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EU BUSINESS NEWS & INSIGHTS

New Italian Prime Minister

Italian Prime Minister Enrico Letta submitted his resignation on 14th February 2014 following his Democratic Party's request to form a new administration. Party leader Matteo Renzi had accused Mr. Letta of lack of action in fixing economic problems, notably high unemployment and slow economic recovery. Mr. Letta had been in the post for 10 months. President Giorgio Napolitano then invited Mr. Renzi to form a new government. Mr. Renzi has been Mayor of Florence since 2009 and Secretary of the Democratic Party in 2013. He has already laid out ambitious reform programmes, which aim to stabilize the government and to reduce unemployment.[1]

Analysts suggest that Mr. Renzi now faces a number of constraints when trying to revive Italy's economy. The Italian debt level is huge (over €2,000 billion public debt, 130% of the GDP) and the unemployment rate remains high (over 12%), due to a lack of growth in recent years. As a member of the Eurozone, Italy has little room for stimulus measures as monetary policies are determined at the European Central Bank (ECB). The mandatory EU limit of annual budget deficits (below 3 percent) also limits Italian fiscal policy options. Although the tasks for the new Prime Minister appear daunting and the feasibility of Mr. Renzi's proposals remain in doubt, markets have shown sign of optimism as Italy's bond yield sank to the lowest level since the end of 2009 immediately following Mr. Renzi's nomination. An indicator of likely policy changes in Italy is the appointment of Pier Carlo Padoan, chief economist for the Organisation for Economic Co-operation and Development (OECD) as the new finance minister in the Renzi government. In the past, Mr. Padoan has criticized tough austerity measures for countries that are struggling with excessive debt and weakened economies.

Read more about the topic:

1) Renzi's reform plan

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Inside this issue:

Swiss Referendum on Immigration

The Swiss voters approved, with a narrow majority of 50.3%, an initiative to limit immigration through preset quotas in a referendum on 9th February 2014. The Swiss Federal Council will now have 3 years to enact corresponding legislation. The first stage of the legislative process is expected to take place this year.

The voting result calls into question a number of EU-Swiss bilateral agreements which cover free movement of persons, Switzerland's participation in Schengen and Dublin, trade, taxation, research programmes and others. Freedom of movement within the EU and Switzerland has been guaranteed, as part of a package of seven bilateral agreements signed in 1999. If Switzerland is no longer able to guarantee freedom of movement conditions, all other agreements are at risk of renegotiation.[1] Currently, the net inflow of migrants in Switzerland stands at about 1 percent of the population per year. Over a million EU citizens live in Switzerland and 230,000 cross the border daily for work. Approximately 430,000 Swiss live in the EU.

The European Commission officially regretted the initiative and said it would examine implications for future EU-Swiss relations.[2] The EU reiterated that free movement of persons is a central pillar of its relations with Switzerland. The Swiss Bankers Association also warned that the referendum could have negative consequences as the EU was the most important foreign market for Swiss banks. The governments of neighboring countries, including Germany and France, have expressed their concerns over the Swiss voting decision as well. Analysts commented that the Swiss referendum could also influence the upcoming EU parliamentary election in May this year as the issue of immigration and EU-internal migration is increasingly controversial in the EU. Populist parties fomenting anti-immigration attitudes are polling strongly in several EU countries.

Read more about the topic:

1) European Commission Memo
2) European Commission
3) Media's report & Analysis
   1 | 2 | 3 | 4

EU Banking Sector Reform

The European Commission has proposed new rules to stop the biggest and most complex banks from the risky activity of proprietary trading. The proposals aim at further strengthening financial stability and ensuring taxpayers will not end up paying for the mistakes of banks, commented Michel Barnier, Commissioner for internal market and services.

The proposals come in the context of national initiatives and an increasingly intensified debate on the merits of bank structural reform.

In November 2011, Commissioner Barnier set up a High Level Expert Group (HLEG) to assess the need for structural reform of the EU banking sector. The HLEG submitted its report in October 2012 and recommended mandatory separation of certain high-risk trading activities.

More about the reform proposal:

Reform proposal

EU membership

In a BBC interview at BBC on 16th Feb, European Commission President Barroso commented on the prospect of new states seceding from existing EU member states. He said that such new states would have to re-apply for EU membership and the accession would have to be approved by all the EU member states.

Barroso's statement has drawn attention to the question of Scottish EU membership in the wake of the planned independence referendum. It should be noted that the EU Commission's view on this issue is not new. In 2004, the Commission President Romano Prodi made this view similarly clear in the Official Journal of the EU.[1] In a letter to the British House of Lords in 2012, Barroso expressed the same view.[2]

A referendum will be held in Scotland on 18 September 2014 on the question "Should Scotland be an independent country?". The result of the referendum will have significant impact on Scotland and the UK, as well as the European Union.

Read more about the topic:

1) Office Journal of the European Union
2) Letter to the House of Lords
3) Interview

Lithuania expressed its will to join euro in 2015

Lithuania authorities have expressed their intention to adopt the Euro on 1st January 2015, according to a press statement of Mr. Jeroen Dijsselbloem, President of the Eurogroup after a Eurogroup meeting in late January this year.[1]

The Commission and the European Central Bank (ECB) will publish their regular convergence report in June this year before a final decision by Eurogroup and ECOFIN will be made. To join the Euro, Lithuania has to meet the convergence criteria, namely price stability, soundness and sustainability of public finances, long-term interest rates and exchange rate stability.

Read more about the topic:

1) Press statement of Mr. Jeroen Dijsselbloem
2) Who can join the Euro and when?

About the Business and Economic Information Platform

The EUAP's Business News and Insights provide regular updates and analysis of the latest EU's economic and business issues which are of interest to the audience in Hong Kong. For more information, please visit the website at http://europe.hkbu.edu.hk/euap/business.html.

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