1. ECFIN efforts to strengthen analytical capacity on structural reform

The Lisbon strategy for growth and jobs was relaunched in 2005 to meet Europe’s twin challenges of globalisation and ageing. A “partnership approach” between EU and national authorities is now used to tackle a perceived reform “implementation gap” and lack of national ownership. Concretely, each Member State has adopted its own National Reform Programme for the period 2005-08 identifying what “key challenges” it believes it should tackle to raise its growth potential. Member States’ structural reform progress against their stated policy commitments is then assessed annually in largely qualitative terms.

However, in an influential paper on the renewed Lisbon strategy, Sapir and Pisani-Ferry (2005) criticised the lack of guidance for the selection of national reform priorities by Member States. They called on the Commission to develop an explicit analytical methodology for evaluating reform plans that permitted a more systematic and consistent comparative assessment of the quality of national policies. This article describes how the Commission and the Member States, cooperating through a new Lisbon Methodology (LIME) working group attached to the Economic Policy Committee, are responding to that call.

The LIME working group aims to develop economically sound, transparent and consistent methods for assessing progress with structural reforms. Its work has three main strands: (i) developing instruments and data bases to better track structural reform developments in the Member States, (ii) analysing the impact of structural reforms on employment and growth, and (iii) modelling structural reforms.

This article describes salient work done for each of these strands. However, the Commission also has a longer-term goal: capacity building - developing the capacity to provide “public goods” needed by analytically minded policy makers to further an evidence-based approach to structural reforms.

2. Tracking structural reform developments

Reliable information on structural reforms is
patchy. However, some institutions have shown that it is possible to systematically collect data on structural reforms across heterogeneous countries, and with caveats, to convert it into a quantified format for use in econometric analysis and modelling. Examples include the OECD’s product market regulation indicators, the World Bank’s "doing business" indicator, the Fraser Institute’s index on general economic freedom and the Fondazione Rodolofo DeBenedetti’s social reform database.

Efforts to improve the transparency of information on Lisbon strategy structural reforms start with the annual "national implementation reports" sent by Member States to the Commission by mid-October. These policy documents outline actions both enacted and planned by Member States to respond to their "key challenges". These reports can be information-rich, but too diverse in format to provide a consistent, comprehensive cross-country assessment of progress in real time with structural reforms across policy fields. The LIME group has therefore developed a standardised reporting table for the next Lisbon cycle beginning in autumn 2007.

At the same time, the Commission is also engaged in longer term projects to develop institutional databases on structural reforms. LABREF is a descriptive database that records annual information on nine policy fields1 corresponding to the main labour market institutions. Following a recent workshop which analysed various ex ante and ex post evaluation methods, ECFIN intends to make increasing use of LABREF to analyse the impact of labour market reforms2. DG ECFIN is also pursuing a similar project for a database on microeconomic reform measures, MICREF, which should be publicly available in 2008.

3. Analysing the impact of structural reforms

According to Sapir (2007), "one must not lose sight of the fact that structural reforms are microeconomic policies which first and foremost have microeconomic effects". Notwithstanding the existing Commission work on the microeconomic impact of structural reforms, the extent of the link between Member States’ microeconomic reforms and their actual macroeconomic performances has not been established. This gap must be filled in order to know which areas of the economy may benefit most from enhanced microeconomic reform.


To that end, the Commission is working with the LIME working group to decompose GDP per capita levels and so identify the sources of income differences across all EU27 Member States, which remain very wide3. By comparison with the US or the 5 best EU performers, average GDP per capita across the euro area and pre-

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1 The LABREF database can be accessed at http://ec.europa.eu/economy_finance/indicators/labref_en.htm. For a description of the database see Arpaia, Costello, Mourre and Pierini (2005) and for a description of the economic rationale for collecting information on labour market institutions see Arpaia and Mourre (2005).

2 The papers presented at the conference on Tracking and evaluating the impact of labour market reforms in Europe, held in Brussels on 14 March 2007, can be downloaded from: http://ec.europa.eu/economy_finance/events/2007/events_brussels_1403_en.htm

3 Mourre (2007). This paper, along with others on methodological issues, was presented in the 10th IMAD and 38th C.M.T.E.A. joint international conference on National reforms for the implementation of the Lisbon Strategy: their monitoring, assessment and impacts, Kranjska Gora, Slovenia, 14-16 June. The web link of the conference is: http://www.gov.si/umar/conference/2007/progr.php.
enlargement Member States (EU-15) is undermined by a combination of lower per-hour productivity and lower labour input (i.e. hours worked per capita). Weak productivity is the main concern in the new Member States (EU10). Some income catch-up has been achieved since 2000 by EU10 countries in particular, but per capita GDP gaps have barely changed and even widened in many EU15 Member States.

GDP growth has also been analysed by breaking it down into twelve components: the contribution of natural population increase, migration rate, ratio of working-age to total population, participation of youth, prime-age men, prime-age women and older workers, unemployment, hours worked, labour quality, capital deepening and TFP (as the Solow residual). While the usual caveats related to growth accounting exercises apply (e.g. lack of evidence of causality), interesting insights emerge. Over the five years following the launch of the Lisbon strategy (2000-2005), labour productivity growth (in low-skill equivalent) and labour input growth each explained around half of the annual average growth of 2% in the EU15 (see graph). Annual average growth was almost 4% in the EU10, with labour productivity explaining 3.3 pp, labour input only 0.4%.

The Commission aims to go beyond such growth accounting, and to develop an analytical framework to identify systematically the most important "policy areas" or "policy issues" for Member States' reform efforts to raise growth and employment potential. This would include a comprehensive survey of available economic and econometric evidence to explore the conceptual links between policy interventions and growth components. Identifying and systematically comparing the most relevant performance and policy quantitative indicators across all Member States would also be essential.

4. Modelling the effects of structural reforms

Economic models offer significant potential, at both EU and national level, to support policy making, see Dreger et al. (2006). A workshop organised jointly by ECFIN, ENTR and LIME on 4 May 20044 reviewed the relative merits of different model types (single and multiple equation, macro econometric, CGE and DSGE models) currently used by the Commission and Member States authorities which can be used to

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Graph 1: Growth decomposition in the EU15 2000-2005
(annual average growth rate and contribution per component in percentage points)

Note: All contributions add up to the average real GDP growth rate over 2000-2005. While hourly labour productivity (in low-skill equivalent) is the sum of the contribution of Total Factor Productivity and capital deepening, total labour input (total hours worked in low-skill equivalent) could be derived as the sum of the other 10 components.

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A summary of the workshop proceedings will shortly be published on the ECFIN website at http://ec.europa.eu/economy_finance/events/events_past_en.htm
A general equilibrium model developed by the CPB Netherlands and used by modelling experts in DG ENTR. The results (European Commission, 2007), suggest that past reforms have delivered significant benefits and that further reforms in key areas could generate additional important gains. Use of the QUEST model and data inputs from Bassanini and Duval (2006) and Griffith and Harrison (2004) estimates that past reforms to several labour market institutions and higher competition in product markets have increased GDP by 1.2% and reduced structural unemployment by almost 0.6 percentage points. Based on a single-country version of the new QUEST III model, a gradual 25% reduction of the costs of complying with the administrative burdens associated with national and EU legislation would, it is estimated, yield a long-run effect on EU15 GDP levels of around 1%. Another simulation using an enhanced version of QUEST III model which includes a semi-endogenous growth framework and a specific R&D sector, projects that increasing R&D expenditures to 2.7% of EU-15 GDP by 2010 would boost output 4.4% and increase total factor productivity by a significant 7.6%, accompanied by proportional decreases in capital and labour inputs.

Further modelling work is planned by Commission departments using the EUKLEMS database to estimate mark-ups more directly and the LABREF database to better specify shocks due to labour market reforms. There is also considerable scope to pool resources and share expertise in the EU; the Commission is looking at ways of working more closely with national authorities, e.g. via model comparison exercises and/or collaboration on model development (including the development of an interface or publication of information which might make the modelling tools used by the Commission available to Member States).

References


Revamping the Single Market: a new tool for market and sector monitoring

1. Introduction

Economic integration within the EU has come a long way. The 1985 single market initiative has facilitated the movement of people, goods, services and capital between European countries. The creation of an economic and monetary union in 1999 (EMU) has led to greater price stability and competition within the euro area. The European Commission is currently taking stock of these two policy programmes in order to prepare future policy initiatives.

In autumn 2007 the Commission intends to finalise its Internal Market review. Having assessed what has been achieved so far, it will focus on what needs to be done to fully exploit the potential of the Internal Market and ensure that its benefits trickle down to consumers.

DG ECFIN is actively contributing to the Internal Market Review. First, it has produced a paper assembling a comprehensive body of empirical evidence to take stock of what has been achieved so far while identifying the remaining barriers holding back further benefits. Second, it is developing a methodology to improve the monitoring of market functioning in the EU.

2. The single market in the 21st century

The environment in which the single market operates in the 21st century is very different from the context at the beginning of the 1990s. First, it has been modified by the growing importance of services and the fast development of information and communication technologies (ICT). Second, the creation of the EMU has reinforced the integration and the competition effects of the Single Market by reducing the costs of cross-border activities and by increasing price transparency. Moreover, the elimination of the exchange rate instrument within the EMU makes market adjustment via price and wage flexibility as well as labour and capital mobility even more important in the face of shocks. Third, several rounds of EU enlargement have led to an expansion of the single market. Finally, the globalisation process has increased competitive pressures faced by European companies.

While the enlarged single market has been a key source of growth and jobs, its potential has not been fully exploited. The estimated gains in 2006 from the single market amount to 2.2% of EU GDP and 1.4% of total employment. A recent DG ECFIN economic paper estimates that these gains could be doubled by removing most of the remaining single market barriers (see box 1). In particular, the past decade has seen a slowdown in trade integration and price convergence, despite the fact that the EU remains less economically integrated than the US: the GDP share of exports between US states is much higher than the intra-EU25 equivalent (see Graph 2). Nor does the single market seem to have contributed much to a shift towards high-tech growth sectors and firms’ expansion into emerging markets.

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6 ibid.
Box 1: Gains from a full exploitation of the potential of the single market

Various obstacles prevent the full exploitation of the potential of the single market. Simulations have been carried out with the aim of quantifying the potential benefits of the removal of a number of remaining barriers to the single market. Market opening in services could stimulate trade and foreign direct investment in this sector, resulting in a further 0.5 to 1% increase in GDP. Fully integrated financial markets could – in the medium to long term - lower the cost of capital for EU companies by about 0.5 percentage points, and this could bring about a rise in the level of GDP of 1.1% in the long run. A further opening up of energy markets would lead to an increase in GDP by about 0.6-0.8%. Finally, the potential gains from increased tax cooperation could reach 0.2% of GDP.

The paper by Ilzkovitz et al. offers some ideas of how the single market could reach its potential.

First, Single Market integration is vital for EMU to function smoothly because it speeds up adjustment to shocks. By creating a more competitive business environment it increases incentives for firms to adapt prices and quantities to changing market conditions. Wage moderation and productivity gains translate faster into lower price levels.

Second, a single market for services is essential for productivity and growth. Due to the development of information and communication technologies, services are becoming increasingly tradable. As a result, services producers in the EU are more and more exposed to competition from third countries. An integrated and competitive home market is essential to face this challenge and to raise productivity levels in the services sector. If the European Union wants to replicate the spurt in productivity growth that the US has experienced, it needs to offer service providers incentives to introduce new technologies and business practices.

Third, the EU would benefit from a faster development of the Single Market for knowledge and from becoming a region in which innovation and ideas can circulate without national barriers. Evidence, indeed, suggests that EU companies do not fully exploit the opportunities given by the Single Market – while around 60% of innovative companies launch new products on national markets only 25% do so across national borders (see Graph 3). A better balance between the need to provide incentives to innovators and the goal to encourage the diffusion of innovative technologies and practices is sorely needed.

Fourth, the Single Market role should be considered within a global context. This may mean simplifying our regulatory environment and instead agreeing common product standards with our partners. These should neither compromise the ability of EU exporters nor limit the entry of imports into the EU market, though efforts should be made to export Europe's high consumer and environmental protection standards.

Finally, the paper recommends a move from a legalistic approach aimed at the removal of cross-border barriers to a more economic approach based on the monitoring of markets.

3. Objectives of market and sectoral monitoring

The legal basis of single market policies needs to be well grounded on economic logic. Better policies depend on a better understanding of the obstacles preventing markets from functioning well. The information assembled by monitoring key goods and services sectors improves our understanding of these obstacles and contribute to a better governance of the single market. As highlighted in the recently adopted Communication of the Commission "A single market for citizens", market monitoring should shed light on all the aspects of the functioning of key markets – in terms of the demands of citizens and society as well as their economic functioning.

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7 Copenhagen Economics (2005), "Economic assessment of the barriers to the internal market for services"; H. Kox and A. Lejour (2006), "Dynamic effects of European services liberalisation: more to be gained".
8 London Economics (2002), "Quantification of the macroeconomic impact of integration of EU financial markets".
9 Simulation with DG ECFIN's QUEST model.
10 Copenhagen Economics (2004), "Economic effects of tax cooperation in an enlarged European Union: Simulations of corporate tax harmonisation and savings tax coordination".
The Commission’s departments have therefore jointly developed a new approach for the organisation of product market and sector monitoring within the EU\textsuperscript{11}.

**Graph 3: While EU enterprises do innovate ... only 1/4 of the innovative EU companies sell new goods or services in other European countries**

(Source: Innobarometer 2004)

The approach proposed is flexible and draws on existing experience within the Commission and Member States by enabling the monitoring tool to be adapted to specific sectors and market characteristics. It will be put at the disposal of both the Commission and the Member States, allowing continuous learning by doing.

4. A new market and sector monitoring tool

A closer monitoring of product markets and sectors will foster policies that would create more open, competitive and innovative markets generating concrete benefits for citizens. It can also help focus on areas where interventions will have the greatest impact and where complementary policy instruments can be used. The proposed market monitoring tool will be implemented in two stages.

A first-stage screening aims to identify key sectors for growth and adjustment in the EU and the euro area. The sectors selected should show signs of market malfunctioning in terms of economic efficiency or consumer satisfaction and offer scope for policy intervention. Within the context of EMU this exercise should also identify sectoral bottlenecks that hinder adjustment of prices, wages and quantities to structural changes in the economic environment. A first analysis of the causes of market malfunctioning will focus on three dimensions of market functioning: competition, integration and innovation. The results will be presented at a workshop organised by DG ECFIN in collaboration with the Portuguese Presidency (see scheduled events).

In the second stage, the selected sectors are closely examined to more precisely identify the underlying causes of market malfunctioning and consider remedies. Here both economic and policy aspects are considered. This should result be a set of concrete, consistent policy proposals to be implemented at both EU and national level.

5. First results of stage one

Preliminary results of the market screening confirm that in many sectors markets do not seem to function well, but lag will behind international benchmarks in terms of productivity levels and growth. Moreover, structural adjustment appears to be hampered by limited price and wage flexibility leading to a slow allocation of resources to their most productive use. For instance, new evidence reported by the Inflation Persistence Network (IPN), which is a joint collaborative endeavour of all euro-area National Central Banks and the ECB, shows that prices continue to be relatively sticky across the euro area, despite the implementation of structural reforms.\textsuperscript{12} The intensity and exposure to price and wage stickiness vary across the different product and services sectors.

To conclude, the enhanced market monitoring and surveillance is an essential tool for better policy-making in the Internal Market and EMU. This will allow more active and forward-looking policymaking to detect key economic sectors and intervene where markets are not functioning well. This will favour the re-allocation of resources across companies and regions, thus decreasing the costs of economic adjustment.

\textsuperscript{11} A working group involving several DGs was set up under ECFIN’s leadership to define a methodology.

Method for the estimation of output gaps and potential growth

Any meaningful analysis of cyclical developments, medium term growth prospects or the stance of fiscal and monetary policies are all predicated on either an implicit or explicit assumption concerning the rate of potential output growth. Notwithstanding the importance of the concept, and the consequent desire for clarity, the measurement of potential growth is far from straightforward and, being unobservable, can only be derived from either a purely statistical approach or from an economic theory based model. The ECOFIN Council decided in July 2002 to adopt a production function approach as the reference method for the calculation of output gaps which enter the calculation of cyclically adjusted budget balances and provides medium term projections which are used for assessing the stability and convergence programmes of member states. The production function approach requires the estimation of structural labour input, which consists of an estimate of structural unemployment (NAWRU, non-accelerating wage rate of unemployment), trend participation rate and the trend of average hours worked. In addition, it requires extracting a total factor productivity (TFP) trend from the data. All relevant inputs are updated twice a year using the most recent short-term forecast of DG ECFIN. Based on the Spring 2007 forecasting exercise medium term projections are currently available until 2011.

To ensure comparability and equal treatment, all data inputs are exactly defined and emphasis is put on international comparability. Also similar functional forms are applied for parameter estimation and projection.

Particular attention is devoted to a wide dissemination of method and results to ensure full transparency. The basic output of the method, i.e. the country series of output gaps, potential output /growth, NAWRU, trend participation rate and trend TFP are included in AMECO (ECFIN Macro-economic database), where they are used for the subsequent calculations of the “cyclically adjusted budget balances”. In addition, the production of routine graphs showing the structural and cyclical evolution of output and its determinants, and of summary tables with the contribution of economic factors to potential growth, complements the output. A dedicated website, entirely public http://circa.europa.eu/Public/irc/ecfin/outgaps/library (no ID or password required), gathers these results, including the medium term projections, as well as all input data and programs (RATS programs and Excel interfaces), allowing economists to replicate the results but also to experiment with other data input (especially forecast data) or even with different specifications. An archive section includes results from previous exercises (starting in autumn 2004).

Economics-related research in the 7th Research Framework Programme (FP7)

The 7th Research Framework Programme (FP7) is the EU’s main instrument for funding research from 2007 to 2013. FP7 was adopted by the Parliament and the Council in December 2006 and the first "Calls for Proposals" were launched on 22 December 2006.

FP7 is divided into 6 domains, one of which is called "Cooperation" where economics-related research is included under the title "Socio-Economic Sciences and Humanities" (SSH). The overall budget for SSH research amounts to €623 million over the period 2007-2013. Within the SSH budget, economic policy related research of direct relevance to the economics research community has provisional funding of over €100 million, with an additional €300 million for multi-disciplinary research in areas such as ageing and globalisation where economics is expected to feature strongly.

DG ECFIN has been actively involved in establishing the broad economic research areas to be focussed on in FP7. Unlike previous FP’s, where economics was included only in the context of multidisciplinary research programmes, FP7 has a specific "activity" heading ("Growth, Employment and Competitiveness in a Knowledge Society") focussed almost exclusively on economics. ECFIN’s efforts has ensured that economics-related research was finally given a prominence commensurate with its standing in the academic world, with the amount of financial resources being allocated to economic research being increased dramatically in FP7 relative to FP6. Hence, FP7 represents an enormous opportunity for the economics research community to produce a substantially greater volume of policy-orientated research over the coming years.

The essential aim of the economics-related part of FP7 is to develop new insights on issues affecting growth, employment and competitiveness in order to benefit policy design and support progress towards achieving these objectives over the medium to long term. The research will focus on three key policy-related issues:

• The changing role of knowledge throughout the economy, including the role of different types of knowledge and competences, education and lifelong learning, and intangible investment.

• Economic structures, structural change and productivity issues, including the role of the services sector, of finance, demographics, demand and the processes of long-term change.

• Institutional and policy questions, including macroeconomic policy, labour markets, institutional contexts, and policy coherence and coordination.

FP7 encourages problem oriented, policy-relevant research. It is an explicit recognition of the importance which EU policy makers attribute to research which focuses on good empirics, solid theory and on the design of effective policies and policy making institutions. It represents a very balanced research agenda, with an appropriate degree of emphasis being attributed to the theoretical, policy-focussed and empirical (including data collection) parts of the programme. It is expected to be carried out through economic research projects which focus on mainstream economics, economic history and business economics, as well as on research in qualitative and quantitative methods, including econometrics, simulation exercises and modelling. Research may also address the development and improvement of methodologies which allow for the collection of more and better data or the linking of existing datasets.

Interested researchers and research consortia can find all relevant details regarding the SSH part of FP7 and the first "Calls for Proposals" of December 2006 under:

• EU research: http://ec.europa.eu/research/
• Seventh Framework Programme: http://ec.europa.eu/research/future/index_en.cfm
• Information on research programmes and projects: http://cordis.europa.eu/
• DG Research info magazine: http://ec.europa.eu/research/rtdinfo/
• Information requests: research@ec.europa.eu
The Euroframe EFN in 2007: Reports on employment and the European social model(s)

The Euroframe-European Forecasting Network comprises the CPB (The Hague), the DIW (Berlin), the ESRI (Dublin), the ETLA (Helsinki), the IfW (Kiel), the NIESR (London), the OFCE (Paris), PROMETEIA (Bologna), the WIFO (Vienna) and the CASE (Warsaw). This group has regularly published reports over the last few years (for more details: www.euroframe.org). Draft reports are discussed between researchers from the institutes participating in the EFN and DG ECFIN economists at meetings ahead of the publication.

In March 2007 the Euroframe-EFN published its Spring 2007 Report (downloadable at: www.uni-kiel.de/ifw/presse/pm/2007/07_03_30.htm), which has three chapters: (1) the outlook for the euro area, (2) policy monitoring, and (3) the special policy topic "Growth and employment in the EU15". A numbers of key results emerge, including the following:

- Over the past decade, labour market performance has improved significantly for older workers and for women (due to more part-time jobs), but not for younger people and the low-skilled.

- The overall results mask large differences across countries. While fast growing economies were able to reduce unemployment rates rapidly during the last decade, in particular Ireland, Spain, Scandinavia and the United Kingdom, unemployment in France and Germany remained at relatively high levels.

- In a panel study of 15 EU countries, the effect of GDP growth on the evolution of employment and unemployment was investigated. The report finds that over the period 1995 to 2005, about two-thirds of the variation in employment can be explained by economic growth. The effect of economic growth on the evolution of unemployment rates was also highly significant for the period 1995 to 2005, with 50 percent of the variation in unemployment rates being explained by economic growth. As a result, it may be expected that the Lisbon strategies to increase economic growth (R&D, education etc.) will also help to reduce unemployment, together with necessary labour market reforms which remove barriers to employment and raise production without inflationary pressures.

- Increasing the employment intensity of growth cannot be considered as a useful long-run strategy since it is the flip-side of poor productivity growth. However, temporary employment-intensive growth, induced by social security or other structural reforms, is welfare enhancing if it reduces structural unemployment.

The forthcoming Autumn 2007 Report will deal with the European social models.
List of recent external academic publications by DG ECFIN staff

Journal articles


Papers in academic volumes


Robust Monetary Policy with the Cost Channel

Recent research argues that model uncertainty leads the central bank to adjust interest rates stronger to exogenous disturbances than under certainty. This paper investigates whether the introduction of a cost channel of monetary transmission, whose presence is empirically supported, changes the impact of model uncertainty on interest rate setting. The basic model is simple enough to facilitate an analytical closed form solution. We find that the presence of the cost channel dampens the effect of model uncertainty on interest rate setting and can even offset the activist policy stance. In this case, the conventional result is reversed and uncertainty induces an attenuated interest rate policy. A richer dynamic model corroborates these findings.


ECB vs Council vs Commission: Monetary and fiscal policy interactions in the EMU when cyclical conditions are uncertain

This paper examines economic policy interactions in the Economic and Monetary Union when the assessment of cyclical conditions in real time is surrounded by uncertainty. On the basis of a simple stylised model it shows that different views about the output gap on the side of the policy players - the Council of the European Union, the European Commission and the European Central Bank – can affect the equilibrium outcome in terms of output, inflation, the budget deficit and the interest rate. More specifically, if fiscal and monetary policy decisions are taken simultaneously diverging views about the cycle can give rise to excessive activism as policy players try to push economic variables into opposite directions. The costs of such policy conflicts can be reduced by agreeing on a common assessment of the cycle, by constraining policy variables, by increasing the weight of fiscally conservative institutions. Another way to sidestep policy conflicts ensuing from diverging views of the cycle is to take policy decisions sequentially, as is the case in a Stackelberg-type of interaction. To the extent that misperceptions are random, the leader, who moves first, will assume that the follower's assessment will be in line with its own view of the cycle. This effectively precludes the kind of frictions arising in a simultaneous setup, because the leader cannot backtrack. For a given misperception of the cycle, the impact on the policy instruments and on output and inflation are generally smaller in the Stackelberg equilibrium as compared to a Nash outcome.


The political economy of public investment

The political distortions in public investment projects are investigated in a bipartisan political economy framework. The role of scrapping and modifying previous governments' projects receives special attention. The party in government has an incentive to overspend on large ideological public investment projects in order to bind the hands of its successor. This leads to a bias for excessive debt, especially if the probability of being removed from office is large. These political distortions have implications for the appropriate format of a fiscal rule. A deficit rule, like the Stability and Growth Pact, mitigates the overspending bias in ideological investment projects and improves social welfare. The optimal second-best restriction on public debt exceeds the level of public debt that would prevail under the socially optimal
outcome. Appropriate investment restrictions may further boost social welfare: with a restriction on (future) investment in ideological projects, the current government perceives a large benefit of a debt reduction. However, debt and investment restrictions are not needed if investment projects only have a financial return.


Adjustment in EMU: A model-based analysis of country experiences

This paper uses a two-country-three-sector DSGE model to analyse adjustment in the euro area. A particular distinction is made between tradeables and non-tradeables and non-tradeables are further disaggregated into housing and services. Six countries showing strong divergences in the early years of the euro area, namely Germany, Ireland, Italy, the Netherlands, Portugal and Spain, are analysed. The framework allows replication of actual developments in euro-area Member States using a model that is inherently stable. It is found that the diverging growth and inflation developments and current account shifts can largely be attributed to one-off adjustment to EMU, now broadly completed. The absence of an exchange risk premium in EMU allows an increase in capital mobility resulting in a lower correlation between domestic savings and investment. This seems to have been an important driving force behind the current account dynamics. Due to the absence of risk premia, investment – especially in housing - responds strongly to exogenous shocks.


2006 Pre-accession Economic Programmes of candidate countries

In this Occasional Paper DG ECFIN publishes its overview and assessments of the 2006 Pre-accession Economic Programmes of the candidate countries (Croatia, the former Yugoslav Republic of Macedonia and Turkey).


European Neighbourhood Policy: Economic Review of EU Neighbour Countries

This is the third issue of the Economic Review of EU Neighbour Countries. This year the review includes a special focus on the macroeconomic effects of energy price shocks in resource-poor CIS countries (written together with the EBRD). After several years of below-market prices for its gas exports to the CIS, Russia has decided to significantly increase prices, bringing them closer to the levels applied to the EU. The gas price renegotiation started in early 2006 with Ukraine, and has since been extended to Armenia, Belarus, Georgia and Moldova. This chapter compares the macroeconomic effects of the energy-price shock on growth, macroeconomic stability, budget and balance of payments in these energy-importing countries.

Under its Visiting Fellows Programme (VFP) and Economic Seminar Programme (ESP) the European Commission’s Directorate General for Economic and Financial Affairs (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.

Visting Fellows in 2007

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Information about the two programmes can be found on DG ECFIN’s website at http://ec.europa.eu/economy_finance/about_en.htm

Further information regarding the two programmes can be obtained from Heikki Oksanen, Heikki.Oksanen@ec.europa.eu and/or Karl Pichelmann, Karl.Pichelmann@ec.europa.eu, Research Advisers at DG ECFIN.

Calls for tender or papers

Calls for tender

http://ec.europa.eu/economy_finance/tenders/tenders_tenders_en.htm

Invitation to tender ECFIN/C/2007/017 - Study on risk sharing and portfolio allocation in EMU. Submission deadline 16 July 2007 (16:00)

The study will assess how far EMU and the euro have influenced risk sharing and portfolio diversification in the euro area. In the absence of national exchange rates and monetary policies, cross-border financial flows and portfolio diversification can be crucial in stabilising income at the Member State level by expanding opportunities for economic agents to smooth consumption and investment over time. EMU should result in a more efficient functioning of the euro-area economy in terms of growth, wealth creation, risk sharing and resilience to asymmetric shocks in participating Member States’ economies.

Further information: ECFIN/C Mrs M. Donnay BU 1 00/209 B-1049 Brussels Fax: (+32-2) 299 35 05 Email: ecfin-portfolio-allocation@ec.europa.eu
Invitation to tender ECFIN/E/2007/016 - Study on "Price and wage stickiness in the euro area". Submission deadline 20 August 2007 (16:00)

The objective of this study is to identify and analyse the patterns and microeconomic determinants of price and wages rigidities at the sectoral level across the euro area, in order to better understand the adjustment mechanisms within EMU. Further details:

Further information: ECFIN/E2, Mrs Fabienne Ilzkovitz BU 1 02/174 B-1049 Brussels
Fax: (+32-2) 299 35 02 Email: Fabienne.Ilzkovitz@ec.europa.eu With copy to: Nuno.Sousa@ec.europa.eu and ecfin-price-stickiness@ec.europa.eu

WORKSHOPS

10.9.2007

“How to Evaluate the Performance of Network Industries providing Services of General Economic Interest?” This workshop, organised in Brussels by DG ECFIN in collaboration with the European Economic and Social Committee, will be opened by Commissioner Almunia. The first session will discuss how far opening up EU network industries to competition has led to changes in their economic performance and the quality of their services. In the second session, policy-makers, social partners and academics will debate the objectives, scope and independence of the horizontal evaluation made by external consultants for the European Commission. For further information see http://ec.europa.eu/economy_finance/events_en.htm.

20.09.2007

DG ECFIN, together with the Portuguese presidency, is organising a workshop on "The Internal Market in the 21st century" as part of the ongoing Single Market Review. Academics and policymakers will discuss the economic dimension of the Internal Market, including the interactions between the Internal market and EMU, the Internal Market and the promotion of competition and innovation, and economic policymaking in the Internal Market. This event will be held in Brussels (Charlemagne Building, room S1, Rue de la Loi 170). For registration and further information email: ecfin-secretariat-e2@ec.europa.eu

2-3.10.2007

In the context of the roadmap for the Common Economic Space (CES), and reflecting Russia’s importance as the EU’s most strategic European partner, in summer 2005 DGs ECFIN and MARKT agreed with the Russian Ministries of Economic Development, Trade and Finance, the Central Bank and the Federal Service for Financial Markets to set up a high level Dialogue on “macroeconomic, financial and structural issues”. This 2007 meeting of the Dialogue, jointly organised by DGs ECFIN and MARKT, will be held in Brussels. It will discuss matters related to FDI in the EU and Russia, financial stability and reserve management issues. It will
include a workshop to be held at ECFIN on "Combating Boom and Bust Cycles in Resource Rich Economies".

26.10.2007

What is the economic importance of State aids and public procurement in the EU, the US and Japan? What is the empirical evidence regarding the costs and benefits of public support? A DG ECFIN study on "A comparison between public support policy in the EU and other jurisdictions" by P. Buigues and K. Sekkat will be discussed by experts in Brussels (Beaulieu Building, room BU5 ENV 0C, Avenue de Beaulieu 5, B-1160 Brussels). To register and for further information please contact: ecfin-secretariat-e2@ec.europa.eu.

11-12.10.2007

The 2007 DG ECFIN Annual Research Conference

DG ECFIN’s fourth Annual Research Conference will focus on Growth and income distribution in an integrated Europe: Does EMU make a difference?

The single market and the euro raise a number of questions concerning the effects of continued European economic integration on the growth rate and distribution of income in Europe. The link between growth and income distribution in Europe is complex; it touches upon a wide array of issues. We are pleased to announce Anthony Atkinson, Giuseppe Bertola, Cecilia Garcia-Peñalosa and Robert J. Gordon as keynote speakers.

Further information: http://ec.europa.eu/economy_finance/events/
Email: ECFIN-2007RC@ec.europa.eu

Country Focus

This web-based series by ECFIN staff provides a concise analysis, set within the broader economic and policy debate, of a topical economic issue concerning one or more Member States. The views expressed are the authors’ and do not necessarily represent those of the Commission.

The most recent papers are:

Spain’s external deficit: how is it financed?
By Alberto Cabrero, Luis Angel Maza and Javier Yaniz (Vol. IV, Issue 7, June 2007)

External imbalances in Croatia - A matter of concern?

Upswing in Germany: how long will it last?

Ceilings and anchors: fiscal rules for Poland

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: