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Research Update

Economic Analysis and Research Department

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Editorial

by Peter Mooslechner
Director of the Economic Analysis and Research Department

„This Time Is Different"[1]… and the Long-Term Outcome Will Hopefully Be a Better One

Looking back on economic performance in 2010 with the benefit of hindsight, the actual outcome has clearly outperformed the less than moderate expectations at the beginning of the year. On a global scale, growth in Asia and in Latin America proved to be rather resilient to the crisis, and even in the U.S. and in Europe the rebound turned out to be faster and more pronounced.

Unfortunately, this positive assessment concerning the real economy is only a small part of the story, and, very likely, the negative and high risk elements in the overall picture clearly outweigh the favorable ones. Although the real economy in many countries has shown surprisingly high flexibility, the financial sphere – from the banking industry to public finances – is still at high risk. Obviously, the crisis has changed its face several times: What started out as a financial crisis spread to the real economy and, in the end, turned into a public debt crisis, again causing severe repercussions for financial markets and the real economy.

In short, the impact of the crisis on our economies will not immediately disappear solely because of the return into moderate positive growth territory. On the contrary, many negative consequences of the crisis period have become persistent in many variables and in many markets. It will take considerable time until these difficulties can finally be overcome, and this calls for substantial policy effort. Some of the many challenges ahead of us include:

- the need for improved financial market regulation and a new architecture of financial supervision as the necessary prerequisites for stable framework conditions;
- the return to a sustainable debt and financing regime of governments and a number of other economic agents, from financial institutions to households;
- the search for a new and less fragile growth model, based less on speculative orientation and expectations than on advantageous real economy features – by no means the most challenging and time demanding intention.

But let's be optimistic in this respect too. Having successfully avoided letting the world slip into a great depression in 2008–2009, policy institutions should be expected to tackle these issues as well, even if it takes some time and even if the road to success will be a long and bumpy one. I think these efforts can and will be based on the understanding that simply returning to the vulnerable type of world before the crisis cannot be a sustainable solution under any circumstances.

[1] Quote obviously stolen from Reinhart and Rogoff (2009).

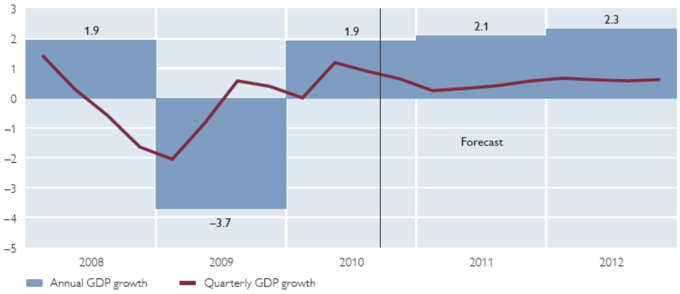
Recovery of the Austrian Economy Continues

Economic Outlook for Austria from 2010 to 2012 (December 2010)

The global economic upturn will continue over the forecasting horizon, but the downturn in the inventory cycle, the expiry of fiscal stimuli and the simultaneous onset of intensified efforts to consolidate the budget will make it lose momentum in the next few months. Moreover, the pace of the recovery will vary, which holds true of both global economic activity in general and that in Europe in particular. The increase in heterogeneity of developments across the globe means that Austria's growth prospects remain subject to high macroeconomic risks from abroad.

Real GDP Growth (Seasonally and Working Day-Adjusted)

Quarterly and annual changes in %



Source: Eurostat, OeNB.

The main drivers of economic activity in Austria are the global recovery and, above all, robust economic growth in Germany, Austria's main trading partner. Although, given the above-average importance of trade in machinery and transport equipment, Austria's export industry was affected particularly severely by the crisis in worldwide trade, it was able also to benefit significantly from the current recovery. As a whole, exports in goods and services are thus expected to expand by 10½% in real terms in 2010. In the next few years, however, the upturn will slow down in parallel to the more moderate evolution of global trade, returning to the pre-crisis level of around 7%.

Domestic demand, by contrast, is developing far less dynamically. Given the decline in capacity utilization recorded in the course of the crisis, it was only towards the middle of 2010 that the growth of investment in plant and equipment returned to positive territory, thus far later than in previous periods of upswing. Capacity-enhancing investment in plant and equipment is not to be expected before 2011 and 2012. The outlook for construction investment remains subdued across the whole forecasting horizon. In 2010 as a whole, gross fixed capital formation will continue to decline. Companies' investment activity will not increase until 2011 and 2012, and the pace of expansion will remain slow.

Given the weakness of developments in real wages and salaries, households' expenditure on consumption continued to be subdued in 2010, despite the recovery in business activity. Although households' various kinds of income (compensation of employees, investment income, income from self-employment and operating surpluses) will again rise more markedly in the next two years, the fiscal consolidation measures will impose a burden on their real disposable income, and thus consumer spending. All in all, these measures will reduce private consumption by ¼ to ½ of a percentage point in both 2011 and 2012, so that consumption growth will range between 1% and 1½%.

Given the scale of the slump in business activity, the impact of the economic and financial crisis on the Austrian labor market has been relatively limited. The unemployment rate (Eurostat definition) has risen from 3.8% in 2008 to 4.8% in 2009. And, in the current upswing, the labor market developments are again proving to be a pleasant surprise. The pick-up in economic activity in the course of the year to date has already led to a significant expansion of employment, so that the total number of employed in 2010 as a whole is expected to rise by 35,000, a trend that should continue over the next two years. On account of the clearly procyclical behavior of the labor supply, however, the unemployment rate will decline only slightly to 4.3%.

HICP inflation will amount to 1.7% in 2010, and will rise to 2.2% in 2011. That increase is due primarily to the measures announced within the scope of the fiscal consolidation package, which will have the effect of raising HICP inflation by 0.4 percentage points in 2011.

With the support of the recovery in business activity and assuming that the fiscal consolidation package will be implemented as planned, the general government budget balance will decline to −2.6% of GDP by 2012.

The Economic Impact of Measures Aimed at Strengthening Bank Resilience – Estimates for Austria

Emanuel Kopp, Christian Ragacs, Stefan W. Schmitz[1]

In 2010 the Basel Committee on Banking Supervision (BCBS) proposed a set of measures, known as Basel III, to tighten the existing capital and liquidity standards for banks in order to strengthen the resilience of the financial system. This study analyzes the negative growth effects that the various measures to strengthen bank resilience may have on the Austrian economy. The analyzed measures are: (1) requiring banks to raise the quality of tier 1 capital (including the requirement to build up capital conservation buffers); (2) requiring banks to raise the quality of equity capital and to hold additional buffers on top of the capital conservation buffers; (3) introducing a global liquidity standard based on a net stable funding ratio (NFSR); (4) implementing a contingent capital regime to address the risks created by systemically relevant banks; (5) abolishing implicit government guarantees for senior bank bonds; and (6) reforming EU rules on deposit guarantee schemes. Four of those measures are linked directly or indirectly with Basel III and corresponding drafts of EU legislation. On the issue of deposit guarantee schemes, the European Commission has submitted a proposal, implicit government guarantees might be abolished, but the EU proposal is yet to be drafted.

We estimate the macroeconomic costs for different scenarios on a cumulative three-year basis loss in GDP-growth, comparing medium- and long-term effects on the one hand and direct effects (generated in the domestic economy) and indirect effects (including spillover effects from other euro area countries) on the other hand. The growth effects of the individual measures cannot be aggregated meaningfully, as it is not possible to estimate the interaction between those measures and banks' response. The main findings are:

The medium-term effects tend to be stronger than the long-term effects. Above all, this can be attributed to the fact that the loan repricing volume is significantly higher in the long-term scenario, which implies lower increases of lending spreads. The only true exception in this respect is the abolition of implicit government guarantees.

The growth effects exceed −0.20 PP (including spillover effects from the euro area) only in three instances in the medium-term scenario: Raising the quality of tier 1 capital (−0.15 PP) and building an additional 1-PP common equity tier 1 buffer (−0.08 PP) maps into a decline of GDP growth by 0.23 PP; abolishing implicit government guarantees on senior bank bonds would dampen GDP growth by 0.24 PP; and the reform of deposit guarantee schemes would shave 0.22 PP off GDP growth. On a lesser scale, compliance with NASR requirements would decrease GDP growth by 0.11 PP. The negative growth effects are even lower for the issuance of contingent capital (−0.08 PP).

In the long-term scenario, the negative growth effects (including spillovers from other euro area countries) of raising the quality of tier 1 capital and of building a 1-percentage-point common equity tier 1 buffer add up to 0.26 PP. The macroeconomic costs of abolishing implicit government guarantees stand to rise to −0.28 PP compared with the medium-term scenario, whereas the cost of reforming deposit guarantee schemes would dampen GDP growth by 0.09 PP. In contrast, the negative growth effects of meeting NSFR targets and of issuing contingent capital would be comparatively low (−0.05 or −0.06 PP).

Apart from the relationships between the individual measures, the simulations show clearly that the macroeconomic effects are the stronger, the higher the ROE targets are. Conversely, the macroeconomic effects stand to decline as banks raise their efficiency and lower their cost-income ratios. The eralier banks start to implement Basel III, the longer the implementation horizon and the lower the economic impact. Finally, the macroeconomic costs ultimately also reflect base effects: In banking systems that are well capitalized and very liquid to begin with, those effects are considerably lower than in poorly capitalized and comparatively illiquid banking systems.

In sum, the results differ significantly depending on the individual measures, but the macroeconomic costs appear to be within reasonable limits and are comparable with those established for other countries by the BCBS …

[1] Financial Markets Analysis and Surveillance Division, emanuel.kopp@oenb.at and stefan.schmitz@oenb.at; and Economic Analysis Division, christian.ragacs@oenb.at.

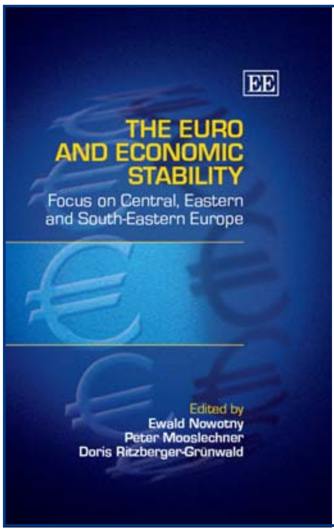
Conference on European Economic Integration (CEEI) "Catching-Up Strategies after the Crisis," November 15–16, 2010

Under the heading "Catching-Up Strategies after the Crisis", the OeNB's CEEI 2010, which was attended by more than 300 participants from over 30 countries and 220 institutions, discussed the post-crisis growth and convergence prospects in CESEE, with a particular focus on possible changes in growth models, monetary policy, financial integration, regulatory requirements and the role of capital and exports. In his opening lecture, OeNB Governor Ewald Nowotny underlined that although we could now see light at the end of the tunnel, fiscal stabilization would remain an important issue over the next few years. Similarly, ECB Vice-President Vítor Constâncio stressed the importance of the proper use of fiscal policy as an anticyclical instrument. The presentations in Session 1, featuring Seppo Honkapohja (Suomen Pankki), Werner Röger (EC) and Dariusz Rosati (Warsaw School of Economics), concluded that recovery will be sluggish and catching-up will slow down. In a response to these prospects, the first panel discussion focused on challenges for monetary policy in the CESEE region. Marek Belka (NBP), Júlia Király (MNB), Cristian Popa (BNR), Boris Vujčić (HNB) and Leslie Lipschitz (IMF Institute) addressed exchange rate flexibility and inflation targeting during the financial crisis.

The afternoon sessions on the first conference day concentrated on growth factors. Session 2 on growth financing brought together the views of researchers, central bankers and entrepreneurs. Joachim Nagel (Deutsche Bundesbank), Reiner Martin (ECB), Jarko Fidrmuc (OeNB), Wolfgang Ruttenstorfer (OMV) and Marko Voljc (KBC) resumed that FDI played an important role for economic growth but it also caused boom-bust cycles. Session 3 on exports and growth, with Jože Damijan (University of Ljubljana), Joseph Francois (University Linz), Julia Wörz (OeNB), László Halpern (Hungarian Academy of Sciences), involved a discussion of trade and firms, which was continued by Stephen Cecchetti (BIS) in his keynote lecture on monetary policy and financial stability. The first conference day was rounded up with a discussion of the catching-up experience of the Western Balkans, with contributions by Vladimir Gligorov (wiiw), Boštjan Jazbec (CB Kosovo) and Michael Loufir (National Bank of Greece). Last but not least, Wolfgang F. Danspeckgruber (Princeton University) added a political scientist's view on these issues in his dinner speech.

The second conference day began with a keynote lecture by Professor Paul A. Wachtel (New York University) on central banking in the 21st century. Prospects on financial integration after the crisis were addressed in session 5 by Ignazio Angeloni (ECB), Christa Hainz (ifo) and Andrzej Stopczyński (Polish Financial Supervision Authority). The CEEI 2010 was completed by a panel discussion on banking. Piroska Nagy (EBRD), Michael Hysek (FMA), María Teresa Fábregas Fernández (EC), Håkan Berg, (Swedbank) and Andreas Treichl (Erste Bank Group) pointed out that banking plays a key role in the current situation of fragile recovery.

The OeNB's Foreign Research Division is responsible for the overall content of the CEEI, i.e. arranging for speakers, panel members and topics for discussion.



The Euro and Economic Stability: Focus on Central, Eastern and South-Eastern Europe

Edited by Ewald Nowotny, Peter Mooslechner and Doris Ritzberger-Grünwald

Cheltenham, UK, Northampton, MA, Edward Elgar

This book assesses the euro area's merits as a shelter and the merits of euro assets as a safe haven and revisits the case for rapid euro adoption from a post-crisis view. Policymakers and economists provide relevant lessons from euro area divergences for future euro area members and, more generally, from the financial crisis, while banking representatives discuss post-crisis business models of banks in the area. Last but not least, an academic chapter proposes the use of "bottom-up economics" to remedy the discrepancy between mainstream macroeconomic modeling and real-world decision-making.

Changing of the Guard at the OeNB Representative Office in Brussels

Since 1988 the OeNB has operated a Representative Office in Brussels, the headquarters of EU institutions. The aim of this office is the exchange of information, as directives and regulations decided at the European level often have a direct impact on the business of a national central bank within the EU, e.g. the reform of financial market supervision, as the banking supervision is conducted by the central bank in Austria. Through its Representative Office, the OeNB gets a good overview on how decisions are taken in Brussels and which topics will be on the agenda in the near future. In addition, the Office presents the views of the OeNB on central bank related topics to the competent authorities in Brussels. The Representative Office organizes topical conferences on relevant policy issues and it also hosts seminars, where OeNB research is presented. By providing for job rotations of OeNB staff and employees of other central banks, the Representative Office spreads its knowledge on EU Institutions and their decision making processes.

On November 10 2010, Carmencita Nader-Uher was officially taking office as head of the Representative Office with a reception under the auspices of Governor Ewald Nowotny and Vice-Governor Wolfgang Duchatczek in Brussels' Chateau Sainte-Anne. Mrs Nader-Uher was previously heading the OeNB Representative office in London. Her predecessor in Brussels, Marlies Stubits, returned to Vienna after six successful years to become the Assistant to the Vice-Governor. The reception on the occasion of the handover was attended by more than 100 honorary guests, with ambassadors, central bankers and high ranking representatives of all EU authorities being present.

OeNB Periodical Publications

www.oenb.at/de/presse_pub/period_pub/volkswirtschaft/volkswirtschaft.jsp

List of all Publications since 2001 (by staff of the Economic Analysis and Research Section):
http://oenb.at/de/img/publications_2010_4_fin_tcm14-189588.pdf

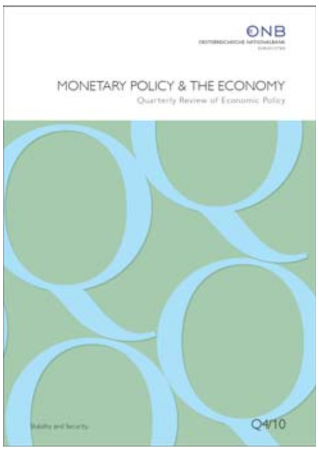
Focus on European Economic Integration Q4/10

Crisis Response Policies in Russia, Ukraine, Kazakhstan and Belarus – Stock-Taking and Comparative Assessment (Barisitz, Holzhacker, Lytvyn, Sabyrova)

Euro Survey of Spring 2010: Sovereign Debt Crisis Left Traces in CESEE Households' Sentiment, Foreign Currency Portfolios Broadly Unchanged (Dvorsky, Scheiber, Stix)

Developments in Selected CESEE Countries: Multispeed Recovery in CESEE (Schreiner)

OeNB Conference on European Economic Integration 2010 – Catching-Up Strategies after the Crisis (Fidrmuc, Steinacher)

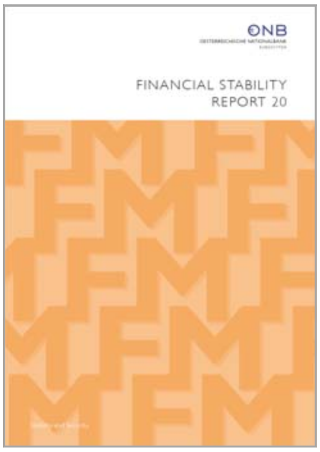


Monetary Policy and the Economy Q4/10 (forthcoming)

Recovery of the Austrian Economy Continues – Economic Outlook for Austria from 2010 to 2012 (Fenz, Schneider)

Does a Low Interest Rate Environment Affect Risk Taking in Austria? (Gaggl, Valderrama)

The Impact of Economic Factors on Bank Profits (Rumler, Waschiczek)



Financial Stability Report 20

Foreign Currency Lending in Central, Eastern and Southeastern Europe: The Case of Austrian Banks (Pann, Seliger, Übeleis)

Russian Banks Heading for Fragile Recovery (Barisitz, Lahnsteiner)

Assessing the Macroeconomic Effects of Proposals to Increase the Shock-Absorbing Capacity of the Austrian Banking System (Kopp, Ragacs, Schmitz)

Workshop Report:: The Economics of Bank Insolvency, Restructuring and Recapitalization (Elsinger, Summer)

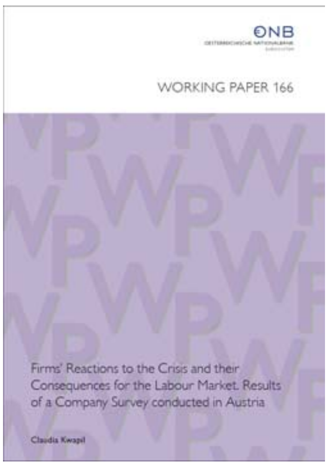
OeNB Working Papers

http://www.oenb.at/en/presse_pub/research/020_workingpapers/working_papers_2010.jsp

Independence Tests based on Symbolic Dynamics

Helmut Elsinger (Working Paper 165)

New methods to test whether a time series is i.i.d. are proposed in a recent series of papers (Matilla-García [2007], Matilla-García and Marín [2008], Matilla-García and Marín [2009], and Matilla-García et al. [2010]). The main idea is to map m-histories of a time series onto elements of the symmetric group. The observed frequencies of the different elements are then used to detect dependencies in the original series. I will demonstrate that the results presented in the above papers are not correct in the suggested generality. Moreover, simulation results indicate that the performance of the original tests are not as good as betoken.



Firms' Reactions to the Crisis and their Consequences for the Labour Market. Results of a Company Survey conducted in Austria

Claudia Kwapil (Working Paper 166)

This article is based on the results of two company surveys – the first was conducted in 2007, before the recession 2008/2009 hit Austria, and the second was conducted in 2009 shortly after the trough of it. The author analyses firms' reactions to the crisis and focus on their labour market relevant decisions. Although base wages were cut more frequently than in economically calm times, wage reductions continued to be the exception rather than the rule. This indicates the existence of nominal wage rigidities in Austria. Instead of wage cuts, firms preferred to reduce working hours and to dismiss employees. We find that firm specific characteristics as well as characteristics of the workforce help explaining a firm's probability of dismissing employees. However, the force of the shock by which an individual firm is hit (during the 2008/2009 recession) does not influence the likelihood of dismissals.

External Publications by Staff Members

Infrastrukturinvestitionen in Österreich als wirtschaftspolitisches Steuerungsinstrument der öffentlichen Hand (Infrastructure Investment in Austria as an Economic Policy Instrument of the Public Sector)

Grossmann, B. and Hauth, E. (2010). Wirtschaftspolitische Blätter 4/2010 Wachstum & Nachhaltigkeit.

This article analyzes the government's economic policy role as investor and economic stabilizer in Austria. It deals with the effects of (material) infrastructure investment on economic activity and growth. It discusses empirical issues about the volume, structure and development of, and the public sector's role in, such investment in Austria. The results show that publicly-owned organizations under private law are the main providers of material infrastructure in Austria. The public investment volume markedly understates the actual total investment. Finally the government should not assume that additional growth and employment alone would suffice to fully fund infrastructure investment.

Solving the multi-country Real Business Cycle model using a monomial rule Galerkin method

Pichler, P. Journal of Economic Dynamics and Control, forthcoming, doi:10.1016/j.jedc.2010.09.009

I propose a Galerkin projection method for solving dynamic economic models with many state variables. This method employs non-product monomial integration formulas for the computation of weighted residuals, and its computational cost therefore increases only polynomially in the model's dimensionality. I illustrate the practical implementation of the proposed algorithm by solving several specifications of the multi-country Real Business Cycle model described in Den Haan et al. [2010. Computational suite of models with heterogeneous agents: multi-country Real Business Cycle models. Journal of Economic Dynamics and Control, this issue], and briefly discuss two possible routes for further improving its numerical accuracy.

Comparison of solutions to the multi-country Real Business Cycle model

Kollmann, R., Maliar, S., Malin, B.A. and Pichler, P. Journal of Economic Dynamics and Control, forthcoming, doi:10.1016/j.jedc.2010.09.013

We compare the performance of perturbation, projection, and stochastic simulation algorithms for solving the multi-country RBC model described in Den Haan et al. (this issue). The main challenge of solving this model comes from its large number of continuous-valued state variables, ranging between four and 20 in the specifications we consider. The algorithms differ substantially in terms of speed and accuracy, and a clear trade-off exists between the two. Perturbation methods are very fast but invoke large approximation errors except at points close to the steady state; the projection methods considered are accurate on a large area of the state space but are very slow for specifications with many state variables; stochastic simulation methods have lower accuracy than projection methods, but their computational cost increases only moderately with the state-space dimension. Simulated series generated by different methods can differ noticeably, but only small differences are found in unconditional moments of simulated variables. On the basis of our comparison, we identify the factors that account for differences in accuracy and speed across methods, and we suggest directions for further improvement of some approaches.

Optimal fiscal and monetary policies in the face of rare disasters

Niemann, S. and Pichler, P. European Economic Review, forthcoming, doi:10.1016/j.euroecorev.2010.11.001

This paper studies optimal fiscal and monetary policies in an economy exposed to large adverse shocks (rare disasters). We contrast optimal policies under commitment and discretion and identify several striking differences between these institutional environments. A government that can commit to its policy plans relies heavily on debt to smooth the adverse effects of large shocks over time. Lack of commitment seriously limits the government's ability to use debt as a shock absorber. Under discretion, an increase in debt leads to an increase in inflation expectations and therefore higher nominal interest rate distortions. Hence, the discretionary government keeps debt in close vicinity of its steady-state level, and the response of taxes, inflation, and interest rates to shocks is much more pronounced under discretion than under commitment. This is particularly prevalent for large shocks and when the initial stock of government debt is already high at the time the shock occurs. We also argue that the adverse welfare effects of disasters are larger under discretion than under commitment, but these welfare differentials can be significantly reduced by making the discretionary government inflation averse.

Upcoming and Recent Events

The following events are organized by the OeNB. Please note that attendance is by invitation only. If you are interested in participating in one or more of the events, please send an e-mail to OeNB.ResearchUpdate@oenb.at

Upcoming

January 14, 2011	Aurélien Eyquem (Ecole normale supérieure de Lyon): TBA
January 24, 2011	Jeromin Zettelmeyer (EBRD): Presentation of the EBRD Transition Report 2010
January 28, 2011	Richhild Moessner (BIS): Central bank co-operation and international liquidity in the financial crisis of 2008-9
February 1, 2011	Discussion "The global crisis – economic challenges for Switzerland and Austria"
February 28, 2011	East Jour Fixe: Limited Fiscal Space in CESEE: Reasons, Implications and Needs for Reform in the Post-Crisis Environment
March 4, 2011	SUERF/NBP Conference in Warschau: Monetary Policy after the Crisis
March 8–10, 2011	Salzburg Global Seminar, "New Rules for Global Finance" with Olivier Blanchard, Andrew Crocket, Ewald Nowotny, Paul Volcker and others
April 11, 2011	Workshop "Schweiz und Österreich – Zwei kleine Nachbarstaaten in und nach der Krise"
May 11–12, 2011	29th SUERF Colloquium "New Paradigms in Money and Finance?"
May 23–24, 2011	Economics Conference
July 11, 2011	Celebrating 50 years of OECD

Recent

December 17, 2010	Stefan Niemann, University of Essex: Channels of Firm Adjustment: Theory and Empirical Evidence
December 1, 2010	Lucrezia Reichlin (London Business School): Monetary Policy in Difficult Times: Lessons and Challenges from the European Central Bank Experience
November 26, 2010	Steven Ongena (CentER Tilburg): Foreign Currency Loans – Demand or Supply Driven?
November 15/16, 2010	OeNB Conference on Eastern European Integration: Catching-Up Strategies after the Crisis
November 5, 2010	Hendrik Hakenes (University of Hannover): The Birth and Burst of Asset Price Bubbles
October 20, 2010	Ajai Chopra, Helge Berger, Bas Bakker (IMF) and Franz Nauschnigg (OeNB): Regional Economic Outlook
October 8, 2010	Gernot Müller (Universität Bonn): Debt consolidation, spending reversals, and the transmission of fiscal policy

OeNB Courses at the Joint Vienna Institute (JVI)

For further details see: http://www.jvi.org/fileadmin/jvi_files/JVI_Program2010.pdf

March 7 – 11, 2011	Institutional Challenges for SEE Countries on the Road to the EU and EMU
April 11 – 14, 2011	Financial Stability Stress Testing for Banking Systems – An Introduction
September 26 – 30, 2011	Macro-Financial Stability and Road to the Euro
October 3 – 7, 2011	Economic and Monetary Integration in Europe: CIS-Related Aspects
November 7 – 10, 2011	Cash Circulation and Payment Systems in Austria
November 21 – 25, 2011	Monetary and Financial Statistics Collected and Compiled by the ESCB
December 12 – 14, 2011	Translation in a Central Bank Setting

Forthcoming:

Economics Conference

The Future of European Integration: Some Economic Perspectives

May 23 and 24, 2011, Vienna

European institutions and European integration have recently undergone a serious test triggered by the financial, economic and fiscal crises. While the euro has supported the integration project in the past and has protected the members of the monetary union from internal exchange rate shocks during the financial crises, we have also seen some fault lines in the procedures for securing sustainable public finances, in the regulatory and supervisory framework as well as in national structural and growth strategies. In this conference we want to discuss the long term impact of the crisis on the process of European integration. Can improved EU economic governance help to solve the pressing problems of high public debt? Did the crisis trigger a deepening of integration or rather lead to a refocusing on national interests and an accentuation of differences between the north and the south of Europe? What is the right policy response to intra-European macroeconomic imbalances? What is the role of fiscal policy? Where do we stand with the new European financial architecture? Which are the most pressing structural reform needs in the light of recent experience? Will Europe be able to face and master the challenges ahead?

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