

Launch of Bruegel's latest Policy Brief

Avoiding a new European divide

Friday, 19 December 2008

BRUSSELS, 19 NOVEMBER- Bruegel launched a new Policy Brief on "Avoiding a new European divide" by **Zsolt Darvas** and **Jean Pisani-Ferry**.

"Economic crises have lasting impacts on people who have suffered from instability and are known for being moments of redefinition" said Jean Pisani-Ferry during the launch of the new Bruegel policy brief "Avoiding a new European divide".

As 2008 comes to an end, the policy brief looks back at how relations between the euro area and non euro area have been affected by the euro area crisis management since the rapid spread of the crisis, in mid-September, to central and eastern European countries. Over the past four months, new member States have often felt this management as biased towards the interests of the economies of the euro-area which could lead to a new economic and political divide if not properly addressed, warn the authors. In fact, for countries not in the euro area, the current crisis has fundamentally called into question the growth model that relies on substantial capital flow.

Darvas and Pisani-Ferry explain that belonging to the euro-area has been very beneficial in terms of economic stability during the crisis. Early adoption of the euro, however, should not be rushed in order to avoid creating boom-bust cycles. "Joining the euro has to remain a case by case scenario", said Darvas on Friday.

In the policy brief, the authors therefore identify a series of recommendations to address risks in the midst of a crisis, such as:

- In the short run, the ECB should provide **temporary currency swaps** to non euro-area new member states.
- The ECB should consider **accepting non-euro denominated government bonds** as eligible securities for its repurchase transactions.
- In the medium run, the **EU single market and competition rules should be properly enforced**.
- More effective and well-needed **surveillance** should be established.
- The EIB and the EBRD should **increase their lending to new member states**.
- Countries in fixed exchange-rate systems in need of real exchange-rate adjustment should, if possible, **build social consensus to cut nominal wages**.
- **More fundamentally, policy-makers in the euro area can no longer afford to overlook the consequences of their actions for neighbouring countries.**

"These measures can substitute to some extent the possibilities of joining the euro area for now" said Darvas on Friday.

To download the policy brief, free of charge, please click [here](#).

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