

FOREWORD

This edition of the Report on the European Economy by the European Economic Advisory Group at CESifo (EEAG), the ninth in the series, dissects the most salient aspects of the financial crisis that swept the world and, in particular, explores what needs to be done to nurture the incipient recovery. While the resolute action taken by the leaders of the affected countries has prevented the patient from dying, a number of chronic ailments still need to be addressed, posing new challenges for economists and policymakers. This is no time for complacency.

We contribute to the discussion by including an extensive analysis on public debt and suggesting measures to rebuild trust in financial markets – pivotal topics in the coming years. Countries all around the world will have to start reducing indebtedness after the sharp increase in public debt resulting from the massive stimulus packages, but the crucial issues will be choosing the right moment to reinstate fiscal virtue, together with devising an effective financial market regulation framework. Equally important will be the enduring problem of global imbalances induced by the United States' long-lasting trade balance and current account deficits. We propose ways for overcoming those issues. The chapter providing a macroeconomic outlook for 2010 also shows in retrospect the uniqueness of last year's economic crisis. We are neither too pessimistic, nor do we predict a flourishing world economy for 2010: the consequences of the expiring fiscal packages and an increase in unemployment will slow down growth. Another chapter of the Report, in turn, gives insights about the role of trust in financial markets and the future of financial regulation. Our country chapter this year is devoted to the whole eurozone, highlighting – eight years after its introduction – the success and weaknesses of the euro in promoting stability during the crisis. Thanks to its non-partisan nature, the EEAG can offer fresh, unconventional views based on sound economic reasoning for policymakers, business leaders and academics.

The EEAG, which is collectively responsible for each chapter of this report, consists of a team of eight economists from seven European countries. This year, the Group is chaired by Gilles Saint-Paul (University of Toulouse) and includes Giancarlo Corsetti (European University Institute, Florence), Michael Devereux (University of Oxford), Luigi Guiso (European University Institute, Florence), John Hassler (Stockholm University), Jan-Egbert Sturm (KOF Swiss Economic Institute, ETH Zurich, vice-chairman), Xavier Vives (IESE Business School) and myself. The members of the Group participate on a personal basis and do not represent the views of the organisations they are affiliated with.

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