice, while in others (Belarus, Ukraine) this was a condition imposed by IMF programmes. The international reserves of several central banks have been substantially reduced. Nevertheless, some currencies — notably the Russian rouble, which has even temporarily appreciated again since January 2009 — and some countries' foreign reserves (again, Russia) have stabilised since early February

[1] This article is based on the chapter "Overview of Recent Economic Developments in the EU's Eastern neighbours" of the *ECFIN Occasional Papers* no. 48, "The Impact of the Global Crisis on Neighbouring Countries of the EU", European Commission, Brussels, 2009.

[2] Those are Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia and Ukraine. All are covered by the European Neighbourhood Policy and the Eastern Partnership, except the largest regional economy, Russia, which (by its own choice) is covered by a separate framework.

Graph 1: Economic growth in selected countries
(real GDP, in %)



Source: Commission services.

2009, together with a stabilisation of commodity prices.

A contrast is observed in the trade performance of energy exporters (Azerbaijan and Russia) and importers (all the others, although the energy transit countries — Belarus and Ukraine — have been classified as pseudo energy exporters). Also, the regional GDP-weighted trade surplus fell from 8.4% to 7.8% of GDP between 2007 and 2008, and is likely to collapse to below 3 % in 2009, largely reflecting a significant expected fall in Russia. The regional current account surplus was around 5% of GDP in both 2007 and 2008, but in 2009 it is predicted to fall below 1%. The current account balance largely shows the same dichotomy between energy exporters and importers as the trade surplus, with significant current account surpluses in Azerbaijan and Russia (above 40% of GDP and over 6% of GDP, respectively) in 2008, and deficits in all the others (with Georgia facing an astonishing 21% of GDP in 2008). This pattern is expected to continue in 2009

Regional policy responses to the crisis, albeit un-coordinated, share many similarities. The banking sectors across the Eastern neighbours (which have a significant EU/euro area presence) have received several forms of support (notably including a recent recapitalisation of the foreign banks by their headquarters, in the case of Ukraine). Public capital injections have happened in all countries, with the exception of Moldova. Deposit guarantees were expanded in Azerbaijan, Belarus, Russia and Ukraine, while liquidity provision (in domestic and/or hard currencies, short and/or long-term) was provided in Azerbaijan, Georgia, Russia and Ukraine. Significant monetary easing was observed in Azerbaijan and Georgia. Additionally, those countries that could afford them also introduced counter-cyclical fiscal measures. Russia, with its huge fiscal buffers, stands out in this criterion, with an additional fiscal impulse worth around 5% of GDP.

Conclusions and policy issues

This article demonstrates the commonality of the deceleration in the EU's Eastern neighbours, spread via both real and financial channels.

A first conclusion that could be drawn is that those countries that were most integrated into the world economy - for instance, via trade and capital flows - and that have taken the most steps towards liberalisation, were the hardest hit. Nevertheless, the experience of pre-crisis growth episodes provides arguments for resisting the temptations of protectionism and autarky. The relevant policy question is to design frameworks to limit the transmission of negative shocks arising from the changes brought about by a greater global integration.

A second conclusion is that, as the financial component of the shock arguably led (or at least preceded) the real one, reforms of the supervisory and regulatory financial frameworks are key. Given the observed spillovers and the integration of the global financial system (which must ultimately be preserved), such reforms need to be global and co-ordinated.

A third conclusion is that while macroeconomic stabilisation factors (sound fiscal positions, robust fiscal rules, large hard currency reserves and flexible exchange rates) did not insulate the countries from the crisis, they at least enabled them to implement policies that cushioned the shock. Of particular importance are well-designed fiscal policy tools and frameworks, especially in a situation where the effectiveness of monetary policy was constrained by largely dysfunctional financial markets (the policy mix obviously also needs to include a consistent exchange rate policy).

Finally, one last conclusion that could be derived is that growth strategies that relied heavily on primary sectors (commodities and sectors like steel, crucial for a country like Ukraine) have seemingly been more affected by the downturn (conversely, they also arguably showed higher growth rates in the upward part of the cycle). Efforts for a diversification of growth sources towards a less commodities-biased economic structure could be intensified in the future.

Lucio Vinhas de Souza
(DG ECFIN)

Population ageing in the EU: Projections, consequences and policy challenges

Long-term projections provide important information for the economic policy-making process, as they facilitate the formulation of time-consistent policies beyond the medium-term. They provide an indication of the timing and scale of economic changes that would result from an ageing population, assuming no change in labour market and welfare policies. The projections show where, when, and to what extent, ageing pressures will accelerate as the baby-boom generation retires and the average life span continues to increase.

The European Commission (DG ECFIN), in co-operation with the Economic Policy Committee (Ageing Working Group) has recently carried out long-term economic and budgetary projections on the basis of the latest population projection by EUROSTAT (EUROPOP2008), in line with the mandate given by the ECOFIN Council in 2006. The projections of government expenditure items (pension, healthcare, long-term care, education and unemployment benefits) are made on the basis of common macroeconomic assumptions endorsed by the EPC and of a 'no policy change" assumption, i.e. reflecting only already enacted legislation (see the 2009 Ageing Report for details).

Population projections: talking through the demographics

Population projections are not forecasts, but what-if scenarios built on assumptions. They show the likely size and age-structure of the population in the future, given a number of demographic assumptions. The work on the impact of ageing of the Commission (DG ECFIN) and the Economic Policy Committee (Ageing Working Group) is based on Eurostat's population projections: the future population by age and gender is our first input to project the labour force and potential GDP growth, which we then use to make projections for public expenditure on pensions, health care, long-term care, education and unemployment transfers for all EU Member States and Norway. Our last projections are based on the EUROPOP2008[1] population projection released by Eurostat last year.

Eurostat applies a common methodology to all Member States, which is essential to ensure that projections for public expenditure are comparable across Member States and can be used for the analysis of the sustainability of public finances, where countries are classified according to different categories of risk. If we used national population projections, rather than a common projection, different assumptions on rates of fertility, mortality or net migration would drive the results of the macroeconomic and budgetary projections and these would not be comparable across Member States. Clearly, the assumptions on fertility rates and net migratory flows are key to future trends in the working-age population and the labour force, while mortality rates at older ages are crucial for projecting future expenditure on pensions, health care or long-term care to elderly people.

For EUROPOP2008, Eurostat set its assumptions on the main population components as follows: the projection is based on the population of January 1, 2008, assuming convergence, where the socio-economic differences between Member States are assumed to fade away in the very long run. It is assumed that demographic values will converge in 2150, which involves the following:

i) The fertility rates by age were modelled assuming convergence to levels in Member States considered forerunners; that is a total fertility rate of 1.85 births per woman on average and a mean age at first childbearing of 30.3 years in the convergence year. Such fertility levels are achieved in Member States where the fertility decline has slowed down or ended (figures for 2006): Denmark, with a total fertility rate of 1.83, Finland (1.84), Sweden (1.85), the UK (1.84), and France, Ireland and Norway (above 1.9).

   The thinking behind this assumption is that Member States where fertility levels are currently very low (which, it is interesting to note, are also the Member States with relatively low labour participation of women) will adopt best practices to reconcile work and family life, allowing fertility to recuperate. Indeed, the reduction in the total fertility rate observed since the mid-1960s is to some extent a transitional phenomenon associated with the trend of postponing childbearing to later ages, because of the rise in the educational attainment of women, their entry into the labour force and societal change more generally. Some countries are experiencing a slowing down or even a reversal of postponement and they are considered forerunners in the demographic transition. Nevertheless, evidence suggests that postponement has a negative impact on the

[1] See EUROPOP2008 convergence scenario. See also *Statistics in Focus*, Ageing characterises the demographic perspectives of the European societies, No. 72, 2008.

total number of births per woman, as the high mean age at first birth reduces the time left for another birth. Hence, even if there is some recuperation of fertility rates, they will remain below the replacement fertility rate of 2.1 births per woman that is needed in order for each generation to replace itself. These assumptions translate to a modest recovery in the total fertility rate by 2060 for the EU as a whole, from 1.52 births per woman in 2008 to 1.57 by 2030 and 1.64 by 2060. Such low levels will result in slow growth - and in most cases actual declines - in the population of working-age.

ii) Mortality rates by age for men and women were modelled using aggregate data on deaths and exposure to risk of the population of twelve countries[2], for males and females respectively, over the period 1977 to 2005. Life expectancies[3] follow convergent trajectories: larger longevity gains are assumed in countries with lower levels of life expectancy and smaller longevity gains are assumed in those countries with larger levels. The forerunners that are expected to continue to experience increases in life expectancy are France, Italy, Spain and Sweden. Convergence life expectancy was set at 92.9 and 96.3 for men and women, respectively, for the year 2150.

For the EU as a whole, life expectancy at birth for men would increase by 8.5 years over the projection period, from 76 years in 2008 to 84.5 in 2060. For women, life expectancy at birth would increase by 6.9 years, from 82.1 in 2008 to 89 in 2060, implying a narrowing gap in life expectancy between men and women. This involves relatively large longevity gains, with an increase in male life expectancy at birth of 1.7 years per decade on average until 2060 (1.3 for women). In EU10 Member States, larger increases in longevity are assumed, about 2.1 years per decade on average for men and 1.6 years for women. In the past, life expectancy has risen steadily, with an increase of two and a half years per decade in the countries holding the record of highest life expectancy - more rapidly than assumed in EUROPOP2008. However, continuing increases in life expectancy now increasingly come from reductions in mortality at older ages, as mortality rates at young ages are already very low, and thus relatively more difficult to achieve.

iii) Net migration is assumed to converge to zero in 2150. The thinking behind this assumption is that the relative differences in attractiveness between countries will disappear in the long run. This assumption implies that push and pull factors will offset each other in the long-run. In addition to this assumption, migration has been further adjusted upwards in countries where the working age population is shrinking. This deficit was adjusted by 10% to cover net migration flows.

Over the projection period, annual net inflows to the EU of 59 million people are assumed, of which the bulk (46.2 million) would be concentrated in the euro area. Net migration flows are assumed to decelerate over the projection period, falling from about 1,680,000 people in 2008 (equivalent to 0.33% of the EU population) to 980,000 by 2020 and thereafter to some 800,000 people by 2060 (0.16% of the EU population). Net migration flows would concentrate in a few destination countries: Italy (12 million cumulated to 2060), Spain (11.6 million), Germany (8.2 million), and the UK (7.8 million). According to the assumptions, the change of Spain and Italy from origin to destination countries is confirmed in coming decades. Estonia, Lithuania, Latvia, Poland, Bulgaria and Romania, which are currently experiencing net outflows, would see this taper off or reverse in the coming decades (see Table 1).

Table 1: Summary of the main demographic assumptions

	Fertility rate		Life expectancy at birth				Net migration		
			Men		Women		as % of population		cumulated (2008-60)
	2060	*change 2008-2060*	2060	*change 2008-2060*	2060	*change 2008-2060*	2008	2060	*as % of 2008 population*
BE	1,79	*0,04*	84,4	*7,8*	88,9	*6,6*	0,48	0,19	16
BG	1,55	*0,17*	81,6	*11,9*	86,5	*9,8*	-0,02	-0,02	0,6
CZ	1,52	*0,19*	83,2	*9,3*	87,8	*7,7*	0,23	0,18	12
DK	1,85	*0,00*	84,3	*7,8*	88,4	*7,4*	0,18	0,10	7
DE	1,53	*0,19*	84,9	*7,6*	89,1	*6,5*	0,19	0,16	10
EE	1,66	*0,11*	80,8	*12,8*	87,5	*8,8*	-0,04	-0,03	0
IE	1,88	*-0,02*	85,2	*7,7*	89,2	*7,3*	1,43	0,13	20
GR	1,57	*0,16*	84,8	*7,4*	88,7	*6,1*	0,35	0,24	17
ES	1,56	*0,17*	84,9	*7,5*	89,6	*5,7*	1,38	0,25	26
FR	1,93	*-0,05*	85,1	*7,7*	90,1	*5,8*	0,16	0,09	7
IT	1,55	*0,17*	85,5	*6,9*	90,0	*5,8*	*0,44*	*0,29*	*20*
CY	1,60	*0,15*	85,2	*7,0*	88,7	*7,0*	1,17	0,45	402
LV	1,54	*0,18*	80,5	*14,5*	86,8	*10,1*	-0,04	-0,04	-0,2
LT	1,54	*0,19*	80,4	*14,6*	86,9	*9,4*	-0,07	0,00	-0,1
LU	1,72	*0,07*	84,5	*8,2*	88,5	*7,3*	0,90	0,38	39
HU	1,53	*0,18*	81,9	*12,2*	87,3	*9,2*	0,20	0,17	10
MT	1,55	*0,17*	84,3	*8,3*	88,6	*7,6*	0,24	0,20	12
NL	1,77	*0,05*	84,9	*7,0*	88,9	*6,7*	0,05	0,05	3
AT	1,57	*0,16*	84,9	*7,5*	89,2	*6,3*	0,40	0,25	18
PL	1,49	*0,22*	82,5	*11,1*	88,0	*8,1*	-0,04	0,03	1
PT	1,54	*0,18*	84,1	*8,3*	88,8	*6,4*	0,49	0,31	22
RO	1,52	*0,20*	81,9	*12,1*	86,6	*10,0*	-0,03	0,02	2
SI	1,52	*0,20*	83,7	*9,0*	88,8	*6,9*	0,29	0,13	10
SK	1,47	*0,22*	82,0	*11,1*	87,4	*8,6*	0,07	0,08	5
FI	1,84	*0,00*	84,3	*8,2*	89,3	*6,2*	0,18	0,08	6
SE	1,85	*0,00*	85,4	*6,5*	89,3	*6,2*	0,51	0,15	13
UK	1,84	*0,00*	85,0	*7,7*	88,9	*7,4*	0,31	0,15	13
NO	1,88	*-0,02*	85,2	*6,8*	89,2	*6,3*	0,47	0,16	15
EU27	1,67	*0,14*	84,6	*8,4*	89,1	*6,9*	0,34	0,16	12
EU15	1,70	*0,11*	85,0	*7,5*	89,4	*6,3*	0,42	0,18	14
EU10	1,51	*0,21*	82,4	*11,2*	87,8	*8,3*	0,06	0,08	5

Source: Eurostat, EUROPOP 2008.

[2] Belgium, Denmark, Germany, Spain, France, Italy, Netherlands, Austria, Portugal, Finland, Sweden, and the UK.

[3] Life expectancy at birth is the average number of years a person would live if current mortality rates by age would continue.

Ageing: Consequences and policy challenges

The latest projections reveal that demographic developments differ significantly from country to country, but the overall size of the population in the EU is projected to remain the same in 2060 as today, thanks to a slight rebound in the fertility rate in some Member States and relatively dynamic immigration flows in the beginning of the projection period. However, the population will be much older in the future, stemming from low birth rates, rising life expectancy and continuing, but declining inflows of migrants by 2060.

The labour market participation rate is projected to increase from 70½% in 2007 to 74% in 2060 for the EU as a whole, most of which will materialise before 2020. The gap between male and female participation rates is expected to narrow gradually, especially in countries where it is currently large.

Graph 1: GDP growth and its components, EU27 (%)

Source: Commission services.

Overall, employment rates are expected to increase from 65½% in 2007 to about 70% in 2060. The employment rate -in particular for older workers - is expected to grow substantially as a result of reforms aimed at prolonging working life in many Member States. Overall, however, employment in the EU is projected to shrink by about 19 million people by the year 2060. Increasing labour force participation rates in most countries and rising net immigration levels in some will only moderate the fall in employment due to the shrinking working age population between 2020 and 2060.

As a result of declining labour input, productivity will eventually be the only source of future economic growth. A prudent assumption is that Member States' labour productivity growth will converge to a long-term historical average in the EU of 1¾%, close to that recorded in the US and the EU over the very long term. As a result, the annual potential GDP growth rate will decline significantly on account of the shrinking working-age population, which will act as a drag on growth and on per capita income.

The need for public provision of age-related transfers and services will increase as a consequence of ageing populations. The fiscal impact of ageing is therefore projected to be substantial in almost all Member States, already becoming apparent over the course of the next decade. Public pension expenditure will increase significantly in most Member States due to the demographic trends. However, pension reforms enacted in a number of Member States are bringing positive results in terms of the sustainability of public finances. Almost all Member States have tightened the eligibility requirements for receiving a public pension, notably by raising the retirement age and restricting access to early retirement schemes. Reforms are also leading to a gradually smaller share of public pension benefits in overall pension provision. Alongside reforming public pensions systems, many countries have introduced, and are planning to expand, supplementary pension schemes.

Public expenditure on health care is projected to grow by 1½ percentage points of GDP in the EU by 2060. The increase in living standard conditions is another important driver of health care costs, affecting demand for health care - mainly through higher expectations on quantity and quality of care to be provided by the State. Analysis of past trends in health care expenditure suggests that technological developments - new and better treatments - are responsible for a significant part of overall costs growth. This may result in a significant increase in spending which is not captured in the projection. However, technological advances may also have positive effects on reducing costs of medical treatments through efficiency gains (faster and better treatments). There is uncertainty as to which factor will dominate in the future.

Based on current policies, public spending on long-term care is projected to increase by 1¼ percentage points of GDP by 2060 due to the fact that the very old (aged 80+) will be the fastest growing age class of the population in the future. But there are upside risks to these costs, due to changes in family structures, higher labour force participation of women and increased geographical mobility, which will limit the supply of informal care to the elderly within families.

In terms of public education spending, the small decrease in the public education expenditure ratio over the projection period results solely from changes in the demographic composition (fewer children in the future). There is a question mark as to whether it will materialise in view of targets set to expand educational attainment.

Overall, on the basis of current policies, age-related public expenditure is projected to increase on average by about 4¾ percentage points of GDP by 2060 in the EU – especially through pension, healthcare and long-term care spending. The projected increase is slightly higher than in the previous long-term projections, by around half a percentage point of GDP for the EU.

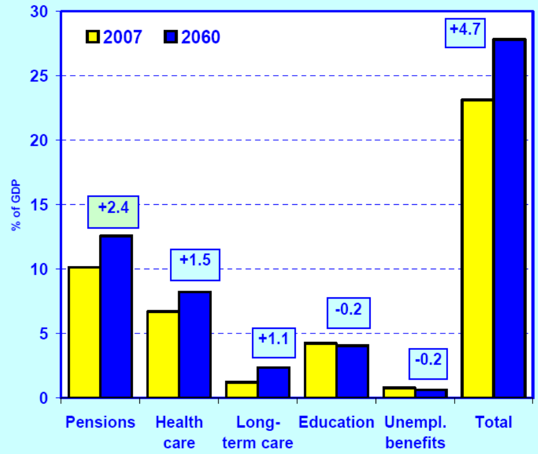
At Member State level, large downward revisions in the budgetary impact of ageing have occurred in Portugal, Hungary, Denmark and the Czech Republic (notably reflecting the impact of pension reforms). By contrast, large upward revisions are reported in Greece, Luxembourg, Malta, Estonia, Austria, Poland and Lithuania (reflecting primarily revised projected changes in pension expenditure stemming from reform reversals and improved modelling techniques). There are however notable differences in the impact of ageing across Member States:

- The increase in public spending is likely to be very significant (7 percentage points of GDP or more) in nine EU Member States (Luxembourg, Greece, Slovenia, Cyprus, Malta, the Netherlands, Romania, Spain, and Ireland), although for some countries the large increase will be from a fairly low level.
- For a second group of countries – Belgium, Finland, Czech Republic, Lithuania, Slovakia, the United Kingdom, Germany and Hungary – the cost of ageing is more limited, but still very high (from 4 to 7 percentage points of GDP).
- Finally, the increase is more moderate, at 4 percentage points of GDP or less, in Bulgaria, Sweden, Portugal, Austria, France, Denmark, Italy, Latvia, Estonia and Poland. Most of these countries have implemented substantial pension reforms, in several cases also involving a partial switch to private pension schemes (Bulgaria, Estonia, Latvia, Poland, and Sweden).

On top of these prospects, analysis reveals that the severe crisis is likely to aggravate the situation. If the recovery from the crisis is characterised by a protracted period of subdued potential growth (to 2020), the loss in GDP per capita relative to the baseline is around 8% in 2020 – a 'lost decade' - and this loss is carried over the rest of the projection period, since the growth projection remains broadly unchanged as of 2020. A more marked reduction in the GDP per capita level would occur if growth potential is negatively affected permanently (a 'permanent shock'), leading to GDP per capita in 2060 being about 18% lower than in the baseline.

The budgetary implications of sluggish growth would depend on its duration. If the EU economies were to return to the potential growth path prior to the crisis, the additional increase in age-related expenditure would be 0.9 p.p. of GDP higher. However, if the EU's growth potential is permanently affected, the public age-related spending-to-GDP ratio would be 1.6 p.p. of GDP higher than in the baseline.

Graph 2: Total cost of ageing, EU27
(% of GDP)



Source: Commission services.

The report suggests that the current situation must be used as an opportunity to combine determined efforts to overcome the crisis and to avoid any lasting adverse impact on the EU's growth potential. For this to happen, a comprehensive exit strategy built on structural reforms across the board will be necessary to restore credibility and confidence in the public finances.

Hence, getting the policy response right in a co-ordinated manner would limit the loss of wealth creation in Europe and would also lead to less expenditure than would otherwise be the case. Indeed, delays in implementing the needed policies would require stronger measures to achieve the same fiscal outcome by mid-century. It will be particularly important, therefore, to intensify the pace of structural reforms needed in view of the longer-term challenges, so as to emerge stronger from the current economic crisis, and to set the EU economies on a path of high and stable growth.

Nuria Diez Guardia and Per Eckefeldt
(DG ECFIN)

Interview with Axel Börsch-Supan:

Ageing is a huge gift for mankind, but preparations are needed

Is an ageing population unavoidable in Europe?

Börsch-Supan: Yes, ageing is certain. Two demographic changes imply ageing populations. One has already happened, and the other is a good thing: the children of the baby-boom generation are largely born, and they are fewer than their parents. We also live longer, about 10 years longer than when the EU was founded.

Is it a problem?

Börsch-Supan: Not at all. Just the opposite: living longer is an old dream of mankind and has become true. Even better: active, healthy and disability-free life expectancy has increased even faster than statistical life expectancy. Hence, the time spent disabled at end of life has become shorter. The added healthy life years are a gift of modern medicine, healthier nutrition and better education.

Axel Börsch-Supan is Director of the Mannheim Research Institute for the Economics of Aging (MEA) and professor at the University of Mannheim. He is co-ordinator of SHARE, a large scale data collection effort for survey of health, aging and retirement in Europe financed by the European Commission and speaker of the special research unit on behavioural economics (Sonderforschungsbereich 504) at the University of Mannheim.

What do you think is the biggest challenge related to ageing?

Börsch-Supan: We may squander this gift if we do not use it wisely. Of course, living longer cannot mean that we spend all the life years gained doing nothing and expecting our children to pay for us. Hence, our retirement age has to be adapted in proportion to the life years gained. And, equally of course, medical progress, better nutrition and education do come with a price tag. Somebody has to pay for it, and it cannot be only our children. We will turn ageing from a dream come true for us into a nightmare for our children unless we share the costs as much as we share the gains.

Do different countries face different challenges?

Börsch-Supan: Yes, indeed. While almost the entire world is ageing, not just Europe, there are vast differences even within Europe in birth rates and the incisiveness of the baby boom/baby bust shock. Even mortality trends are not uniform, largely due to differences in smoking, drinking and eating habits. Within the EU, ageing is strongest in the Mediterranean and Germanic countries, much less so in Scandinavia, France and the UK. Still, even these countries need to be careful in balancing the financial burden across generations.

In an ideal world, what is in your view the best solution to the challenge that can be undertaken for welfare policies, especially pension and health-care policy...

Börsch-Supan: There is no one-size-fits-all solution. Countries with low birth rates should think twice why these rates are so low; often, it is hard in these countries to combine family with a professional job; many women will then decide for the latter. Some countries have very generous pension systems that are already a burden on the young. Such policies are unsustainable, and since pension reforms are politically difficult, they need to be done slowly requiring a long time of adjustment and therefore an early start. Some countries have very expensive health care systems with similar or even lower health results than other countries. This raises suspicions that the system can be redesigned to be more efficient in delivering better health at lower costs.

…and for labour market policy?

Börsch-Supan: Ageing means that there are more people already retired and fewer people still at work. Hence, labour market policies encouraging higher employment rates across all ages and for either sex are crucial in order to maintain growth and prosperity. The Lisbon target must be reached, and many countries have made reasonable progress towards them, although we are far from being there, and there is quite a bit of creative accounting in some of the newest "progress" rates. Early retirement policies are unsustainable and must be adapted to the new reality. Women should be encouraged to combine work and family; their hard balancing act should be better supported by society. Youngsters should enter the labour market earlier in some of the countries which feature a relatively long time for education without discernible better international test scores.

In the actual world, which country has in your view found the best solution?

Börsch-Supan: There are good examples everywhere, but no single country has done it all. All countries have to work in many dimensions to keep the years gained what they are: a huge gift for mankind.

Interview by Per Eckefeldt (DG ECFIN)

A cross-country study on the Baltic economies

The story of the Baltics is a peculiar one compared with those of other emerging market economies. There are very few medium-income countries where income and financial convergence has been so rapid, where the financial system so dominantly foreign owned, or where the quality of institutions so quickly approached that of highly developed economies. The Baltics also offer important lessons on the positive growth impact of liberalisation, relatively small government, and structural reforms.

Rapid real convergence, however, appeared to come at a price. The impressive catching up in the Baltics took place in a context that was favoured by stability oriented monetary arrangements (currency boards or hard pegs), which however imply very limited room for manœuvre for monetary policy to keep under control domestic demand and credit expansion. Explosive credit growth, galloping goods, wage, and asset price inflation and unprecedented current account deficits were followed by the current deep recession, which is hitting the Baltic economies much harder than other EU New Member States.

The policy challenges appear broadly similar across the Baltic countries. The current crisis is drastically reducing the possibility of financing investment, which implies not only a cyclical worsening in economic activity but possibly also reduced potential growth prospects. Rapidly rising unit labour costs have eroded price competitiveness over recent years. Large exposures in foreign currency (mainly euro) compound the risks of sudden stops and current account reversals and imply possibly relevant negative wealth effects from devaluation policies. The need to contain domestic absorption to improve current account balances implies reduced room for mitigating the recession via fiscal stimulus. In a nutshell, countries in the Baltics face the same challenging task of recovering on a sustained basis from the current recession while adjusting the protracted large current account imbalances cumulated over the past decade.

In order to take stock of the experience of the Baltic economies and draw lessons for other countries, DG ECFIN is currently undertaking a cross-country study on the Baltics. The similarity of the past histories and the present challenges calls for a cross-country approach. This would permit a better assessment of how different answers to similar problems translated into final outcomes. Indeed, notwithstanding numerous common features, there are relevant differences among the Baltic countries in terms of economic structure, institutions, and policy approaches, notably regarding fiscal policy, structural reforms, and financial market supervision and regulation.

The study, rather than aiming at a comprehensive survey of all the Baltic economies, will focus on a series of well-defined horizontal topics and themes.

First, there will be a review of the main features of the Baltic economies and the major macroeconomic developments since transition, with an attempt to identify the main reasons underlying the boom-bust dynamics and to discuss ensuing policy implications. Why were booms more pronounced in the Baltics than in other New Member States? What role did policy frameworks and national policy choices made during the boom play in this regard? These will be among the questions addressed.

Second, the analysis will focus on the role of financial markets. Financial integration was not only a part of convergence dynamics in the Baltics, but arguably one of its main drivers. Financial deepening is an integral part of the catching-up process, but the relaxation of credit constraints due to financial integration added an additional impetus with pronounced macroeconomic implications in the region. The speed at which all these developments took place is historically unique and deserves proper analysis. Financial excesses also raise questions about future system stability and supervisory issues.

Third, the study will focus on the role of fiscal policy. Relatively low deficits and debt notwithstanding, fiscal policy faces difficult challenges in the region. It has to cater for the convergence process (upgrading infrastructure, improve education, etc.) while bearing the brunt of the adjustment burden.

Finally, the analysis will shift to medium-term prospects, notably regarding potential growth and adjustment. The analysis would therefore look at the determinants of past growth performance, with a view to disentangling structural from cyclical and transient patterns, and assessing the prospects for growth in the coming years. Special attention will be paid to the interplay between potential growth prospects and current account adjustment. The role of policies to help to sustain potential growth and export capacity will be discussed.

Alessandro Turrini (DG ECFIN)

MACMIC: The Commission's database on the macroeconomic impact of structural reforms

Quantifying the impact of policy measures is an important task for economists. Uncertainty about the effects of policy measures such as structural reforms makes it difficult to design and implement effective policies and thus reform strategies. Knowledge about the impact of reforms can, for instance, support the Lisbon strategy with its aim of promoting structural reforms that can foster growth and employment through improved functioning of product, labour and financial markets and more innovation.

In order to reduce the technical uncertainty about the impact of reforms, the European Commission has launched MACMIC, a database that gathers the results of modelling exercises and econometric analyses that quantify the effect of microeconomic and structural reforms on macroeconomic variables. This article presents the MACMIC database and invites readers to use it for their purposes.

MACMIC - A comprehensive database

The stocktaking exercise is designed to bring together the considerable body of existing evidence on the effects of reforms in a single comprehensive, consistent and mutually comparable database:

- studies undertaken by DG ECFIN and other departments of the European Commission, notably the Directorate General for Enterprise and Industry (DG ENTR) and the DG for Employment, Social Affairs and Equal Opportunities (DG EMPL),
- economic studies produced by international organisations such as the OECD, the IMF, and other institutes, and
- a significant body of academic research.

Aim of MACMIC

MACMIC is an analytical tool that can be used to help to assess the impact of planned/enacted structural reforms in the context of the Lisbon strategy and to prioritise reforms across policy areas.

The database is intended to include any type of model-based simulations or econometric estimations on past data (time-series or panel) which show the impact of structural policies on key macroeconomic variables (GDP, employment, wages, etc.).

The reported results are typically presented in the form of "reform multipliers", capturing the percentage response of the given macroeconomic variable compared with the baseline level - GDP for example - to a given policy impulse.

The work should be seen as part of DG ECFIN's wider efforts to collect, organise and make available information on structural reforms that are being implemented in Member States.

The use of MACMIC

There are two main areas where MACMIC is expected to be useful:

- *Policy evaluation.* Caveats notwithstanding, MACMIC helps to determine a range of estimates on the impact of different types of reforms, and also gives an idea of their robustness. Quantitative estimates of the impact of structural reforms could feed into the assessment of the impact of the Lisbon strategy in the run-up to the 2010 deadline and the debate on the future shape of the strategy thereafter.
- *Meta-analysis.* MACMIC also acts as an "encyclopaedia" of the existing evidence on the impact of microeconomic reforms on macroeconomic aggregates. It provides an overview of the existing empirical studies specifying in detail the reforms examined, the approach selected, and the main results.

How to use MACMIC

One can easily download an Excel file embedding MACMIC. It contains a user-friendly interface from which information can be extracted on the basis of several selection criteria. For more details on how to use the interface please refer to the manual included in the file. A fully-fledged web-based application is being built to replace the Excel file in the second half of 2009.[1]

First illustration of the use of MACMIC

The MACMIC database has already been used for rough and tentative estimations of the potential impact of some of the structural measures proposed by the European Commission in the European

[1] Feedback is welcome. MACMIC already contains a significant amount of data. However, DG ECFIN invites researchers who work on the effects of structural reforms to provide information on their findings for inclusion in MACMIC. Please send your data on the form provided. We also welcome any comments on results that are already included in the database. Please send them to: Ecfin-macmic@ec.europa.eu

Economic Recovery Programme (EERP). The appropriate policy multipliers from MACMIC (mostly from the QUEST III model) were used to derive the potential macroeconomic effects, i.e. on output and/or employment, of the EERP measures. For this purpose, information on the budgetary size (e.g. increases in EIB activities or frontloading of structural funds) or monetary benefits (e.g. cost savings from cutting red tape) of these measures served to determine the size of the initial impulse. For example, an expert study estimated that the removal of the requirement on micro-enterprises to prepare annual accounts, one of the EERP measures, would generate annual savings of around 7 billion euro, which corresponds to a reduction of 1.4% in administrative burden. Therefore, using the QUEST multiplier of the reduction in firms' administrative burdens (overhead labour), it can be estimated that this measure could boost output by 0.06% after 2 years and 0.09% in the long-run.


Gilles Moure (DG ECFIN)

List of recent external academic publications by DG ECFIN staff

Journal articles

Balta, Narcissa and Juan Delgado, Home bias and market integration in the EU, *CESifo Economic Studies*, March 2009, Vol. 55, No. 1, pp. 110-144.

Buti, Marco, Röger, Werner and Alessandro Turrini, Is Lisbon far from Maastricht? Trade-offs and complementarities between fiscal discipline and structural reforms, *CESifo Economic Studies*, March 2009, Vol. 55, No. 1, pp. 165-196.

Buti, Marco and Paul van den Noord, The euro: past successes and new challenges, *National Institute Economic Review*, April 2009, No. 208, pp. 68-85.

Conte Andrea, Is Italian R&D spending becoming more efficient?, *Economia e Politica Industriale*, 2009, Vol. 34, No. 2, pp. 187-198.

Deroose, Servaas, Langedijk, Sven and Paul van den Noord, Tien jaar ervaring met de euro: een terugblik en een vooruitblik (Ten years after the introduction of the euro: looking back and ahead, in Dutch), *Bank- en Financiewezen/ Revue bancaire et financière*, 2009, No. 1, pp. 18-34.

Jonung, Lars, Vad säger vår historia om finanskriser?, (What does our history say about financial crises; in Swedish), *Ekonomisk Debatt*, May 2009, Vol. 37, No. 4, pp. 73-85.

Masselink, Maarten and Paul van den Noord, De crisisgevoeligheid van Nederland (The sensitivity of the Dutch economy to the crisis, in Dutch), *Economisch Statistische Berichten*, 2009, Vol. 94, No. 4563S, pp. 5-10.

Schulz, Alexander and Guntram B. Wolff, The German sub-national government bond market: structure, determinants of yield spreads and Berlin's forgone bail-out, *Journal of Economics and Statistics/ Jahrbücher für Nationalökonomie und Statistik*, 2009, Vol. 229, No. 1, pp. 61-83.

Papers in academic volumes

Székely, István P. and Max Watson, Growth and Economic Policy: Are there speed limits to real convergence?, in: Reiner Martin and Adalbert Winkler, eds., Real Convergence in Central, Eastern and South-Eastern Europe, Palgrave Macmillan, 2009, pp. 98-121.

Books

Hobza, Alexandr, Evropská unie a hospodářské reformy (The European Union and economic reform, in Czech), Prague: C. H. Beck, 2009 (forthcoming).

Recent Economic and Occasional Papers

European Economy Economic Papers

381: The euro and prices: changeover-related inflation and price convergence in the euro area, by Jan-Egbert Sturm, Ulrich Fritsche, Michael Graff, Michael Lamla, Sarah Lein, Volker Nitsch, David Liechti and Daniel Triet, June 2009.

380: Price rigidity in the euro area – An assessment, by Emmanuel Dhyne, Jerzy Konieczny, Fabio Rumler and Patrick Sevestre, May 2009.

379: Understanding labour income share dynamics in Europe, by Alfonso Arpaia, Esther Pérez and Karl Pichelmann, May 2009.

378: The so-called "sovereign wealth funds": regulatory issues, financial stability and prudential supervision, by Simone Mezzacapo, April 2009.

377: Achieving and safeguarding sound fiscal positions - Proceedings of the Workshop organised by the DG ECFIN in Brussels on 17 January 2008, by Martin Larch, April 2009.

European Economy Occasional Papers

Occasional Papers are written by the staff of DG ECFIN, by experts working in association with them, and by affiliated bodies. The series intends to increase awareness of the policy related work done and covers a wide spectrum of subjects.

49: Impact of the current economic and financial crisis on potential output, edited by Alexandr Hobza, Kieran Mc Morrow and Gilles Moure, June 2009.

48: Impact of the global crisis on neighbouring countries of the EU, June 2009.

47: The functioning of the food supply chain and its effect on food prices in the European Union, by Lina Bukeviciute, Adriaan Dierx and Fabienne Ilzkovitz, May 2009.

46: The Western Balkans in transition, May 2009.

ECFIN Economic Briefs

This new series showcases new policy-related analysis and research by DG ECFIN staff on a variety of topics.

1: Labour market prospects and policies to soften the impact of the financial crisis, by Giuseppe Carone, Gert Jan Koopman and Karl Pichelmann, May 2009.

2: Beyond the crisis: a changing economic landscape – Keynote speeches at the Brussels Economic Forum 2009, June 2009 (speeches by Joaquín Almunia, Mario Monti, Jacques de Larosière, José Viñals, and Sir Anthony Atkinson, with an introduction by Marco Buti).

3: The financial crisis and potential growth: policy challenges for Europe, by Gert Jan Koopman and István P. Székely (June 2009).

ECFIN Country Focus

This publication provides in each issue a concise analysis, set within the broader economic and policy debate, of a topical economic issue concerning one or more Member States.

Cyprus: The composition of government revenues, 2002-2008, by Polyvios S. Eliofotou (Vol. VI, Issue 5, June 2009).

Regional disparities in Poland, by Piotr Bogumil (Vol. VI, Issue 4, May 2009).

Visiting Fellows Programme

Under its Visiting Fellows Programme (VFP) DG ECFIN seeks to attract leading economists in academia, international organisations, governments and top research institutions to work with its own staff and give a seminar. For more information see:

07/09 - 25/09	Lucjan Orlowski (John F. Welch College of Business/ Sacred Heart University): "Proliferation of systemic risk and macroeconomic policy responses in the EU Member States"
14/09 - 18/09	Jagjit Chadha (University of Kent): "Widening the net: the role of bank reserves and fiscal policy in monetary policy analysis"
21/09 - 09/10	Jakob de Haan (University of Groningen): "The impact of EMU on business cycle synchronization and labour market reform "

http://ec.europa.eu/economy_finance/eco_research/index_en.htm

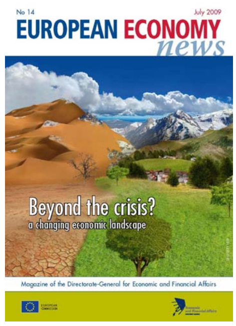
Conferences and workshops

15-16 October 2009

6th DG ECFIN Annual Research Conference: "Crisis and reform", Brussels

For more information see page 16 of this issue of go to:

http://ec.europa.eu/economy_finance/events/event13393_en.htm



Further, more general information about DG ECFIN's work can be found in its quarterly magazine *European Economy News*, which appears both in print and online. Subscription is free of charge. The online version can be found at:
http://ec.europa.eu/economy_finance/een/index_en.htm

DG ECFIN's 6th Annual Research Conference (ARC 2009)

Crisis and reform

Brussels, 15-16 October 2009

Conference announcement

The Research Directorate in DG ECFIN is announcing this year's *Annual Research Conference* that will be held in the *Crowne Plaza Europa Hotel* (Rue de la Loi, 107, 1040 Brussels) on 15-16 October, 2009.

Preliminary programme

DAY 1 (15 October 2009)
ARC 2009 Opening Lecture (9:00) Speaker: Willem Buiter (LSE)
Section A: The political economy of reform (10:00-13:00) Allan Drazen (University of Maryland), "*The political economy of reform*" (Keynote address) Marco Buti, Alessandro Turrini, Paul van den Noord (all ECFIN) and Pietro Biroli (University of Chicago), "*Reforms and re-elections in OECD countries*" William Tompson (OECD), (paper title to be announced) (tbc) Friedrich Heinemann (ZEW, Mannheim), "*Economic crisis and benefit morale*" (tbc) Discussants: Charles Collyns (IMF), Ramunas Vilpisauskas (Chief Economic Policy Advisor to the President of Lithuania), N.N.
Section B: The design of financial systems (14:00-17:30) Charles Goodhart (LSE), "*Regulation and the structure of the financial system*" (Keynote address) Vítor Gaspar (European Commission, BEPA) and Gary J. Schinasi (IMF), "*Europe's policies for restoring global financial stability*" Enrique Batiz-Zuk, George Christodoulakis and Ser-Huang Poon (Manchester Business School), "*Systemic Basel II credit loss distributions under non-normality*" Terhi Jokipii (Swiss National Bank, CASS Business School), "*Nonlinearity of bank capital and charter values*" Discussants: Matteo Salto (DG ECFIN), N.N.
DAY 2 (16 October 2009)
Section C: Revisiting the economic paradigm (9:00-13:00) Axel Leijonhufvud (UCLA), "*Financial stability and macroeconomic theory*" (Keynote address) Werner Roeger, Jan in 't Veld (both DG ECFIN) and Marco Ratto (European Commission, Joint Research Centre), "*Using a DSGE Model to look at the recent boom-bust cycle in the US*" Lawrence Christiano (Northwestern University, NBER), Roberto Motto and Massimo Rostagno (both ECB) , "*Financial factors in economic fluctuations*" (tbc) Paul De Grauwe (Katholieke Universiteit Leuven), "*DSGE-modelling: A discredited paradigm*" Discussants: Douglas Laxton (IMF), N.N.
Panel: Crisis, policy and reform: Where do we stand? (14:00-16:00) Chair: Marco Buti (tbc). Panellists: to be announced.

Conference organiser: Oliver Dieckmann (***ECFIN-ARC2009@ec.europa.eu***)

Registration

Preliminary conference registration by 1 September: You can pre-register on the conference website: http://ec.europa.eu/economy_finance/events/event13393_en.htm. As there will be no web-streaming of the conference, we expect a large demand for the conference. Therefore it may not be possible to accept all applications to attend the conference. Accepted participants will receive a preliminary confirmation.

Final conference registration: For the final registration, accepted participants will have to confirm participation by replying within three weeks to a mail that DG ECFIN will send them in mid-September.

More information

For more information go to the conference website: http://ec.europa.eu/economy_finance/events/event13393_en.htm.

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