EURO CHALLENGE NEWS FLASH ISSUE NO.1 30th January 2012

Euro Challenge Weekly News Flash

Welcome to the first edition of the Euro Challenge bi-weekly news flash! Every two weeks, we will report on the latest news out of Europe and provide you with a wealth of information regarding each Euro Challenge topic. In the left margin, you will find some key dates for this year's Euro Challenge competition.
Remember, your team only needs to review the information for the challenge you selected!

In the News:

- **Challenge 1 - Slow Growth**
  The IMF slashes global growth outlook amid Eurozone concerns.

- **Challenge 2 - High Unemployment**
  Eurozone unemployment stays at record highs.

- **Challenge 3 - Inflation**
  Change in CPI drops for the first time in four months, reports the ECB.

- **Challenge 4 - Adapting to Technological Change and Raising Productivity**
  North/South productivity divide widens, according to the World Bank.

- **Challenge 5 - Globalization and the Impact of Immigration**
  Economic downturn overshadows immigration concerns.

- **Challenge 6 - Coping with an Aging population and the Costs of Health Care**
  Commissioner Andor warns of changing European demographics.

- **Challenge 7 - Living with a Single Monetary Policy**
  Greek default will not necessarily destroy the euro, says S&P

- **Challenge 8 - Sustaining the Social System and the Welfare State**
  Is high unemployment a failure of the welfare state?

- **Challenge 9 - Coping with a Housing Market Slowdown**
  EMF declares signs of resilience, but outlook remains uncertain.

- **Challenge 10 - High Government Deficits and Debt**
  German foreign minister defends Eurozone debt crisis management.

Other Key Developments:

- **European Integration:** Croatia holds a referendum and agrees to join the EU.

- **International Affairs:** EU Commissioner, Olli Rehn, Speaks at Davos.

Upcoming Deadlines

Don't forget that the deadline for submitting your choice of country and topic is on the 10th of February 2012

Preliminary Rounds

20th March: Florida, Pennsylvania, Maryland, Virginia and Washington DC

24th March: Texas

26th March: Michigan

27th March: N. Carolina

28th March: Illinois, Indiana, Iowa, Kentucky, Ohio & Wisconsin

4th April: Massachusetts, New Hampshire, Connecticut, New Jersey and New York

Semi Final & Final Round

30th April: New York

For more details, please click here and see page 5.

<u>Topic 1 Slow Growth</u>

The IMF slashes global growth outlook amid mounting Euro zone concerns.

The International Monetary Fund has updated its economic forecast downwards and warned developed nations to take swift action in light of an impeding global downturn.

A report prepared for a gathering of G20 finance ministers in Mexico urged countries that can do so to reduce interest rates in light of subsiding inflationary pressures. The IMF expects the global recovery to stall and risks to intensify over the course of 2012. It also believes the Eurozone will enter into a mild recession, contracting by 0.1 percent.

The debt crisis in the Eurozone will affect other parts of the world, including the United States, emerging countries and developing economies. Activity in developed economies is now expected to expand by only 1.2 percent over the course of the year. The global growth outlook for the year is now 3.25 percent, down 0.75 percentage points from last September's forecast.

The Fund also urged countries not suffering from crippling debt to allow their budget deficits to widen and to refrain from imposing additional budget tightening.

The report outlines that the biggest threat to the global recovery is that governments, households and businesses simultaneously attempt to rein in spending, thereby creating a "paradox of thrift."

For more on this see:

World Economic Outlook**,** *IMF Marks Down Global Growth Forecast* (24th January 2012).
New York Times, *IMF Trims Estimates for Global Growth,* (24th January 2012)

For more on the topic of 'Slow Growth' and how it is affecting European Countries:

Overview

Slow Growth

News Articles

EU leaders seek ways to boost growth

European Union leaders struggle to reconcile austerity

France cuts 2012 growth forecast

Videos

Gloomy Forecast for Euro Zone

Lagarde: Europe Must Prioritise Growth

Topic 2 High Unemployment

Eurozone unemployment stays at record highs

As the impact of sovereign debt crisis rumbles on, new figures for the month of November show that the jobless rate in the 17 countries that use the euro stood at 10.3 percent for the second month in a row, according to Eurostat. 16.3 million people in the single monetary bloc are now out of work.

The costs of high unemployment are being felt throughout the eurozone as the European Commission reports that its index of consumer confidence fell to a two year low in December. The economic sentiment indicator dropped from 93.8 to 93.3, well below the long term average of 100, according to the Commission.

Spain remains the country with the highest unemployment rate as the number of jobless workers breached the 5 million barrier on Friday the 27th. It now has a record 5.3 million unemployed. 350,000 people lost their jobs in the final quarter of 2011. The official rate stands at 22.8 percent and is set to worsen as the country pursues further austerity.

Young people continue to suffer disproportionately from unemployment. The European Union has experienced higher youth unemployment figures than at any time since the International Labour Organisation began recording them in 1991. Some 5.6 million young European were out of work at the end of 2011 – about 22 percent of people under 25 in the EU – an increase of 335,000 people over the past year. Again there are huge difference between the region's stronger and weaker economies; while only 8 percent of young Germans are jobless, a stunning 49.6 percent of young Spaniards, 46.6 percent of young Greeks and 35 percent of young Slovaks are without work.

For more on this see:

European Commission, *Economic Sentiment Declines Moderately* (23rd January 2012).
The Guardian, *Spain Unemployment Tops 5.3m* (27th January 2012).
BBC, Working to Prevent a 'Lost Generation' (26th January 2012).

For more on the topic of 'High Unemployment' see:

Overview

High Unemployment

News Articles

Europe on brink of recession, unemployment above 10%
Youth Unemployment Being Hit Hard by Migrants from Eastern Europe
See 'Young and Jobless' passage: Europe's growth, jobs and productivity conundrum

Videos

Spain's youth struggle against huge unemployment rate
EU backs apprenticeships to tackle youth unemployment
Spanish unemployment 'almost a quarter'

Topic 3 Inflation

ECB Reports that the Eurozone Inflation Rate Falls for the First Time in 4 Months

The Eurozone inflation rate fell to 2.7 percent in December, down from 3 percent in November, according to figures released by the EU's statistics agency. It was below the initial estimate of 2.8 percent but still well above the European Central Bank's inflation target of 2 percent.

The drop in inflation has opened the door to a possible cut in interest rates by the ECB. Central Banks attempt to influence inflation by setting interest rates. Higher interest rates usually help to reduce inflation, whilst a decrease might contribute to higher prices. As the ECB has mainly been decreasing interest rates since the recession struck, a fall in inflation is a sign that it may decrease borrowing rates even further (for a very good explanation of how this works, please click here)

The slowing economy has relieved pressure on prices, although volatile oil prices still remain a risk. The retreat of inflation from its peak in November should therefore give the ECB more room to cut interest rates as the economy heads for recession. The bank has made two 0.25 percent cuts in the interest rate since Mario Draghi took over as president in November, although interest rates were kept at the same level in January.

A Reuters's poll of 66 economists suggested that the bank will cut interest rates to a record low of 0.75 percent in February or March.

For more on this see:

BBC, *Eurozone inflation rate falls to 2.7 percent in December* (17th January 2012).
Reuters, *Eurozone inflation dips, opens door to ECB cut* (17th January 2012).

For more on the topic of 'Inflation' and how it is affecting European Countries see:

Overview

Inflation

News Articles:

Eurozone Inflation Eases

Eurozone Inflation Drops Back Further in December

Videos:

Price Stability: Why is it important for you?

Investopedia: What is Inflation?

Eurozone inflation set to drop

Marketplace: Interest Rates

Topic 4 Adapting to Technological Change and Raising Productivity

World Bank Reports that the North/South Productivity Divide has Widened

The World Bank has predicted weak economic output until 2016 in the Eurozone as a result of households and governments cutting debt and investors remaining wary. 'Strong growth could make debt problems fade, yet the prospects for a strong rebound are feeble', the Bank stated. The Eurozone is facing challenges in terms of technological changes and productivity. Poor consumer confidence may hamper innovation. Apple reported strong sales this quarter, yet the news was somewhat dimmed by poorer performance in the Eurozone, where cash conscious consumers are opting for cheaper alternatives.

Furthermore, the World Bank reports on a growing productivity gap between the wealthy north and poorer south and east, a gap that has been exacerbated by the recession as well as the drive to reduce debt. Whilst the exporter powerhouse Germany, the biggest economy in the Eurozone, is set to recover from a brief slowdown in 2011, indebted Greece, Portugal, Spain and Italy all risk years of stagnation.

Europe also faces the longer-term challenge of falling productivity and an ageing workforce. Europeans work fewer hours and retire earlier than their American and Japanese counterparts and also take advantage of generous pensions that are unsustainable over the long term. The productivity gap between advanced Europe and the United States today is more than twice what it was in the mid-1990s, according to the World Bank. Americans also work an extra month a year compared with the Dutch, French, Germans and Swedes.

For more on this see:

See 'Rebuilding brand "Europe"' passage:
World Bank, *Build on Strengths of Europe's Growth Model While Pursuing Reforms* (24th January 2012).

World Bank, *Golden Growth: Restoring the lustre of the European economic model* (24th January 2012).

The Telegraph, *Apple iPhone prospers in Britain but suffers in the Eurozone* (22nd December 2011)

For more on the topic of 'Adapting to Technological Change and Raising Productivity' see

Overview

Adapting to Technological Change and Raising Productivity

News Articles:

European output strengthens

See paragraph 6 & 7 on European productivity:
Hopeful or hopeless? Europe struggles to find a strategy

Europe's growth, jobs and productivity conundrum

Topic 5 Globalization and the Impact of Immigration

Economic Downturn Overshadows Immigration Concerns

Finland's nationalist anti-immigration Finns Party suffered a heavy setback in this weekend's presidential election, as many of its anti-euro voters fled to the equally eurosceptic Centre Party, observers said on Monday. On the whole, populist parties in the Nordic region, which seemed able to disrupt the EU only last year, are losing support as the economic downturn overshadows immigration among voters and following a massacre staged by an anti-Islamic fanatic.

To the likely relief of Brussels, Sunday's Finnish presidential election was the latest sign that populist party's influence is waning, as two pro-European candidates moved into the run-off while the Finns candidate came fourth.

Immigration nevertheless remains a key concern, as highlighted by the rise of Marine Le Pen on the French right. For the National Front, the party she heads, the European Union is the other face of the globalization coin, responsible for unemployment, immigration and insecurity.

Le Pen's pitch is this: that in order to go back to the idea of a strong interventionist state, France must leave the EU. Le Pen, and others like her, highlight the difficulties facing Europe in assimilating peoples from diverse backgrounds as well as coping with the inevitable strains of high immigration and increasing globalization.

For more on this see:

AFP**,** *Finnish voters snub anti-euro far-right* (23th January 2012).
The Guardian, *Marine Le Pen: the face of French Euroscepticism* (26th January 2012).
Reuters, *Nordic populist parties lose clout, at least for now* (25th January 2012).
Kimberly Watson, *Globalization Continues to Advance Despite Uncertain Economic Outlook* (26th January 2012).

For more on the topic of 'Globalization and the Impact of Immigration' see :

Overview:

Globalization and the Impact of Immigration

News Articles:

Citizenship and the Financial Crisis in Europe

Youth Unemployment Being Hit Hard by Migrants from Eastern Europe

Non-EU Immigration Linked to Unemployment

Videos:

Barroso: Europe shapes globalization with 'positive values'

What is Globalization?

Topic 6 Coping with an Aging Population and the Costs of Health Care

Commissioner Andor Warns of Changing European Demographics

Commissioner László Andor, reponsible for Employment, Social Affairs and Inclusion, spoke recently at a conference on 'Confronting Europe's challenges: getting on board for the 2012 European for active ageing' where he said 'we need to look candidly at the situation – without excessive despondency or false optimism.'

Europe has long been aware of its aging problem, but it has now become a fact as the baby-boom generation reaches retirement age. The crucial balance between the active and retired member of society is beginning to change very fast. 'Population ageing is a huge achievement' Andor states, 'the inevitable consequences of people living longer and reducing mortality significantly'.

Yet this achievement brings new challenges. The average age of retirement across the EU is 61.5 years and whilst most are aware that the region's population is gradually getting older, two thirds of European Union citizens do not support an increase in the official retirement age by 2030, a survey by the European Commission has found. This is despite recognising improving longevity and a falling birth-rate of workers to fund the region's pension system.

Since 1960, life expectancy has climbed by eight years and demographic projections foresee a further five-year increase over the next four or five decades. Population aging presents a number of challenges for welfare systems and public finance. EU Member States spend, on average, more than a quarter of their GDP on social protection. Most of this goes on older people in the form of pensions, health and long-term care. The current economic crisis has left Member States with large public deficits and public debt burden just at a time when the post-war baby-boomers are entering their sixties and starting to retire. The key issue today is how to secure good social protection in an increasingly challenging economic and demographic context.

For more on this see:

European Policy Centre, *Confronting Europe's challenges* (24th January 2012).
Deutsche Bank, *Raising the retirement age in Germany to 67* (16th January 2012).
Europa, *Eurobarometer survey Active Ageing* (13th January 2011).

For more on the topic of 'Coping with an Aging Population and the Costs of Health Care' see:

Overview

Aging

News Articles:

The Future of Europe
Most People Remain 'unconcerned by Demographic Change

Videos:

Can an ageing Europe stay competitive in a globalised world?
German retirement age: Factory fit for an older workforce
Living Longer, Working Better

Topic 7 Living with a Single Monetary Policy

S&P States that a Greek Default Will Not Necessarily Destroy the Euro

As fears about a possible Greek default grow by the day, Standard & Poor's have stated that downgrading Greek debt to 'selective default' will not necessarily destroy the credibility of the monetary union. John Chambers, chairman of the S&P's sovereign rating committee stated 'It's not a given that Greece's default would have a domino effect in the Eurozone'.

As fears of a default grow so do the doubts over the viability of the single currency, especially with regards to the weaker countries of the union. The inability of Greece to devalue, and thereby reduce the real value of its debt, has been blamed by some economists for Greek's current situation.But the question then becomes, how could Greece leave the Euro?

The consequences might be too harsh to fathom: Angry hordes gathering at banks, anxious to extract their savings. The value of a new currency plummeting, prices soaring and international credit lines being cut. After all, Greece's is debt is denominated in euro, a currency change would undoubtedly trigger a default.

The knowledge of this has driven European leaders to adopt strict fiscal rules in the hope that such a scenario may be avoided. But as it dawns for many southern European countries that the price of remaining within the Eurozone will be more hardship and sacrifice, an increasing number of experts are beginning to examining the possible costs of Greece abandoning the Euro.

For more on this see:

Reuters, *S&P says likely to declare Greece in default* (24th January 2012).
New York Times, *Pondering a Dire Day* (12th December 2011).
BBC, How might Greece leave the euro? (3rd November 2011).

For more on the topic of 'Living with a Single Monetary Policy' :

Overview:

Living with a Single Monetary Policy

News Articles

Greek Default Would Have Devastating Impact on Eurozone.
Leaving the euro would be car-crash economics
Is this really the end?

Videos

Euro woes: No joy for 10-year-old currency
Tim Montgomerie, Greece should leave Euro currency
Euro currency crumbling?
EMU and the euro

Topic 8 Sustaining the Social System and the Welfare State

Is High Unemployment a Welfare State Failure?

According to the Deputy Governor of the world's oldest central bank, the Riksbank in Sweden, 'high unemployment implies the failure of the welfare state'. Elevated levels of unemployment have blighted Europe for the past three decades and many argue that this is due to Europe's excessive welfare state. A new book by Walter Laqueur entitled 'After the Fall' chronicles how the European union has a weak economy with too lavish a welfare state and little capacity to reform.

For some, the euro crisis has laid bare many of the continent's economic ills. The Mediterranean social model has never been competitive enough and as a result, Greece, Italy, Portugal and Spain are now at the heart of the crisis. The demographic outlook, also, is worrying: An aging population relying on a rapidly dwindling workforce.

But is the European social model, and its variations, really a failure? *The Economist* reports how Europe's economic performance over the past decade has not been much worse than America's and the Nordic and Continental models, for instance, also have some of the world's most competitive economies (Scandinavia and Germany). So is it all bad?

Finally, maybe the Euro crisis is what Europe needs. It will force countries to reform their finances, increase liberalization and bolster competitiveness. So perhaps we are seeing the dawn of a new and stronger Europe, or is that wishful thinking?

For more on this see:

Barbro Wickman-Parak**,** *Monetary Policy and Unemployment,* (24th January 2012).
The Economist, *The Future of Europe: A Declinist's Case,* (28th January 2012).
Washington Post, *After the Fall: The End of the European Dream*, (6th January 2012).

For more on the topic of 'Sustaining the Social Welfare System' see:

Overview

Sustaining the Social Welfare System

News Articles

Europe: The Canary in the Welfare-State Coal Mine
Why is Europe a Dirty Word?
Welfare State Failure

Videos

Europe's ailing social model
Should America Model its Social and Economic Policies after Europe?
IKEA: a strike against the Swedish model?

Topic 9 Coping with a Housing Market Slowdown

EMF declares signs of resilience, but outlook remains uncertain.

The European Mortgage Federation represents more than 75 percent of the European mortgage industry which, at the end of 2010, was worth over € 6.4 trillion. This represents more than 50 percent of EU gross domestic product and gives an insight into just how important the housing sector is to the wellbeing of the European economy.

The EU mortgage industry, just like its counterpart in the United States, suffered heavily from the global downturn yet the EMF reports that this has not stopped it from growing. Between 1997 and 2007, the market grew by 7.5 percent every year. The industry then quickly shrugged off the crisis and grew by 0.9 percent in 2009 and 4.9 percent in 2010.

Yet the picture has been mixed. Certain countries such as Sweden, France, Belgium and Austria witnessed a rapid recovery whilst the Baltic countries, Ireland, Greece, Hungary and Spain have witnessed more stagnant growth since the crisis. One country, though, stands alone. The German market experienced no boom cycle preceding the crisis and no subsequent fall in house prices and lending.

Spain though, is seeing further gloom in the housing market. Up to 700,000 new-build homes remain unsold after the housing bubble burst several years ago. House prices have dropped 30 percent so far since their peak. Recent regulatory developments also suggest that the cost of loans for lenders might sharply increase. These increase in costs may be passed onto borrowers and may cause a drop in demand, further exacerbating an already weak recovery.

For more on this see:

Annik Lambert, EU Market Enters Unchartered Waters, (24th January 2012).

For more on the topic of 'Coping with a Housing Market Slowdown' see:

Overview

Coping with a Housing Market Slowdown

News Articles:

Strong Lettings Demand in Portuguese Property Market Continues

Housing and Homelessness in Europe

Spain Housing Market Worsens

Videos:

Economy Threatens Listed Real Estate in Europe

How the Credit Crunch Bypassed Germany's Housing Market

Ireland: A Victim of its Housing Sector?

Topic 10 High Government Deficits and Debt

Guido Westerwelle, Germany's Foreign Minister, has defended Berlin's response to the Eurozone debt crisis.

As Greek debt talks resume and private bondholders continue to squabble with the Greek government over mounting costs, Germany' Foreign Minister has defended Berlin's response to the Eurozone debt crisis. 'We Germans do not expect from anyone in Europe more than what we are asking from our own citizens' said Westerwelle to an audience at the Brookings Institution think-tank. Speaking as Germany was being asked to up contributions to the Eurozone bailout fund, Westerwelle said his country had been 'exemplary' in its solidarity towards weaker euro partners, committing more than 200 billion euro (262 billion dollars) to existing rescue funds.

Government debt and deficits have become a pressing issue as the Eurozone confronts its demons of past excesses. Germany, Westerwelle argues, undertook its fair share of austerity before the crisis started and now that it has reaped the benefits, Greece, Spain and Italy should follow suit.

In other news, E.U officials expect Mrs. Merkel to relent and agree in March to pay for a bigger firewall to protect weaker members of the euro zone if the bloc signs two treaties sought by Berlin: one on budget discipline and the other on rules for a permanent rescue fund. The Italian leader, Mario Monti, has also voiced support for a longer-term solution of euro zone bonds backed by all members of the currency bloc, which Mrs. Merkel strongly opposes. In the short term, Mr. Monti wants Berlin to increase the size of the euro zone rescue fund for countries shut out of capital markets. The more money is pledged to the fund, he said, the less likely it is to have to spend a single euro.

For more on this see:

Bloomberg, *Greek Debt Talks Resume Amid Squabbles Over Mounting Costs* (27th January 2012)
Deutsche Welle, *German Foreign Minister Defends Eurozone Debt Crisis Management* (20th January 2012).
New York Times, *A European Debt Crisis with an Italian Twist* (23rd January 2012).

For more on the topic of 'High Government Deficits and Debt' and how it is affecting European Countries see:

Overview

High Government Deficits and Debt

News Articles

Dismal Euro Debt Souring Outlook
Euro Debt Crisis in Focus as Finance Ministers Meeting Looms
Europe's debt crisis likely to end badly

Videos

Deficits and Debt Explained
Firewall Needed to Stem Crisis

Other Key Developments

Croatia Holds a Referendum and Agrees to Join the EU

Croatia voted on Sunday on joining the European Union, a move the government says offers the former Yugoslav republic its only chance of economic recovery despite turmoil in the 27-state bloc.

Opinion polls suggest the binding national referendum should pass, but opponents have appealed to many by playing up fears that membership would end 20 years of Croatia's sovereignty and result in a selloff of its assets and national resources.

"This is a big day for Croatia and 2013 will be a turning point in our history. I look forward to the whole of Europe becoming my home," President Ivo Josipovic said after voting.

The EU has said Croatia can become its 28th member on July 1, 2013, after completing seven years of tough entry talks in June last year. It would become the second former Yugoslav republic to join, following Slovenia in 2004.

The last opinion poll, released on Saturday, put support for accession at 61 percent. The 'Yes' camp this week won the endorsement of Croatia's powerful Roman Catholic church.

"We cannot stay out of the EU, we'll get a lot of good things out of it. Of course, there are downsides as well, but that is something we must get used to," said Josip Zavrski, a retired engineer and one of the first who cast his vote.

Source: Reuters

EU Commissioner for economic and monetary affairs speaks at Davos

Olli Rehn told delegates at the World Economic Forum in Davos: “The next three days will be very crucial for the Eurozone over the next three years.

“We are very close to agreeing a private sector deal in Greece, if not today then over the weekend, and in any case in January rather than February.”

Mr Rehn also revealed that he wrote to Belgium, Cyprus, Malta, Hungary and Poland in November to warn them they were in danger of missing their fiscal targets, and that if they did not take further action they might incur fines.

He was accompanied by the German, French and Spanish ministers to debate the future of the Eurozone ahead of the leaders’ summit on Monday. Ministers said that while there were still considerable challenges ahead, they believed in the future of a united Eurozone.

Wolfgang Schäuble, the German finance minister, said building a firewall of money to act as a buffer for countries in financial difficulty would not in itself be enough to solve the Eurozone’s problems.

“We don’t expect a default in Greece. We are working to fight the reasons [behind] the crisis. No firewall whatever the size will work if the real problems are not resolved.

Source: The Telegraph