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COMMUNICATION FROM THE COMMISSION

**ACTIONS PROGRAMME FOR THE PROMOTION OF RESEARCH AND
ANALYSIS OF ISSUES RELATED TO THE EUROPEAN ECONOMIC AND
MONETARY UNION**

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1. INTRODUCTION

The Ecofin Council report to the European Council on 11 and 12 December 1999 in Helsinki on "Economic policy co-ordination" (13123/1/99 Rev 1) called for an effective monitoring of economic policies in stage three of the Economic and Monetary Union (EMU). For this purpose, the Council considered the improved understanding of economic developments and economic policy issues related to EMU an essential prerequisite.

According to the Treaty, the European Commission has an important role in informing the EU authorities, the Member States and the various economic agents on both the economic situation and prospects and on the impact of economic policy measures on the functioning of EMU. To give informed advice on economic developments and economic policy issues in EMU a thorough economic analysis and research is paramount. While a substantial part of this analysis and research is carried out inside the Commission and its services, a great variety of relevant contributions is produced by other institutions such as international organisations and the research community at large. The main objective of the actions programme for the promotion of research and analysis of issues related to EMU is to create a platform through which the results of this external research can be channelled more effectively into the policy debate within Community institutions.

2. THE NEED FOR A COMPREHENSIVE AND INTEGRATED APPROACH TO PROMOTE EMU RELATED RESEARCH AND ANALYSIS

The creation of EMU requires a strengthening of the analytical basis for economic policy decisions. Moreover, the awareness of the policy requirements of EMU in the Member States needs to be improved so as to raise the understanding for greater economic policy co-ordination.

To benefit to the greatest extent from the output of external analysis and research of EMU related issues, a comprehensive and integrated approach governing the relations, contacts and communications with the institutions producing such analysis is required. On the one hand, this is necessary to channel the results of this research in an appropriate way into the various circuits dealing with economic policy matters within the European institutions. On the other, this allows for feedback from the European Commission and other EU fora that can guide and direct this research into areas, which are most important and fruitful for the work of EU policy makers.

The European Commission has responded to the need for such a comprehensive and integrated approach by establishing a broad-based actions programme implemented

by Directorate General for Economic and Financial Affairs¹. While some of these actions were instigated at the explicit request from Member States, others were created on the initiative of the European Commission. Such actions include, for instance, the establishment of an external expert group on analysis and forecasting macro-economic developments in the euro area (the “European Forecasting Network”); the organisation of research conferences, workshops and seminars both on a regular and on an *ad hoc* basis; the creation of a visiting fellows programme within the Commission services; or the setting-up of a study programme in the area of EMU related research with the purpose of soliciting specifically focused contributions from external researchers.

3. IMPLEMENTATION OF THE PROGRAMME

A detailed description of the various components making up the programme and the supporting activities are listed below

(a) The European Forecasting Network

The creation of the European Forecasting Network (EFN) was proposed in 2001 by a Franco-German initiative . This initiative aimed at improving the analysis of euro-area economic conditions and policy options through the production of regular independent assessments of the economic outlook and policy challenges by a network of leading EU research institutes.

The proposal received broad support by the Economic and Financial Committee and the Eurogroup and the Commission was invited to initiate the creation of such a network. The Commission responded positively to this request and selected a consortium of eight research institutes based in six different Member States for the period 2002-2004.

This research network produced its first report in Spring 2002. The network produced five further reports on a semi-annual frequency, the last one in Autumn 2004. In addition to a regular conjunctural analysis and a macro-economic forecast for the euro area, the various reports covered a wide variety of EMU relevant themes. Topics included the development of labour cost and productivity in the euro area, macro-economic shock absorption in the euro area, cyclical convergence in EMU or the economic effects of enlargement on EMU.

On the whole, the experience with the EFN during the period 2002-2004 was very positive, with the EFN reports providing a valuable complementary contribution to the Commission services’ internal analysis of euro-area economic developments and policy issues. In the light of this favourable overall assessment, the Commission launched in spring 2005 the procedure for the establishment of a new EFN for the period 2005-2007. The selected network consists of ten research institutes from nine Member States. The new network presented its first report in March 2005. The special topic of the report dealt with the challenges of relocation for the euro area economy, which provided input into the Economic Review 2005. The special policy

¹ This programme of actions is part of the annual work programme of the Directorate General Economic and Financial Affairs and is authorised by means of a financing decision adopted by the Commission.

issue of the spring 2006 report was the convergence and integration of the new Member States.

The reports are usually presented, on a date commonly agreed between the Commission and the network, at a press conference organised by the EFN. The reports are being sent to the Commissioner for Economic and Monetary Affairs and the chairpersons of the Economic and Financial Committee, the Economic Policy Committee and the Committee on Economic and Monetary Affairs of the European Parliament. The reports can be downloaded from the website of the EFN, which can be accessed via a link on the Commission website: http://europa.eu.int/comm/economy_finance/efn_en.htm.

In 2006 an evaluation is currently underway (in the context of an overall evaluation of the economic research framework and output of Directorate General for Economic and Financial Affairs) to assess whether the EFN initiative has attained its goals, namely the promotion of assessments of the economic outlook and policy challenges of the euro area by independent EU research institutes. The results of this evaluation will be an important element in the decision on whether the EFN initiative should be continued after 2007 or whether it can be phased out.

(b) The Economic Research Conferences and Workshops and the Economic Seminar Programme

The Economic Research Conferences and Workshops and the Economic Seminar Programme aim to strengthen dialogue between the Commission services and the research community. The main purpose of these programmes is to bring to the attention of Commission staff relevant, original research on EMU related matters, which has been carried out by academia and other research institutions. While the programme is mainly targeted at the staff of Directorate-General for Economic and Financial Affairs, staff of other Directorates-Generals is informed about activities carried out and has the possibility to attend these conferences and seminars.

The Economic Research Conferences

The Economic Research Conferences and Workshops and the Economic Seminar Programme are designed to enhance, by improving connections with the economic research community, the overall quality of the work carried out by the services of the Commission. To this effect, leading economists in the academic world, in international organisations and in research institutions are encouraged to expound and discuss original research work related to the formation and working of the EMU in the framework of research conferences and staff seminars. Apart from giving Commission staff better access to on-going original research work, these programmes aim to increase exposure to new approaches and give new insights on issues of relevance for the Commission. Conversely, outside participants in the programme have an opportunity to discuss their research results with staff from the Commission and other officials from EU institutions and, in doing so, contribute to developing their perception of the policy relevance of their research activity.

Several conferences have been organised over the past years in the framework of the Research Conference Programme. In general, these conferences were organised by Commission staff, but in some cases conferences were co-organised with other

institutions. Depending on the conference, attendance varied between 50 and 300 participants and topics covered a wide spectrum of issues such as the internationalisation of asset ownership in the EU, statistical tools in business cycle analysis, the economic and budgetary implications of global ageing and the analysis of business cycles and growth in Europe.

Special conferences were organised to discuss major analytical documents published by the Commission services such as the “Public Finance Report” or the report on “Five years of EMU”. The interaction with the academic world and policy makers is helpful in improving mutual understanding of policy constraints and theoretical advice. Issues such as economic governance have to be discussed openly in order to raise the credibility of the respective policy framework.

The Economic Seminar Programme

A newly-designed Economic Seminar Programme (ESP) was established in 2003 with a view to enhancing synergy effects between EMU research inside and outside the Commission. With this new approach, the Commission seeks to attract leading economists in the academic world, international organisations, governments and top research institutions. The Commission invites selected researchers to present a seminar and discuss original research work related to the formation and working of European Economic and Monetary Union, both from a macroeconomic and a microeconomic perspective.

The general aim of this programme is to enhance the overall quality of work done by the Commission services, strengthening in-house know-how by improving its connections with the economic research community. The programme allows Commission staff to gain better access to ongoing research work and to be confronted with new approaches and insights on issues of relevance for the Commission. Conversely, the programme gives seminar speakers the opportunity to learn about the policy-making environment in which the Commission services operate.

This programme is mainly managed by the members of the Advisers’ Group of the Directorate-General for Economic and Financial Affairs. The advisers are in close contact with the research community, enabling them to assess the relevant frontiers in economic research and to disseminate this information to Commission staff. The programme also constitutes a valuable component in the training strategy of the Commission services.

During their one-day visit to the Commission services, speakers present their research at a seminar of one-and a half hours, after which they remain available to further discuss their research with Commission staff. As a rule, the background paper on which the seminar is based is made available prior to the event. In 2003, 15 speakers gave a seminar under this programme, and the figure in 2004 was 24. In 2005, a further 17 speakers were hosted. Together with the seminars given by the Visiting Fellows and other, no-cost seminars, roughly one seminar is organised per week.

(c) The Visiting Fellows Programme

Within the framework of the Visiting Fellows Programme (VFP) the European Commission seeks to strengthen in-house knowledge on topical issues by bringing leading economists in academic circles, international organisations, governments and top research institutions for a short-term visit to the Commission services. These visits are usually of one or two weeks duration, with a possibility of up to six weeks, in order to benefit from more in-depth analysis. Such a period would merge better with the traditional sabbaticals in academic research institutions and therefore enhance the interest for potential participants.

During their stay at the Commission, Visiting Fellows are required to actively participate in the work carried out by the Commission services, primarily by engaging, in areas related to their own research programme, in discussions with, and giving advice to, Commission staff dealing with work in the same areas. Furthermore, fellows are required to give one or more seminars on topics that are part of their research agenda. Finally, fellows are requested to prepare a seminar paper on their recent original work, which may later be published in the working paper series "*Economic Papers*" of the Directorate-General for Economic and Financial Affairs.

Alongside the Economic Seminar Programme, the general aim of this programme is to enhance the overall quality of the Commission services' work, strengthening in-house know-how through improved connections with the economic research community. The programme aims to give Commission staff better access to on-going research work, increase exposure to new approaches and insights on issues of relevance for the Commission services. Visiting Fellows will have an opportunity to experience the policy-making environment in the Commission services operate.

The VFP was launched in October 2001. The number of visitors invited has increased from 6 in 2002 to 10 in 2003 and 11 in 2004. In 2005, a further 8 fellows were hosted. The visitors covered a broad range of research topics regarding macroeconomic policy issues in EMU.

The VFP has been able to attract a number of high-profile visitors. The seminars have usually been well attended and presentations have been of a high quality. Most of the papers delivered by the visiting fellows have met the standard criteria for publication in scientific or policy-oriented economic journals and, some of them have also been published as the "*Economic Papers*" series of the Directorate-General for Economic and Financial Affairs.

Communication, effective interaction, and in some cases even specific working relations with operational units within the Commission services, have been successfully established in most cases. Visiting fellows have been involved in discussing specific work-plans and projects, they contributed directly to the drafting of chapters for the Annual Economic Review, and as a rule, their detailed suggestions and comments have been incorporated into Commission staff's notes.

(d) The Economic Studies Programme

The Economic Studies Programme is a further instrument of involving outside expertise in the work of the Commission services. In the framework of this programme studies are commissioned to the best qualified experts in academic institutions and other research bodies².

Studies are launched by the operational directorates/units and supervised by qualified staff. Given the decentralised nature of these studies, topics vary in accordance with the different requests. They can comprise theoretical analyses and/or empirical analysis of specific economic issues, e.g. estimates of the effects of further economic integration (financial market integration, etc.). Studies mainly serve as a background material to ongoing work of the Commission staff but when they are of interest to a wider public they are published in the “*European Economy*” series or the “*Economic Papers*” series of the Directorate-General for Economic and Financial Affairs. Over the recent past such studies have served in the preparation of the EU Economic Review (e.g. determinants of productivity growth in the EU, effects of globalisation) and the Public Finance Report or helped to underpin the analysis of EMU surveillance issues, such as the reform of the Stability and Growth Pact, or of economic reform policy in the EU, such as the Lisbon agenda.

4. SUPPORTING ACTIVITIES

(a) External databases and other information supporting the Programme

The analysis of EMU related issues requires a comprehensive array of relevant, reliable and timely information of statistical and other more general nature. As a rule, this information is to be provided for the evaluation at national, European and at a global level. Information requirements principally cover macro-economic developments, financial data (on financial structures, financial assets, asset prices and issuance volumes), and specific data on financial risk management. The latter concerns all kind of information on financial institutions (primarily balance sheets, income statements and ownership information).

The bulk of official macro-economic statistical information on the EU is produced through the European Statistical System, and is conveniently accessible through official sources for users in the Commission. However, user requirements go far beyond this stock of publicly available data.

Macro-economic data for non-European countries has to be acquired from other sources. This includes for the main non-EU industrial countries essentially (i) the full sequence of national accounts for the total economy and the institutional sectors (corporations, general government, households, non-profit institutions, the rest of the world), (ii) indicators related to economic activity (qualitative business and consumer surveys, indexes of production, prices, order books, etc.) and (iii) labour market indicators (population, employment, unemployment, wages, etc.).

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As for financial data, comprehensive coverage for EU25 and the US is vital and is not generally available from official sources. This refers to all frequencies of (i) financial structure related statistics (monetary and financial aggregates, bank lending, data on financial intermediaries, stock market capitalisation, etc.), (ii) financial asset prices (money market rates, exchange rates, bank lending rates, bonds market yields, equity markets, housing prices), and (iii) financial asset issuance data (record of bond issuance with information on issuer, amount, maturity, rating coupon type etc.; and for equity markets initial placement offers and additional offerings).

As with financial data, the bulk of data for financial risk management has to be obtained from commercial databases. There are a few highly specialised firms providing this information on the potential risks of loans, financial investments and worldwide financial institutions. The data relates mainly to balance sheets and income statements of financial institutions, and ownership information on financial institutions, and extensive use is made of comparisons with peer groups using specialised analysis tools.

While statistical information constitutes the backbone of an informed analysis of economic developments in EMU there exists a host of analytical information, which can greatly facilitate the work of the economic analyst. The use of such information may often be an efficient means of gauging rapidly the major features of economic and financial developments. While such information is sometimes provided as part of the access to commercially offered databases, such products are often also offered on a stand-alone basis. For this reason, responding to the need for a broad-based and rapid information on economic and financial developments may be most effectively achieved by a subscription to such specialised products.

(b) Publication programme on EMU related matters

The annual publication programme on EMU related matters is an important part of the Commission services' external communication policy. The programme aims to effectively promulgate current and topical intellectual output on EMU related matters. Its primary target audience comprises national and international economic institutions and academia, policy makers, specialised media and multipliers. Established yearly, the programme is incorporated in the global European Commission's Programme ordinaire de publication (POP).

The main series of the Commission services publications on EMU related matters is the "European Economy" series. Reformed in 2002, several additional series have eventually been added in order to complement and further develop its editorial line and scope in a flexible manner. Its core editions are the "Broad Economic Policy Guidelines", the annual report on "Public Finances in EMU", the "Macroeconomic Forecasts", and the annual "EU Economy Review", which are accompanied by topical analyses of economic policy. Likewise former series such as "Euro Papers", written during the main phase of introducing the euro, were discontinued while new products of economic policy debate, such as "Country Focus", the Quarterly Report on the Euro Area and the Annual Report on the Euro Area are inserted. In this light, the publication activities of the Commission services remain elastic and flexible so as to adequately include forthcoming results and new focuses stemming from economic research, under certain conditions extending also to cooperation with commercial publishers.

To facilitate academic discussion and ensure broad access to ongoing original research work also to a wider audience, all paper series are also available on the Internet: http://europa.eu.int/comm/economy_finance/publications_en.htm

5. EVALUATION

With a view to gauging the effectiveness and efficiency of the programme, the Directorate-General for Economic and Financial Affairs included, in its multi-annual evaluation programme for the period 2005 to 2010, an external evaluation of the economic research activities of the Directorate-General. The exercise will focus, on the one hand, on the use of the outputs of these activities in policymaking within the Commission and their contribution to the maintenance and enhancement of intellectual capital within the Directorate-General. On the other hand, an examination will take place of the effects on external users reached. As part of the exercise, it is envisaged that some sort of benchmarking exercise against the work of research departments of similar organisations could take place. The evaluation was begun in 2005 and the final report will be delivered in the summer of 2006.

6. CONCLUSION

The action programme for the promotion of research in EMU related fields is well implemented within the Commission services. It enables Commission staff to remain at the frontier of economic research in their economic analysis. The broadening of genuine research in the context of the 6th framework programme of research allows the Commission services also to contribute to basic economic research activities.

Research activities are not a one-way street. Through the enhanced co-operation with the research community and broad-based discussion of economic policy issues academia but also the public at large is informed about strategic policy decisions and policy co-ordination aimed at making EMU a success. As a counterpart, the policy framework is strengthened and gaining credibility in academia and among policy makers.

The research and analytical activities have proven to be an indispensable tool in the process of strengthening economic surveillance in EMU. They should, therefore, be maintained and enhanced where necessary.