

## BANK RESTRUCTURING

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*Chungwon Kang*

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*Ian S. McDonald*

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## FROM THE EDITOR

ON MAY 1, as fireworks illuminated Europe's skies from the Atlantic Ocean to the North Sea and the Baltic Sea to the Mediterranean, 10 countries joined the European Union (EU). With the new members, the EU

swelled to more than 450 million people. For the first time, some former centrally planned countries, including three that had been part of the Soviet Union, were welcomed into the club—a culmination of the process launched with the tearing down of the Iron Curtain some 15 years ago. But the mood of elation was clouded by misgivings in Europe and elsewhere about the EU's ability to adjust to changing economic circumstances, given the lagging performance of many of its established member countries.

The June issue of *F&D* tries to shed further light on the challenges that an enlarged Europe now faces. Michael Deppler, head of the IMF's European Department, sets the stage by reviewing continental Europe's post-war economic history and asking whether the continent's twin paradigms of stability (or financial discipline) and solidarity (or social equity) will prompt the higher growth needed to sustain the social welfare state. We asked OECD Chief Economist Jean Philippe Cotis why Europe's growth is so anemic. He cites Europe's declining labor utilization (percent of the population that is employed) and, to a lesser extent, falling labor productivity growth. A bigger EU could boost the dynamism of labor markets throughout. But as Tito Boeri of Italy's Bocconi University notes, established EU members worry that enlargement will usher in a flood of new workers that drives down wages and further strains already-stretched welfare systems. "Shutting the door in their faces" through immigration restrictions, he insists, will hurt EU growth while failing to solve the welfare issue.

As for the newest members, whose GDP per capita stands at only about 46 percent that of the established EU, their big hope is that joining the EU club will bring them jobs and higher living standards. We asked Witold Orłowski, Chief Economic Advisor to Poland's president, what can be done to close this immense gap. He calls for these countries to boost their low levels of domestic saving. We also examine the strategies that they should consider as they debate when and how to join the euro. Finally, *F&D* explores one of the hottest issues in Europe: the fate of the Stability and Growth Pact, the fiscal agreement that underpins the euro. Since excessive-deficit procedures against France and Germany were suspended last November, the pact has been in a legal limbo. IMF staff offer insights into Europe's fiscal woes, and three outside experts, with sharply different views, weigh in on the debate.



Celebration at Heroes' Square, Budapest, Hungary, May 1.

**Laura Wallace**  
*Editor-in-Chief*