Why a Low Employment Rate of French Older Workers?
Samia Benallah, Cindy Duc et François Legendre

The particularly low employment rate of French older workers could be explained by a « distance to retirement » effect. In fact, employers and employees’ investment in the work relation would be not profitable when employees are near to retirement. In their empirical study, Hairault and al. (2006) demonstrate the probability of being employed is linked to the « distance to retirement ». In our paper, we show that this « distance to retirement » effect can be interpreted as a « distance to entry » effect — in other words, the negative impact of the career length on the probability of being employed. Thus, it seems difficult to identify the respective contributions of the « distance to entry » and the « distance to retirement » to the low employment rate of French older workers using only data from the French Labour Force Survey.

Keywords: Older workers employment. Distance to retirement.
JEL classification: J20, J26, J62.

Labour Market and Senior Employment in Sweden
Vincent Touzé

The Swedish model is particularly attractive because it has resisted well to the major shocks of 1970s and 1990s. In particular, while the crisis of 1993 was particularly strong causing a major recession and a dramatic increase in unemployment, the evolutions that followed were very encouraging. This paper explains how Sweden has combined a sharp upturn in production, a quick return to full employment and a rising of the employment rate of older workers. Our analysis shows that Sweden has shown its ability to regulate efficiently its economy by improving performance of its labour market in a context where the aging of the population has become a main challenge.

Keywords: Sweden. Labour market. Senior employment.
JEL classification: E00, H55, J00.
Are MCIIs good Indicators of Economic Activity?
Christophe Blot et Grégory Levieuge

The aim of this article is to determine whether Monetary Condition Indices are useful indicators for future economic activity. First, two versions of MCI are successively studied (Long-term MCIIs defined with long-term weights and standard MCIIs like those built by the IMF). In-sample regressions, out-of-sample simulations and probit analysis (intended to determine the capacity of MCIIs to announce downturns) indicate that the informational content of MCIIs is very sporadic. We then try to identify the reasons for these poor results, focusing on the fact that MCIIs do not take into account the dynamic characteristics of its components. So, as exchange rate, interest rates and asset prices affect the economic activity with different forces and with delayed responses, it seemed important to consider past evolutions of these variables, with relative weights varying for each lag considered. Proof of the importance of past shocks that are still « in the pipeline », we demonstrate that such a Dynamic-Weight MCI constitutes a better indicator than standard MCIIs usually used by international institutions and central banks.

Keywords: Financial and monetary conditions. MCI. Forecasts. Asset prices.
JEL classification: E3, E5.

Picking up the Pieces
World Economic forecast for 2008 and 2009
Département analyse et prévision

The US subprime mortgage crisis degenerated into a generalized financial turmoil at the end of 2007. The systemic risk has been prevented by the prompt reaction of central banks proceeding to cash injections, repurchase of bad loans and interest rates cuts by the Federal Reserve. The US economy will be the most affected, but the loosening of monetary policy combined with a fiscal stimulus should dam up a recession. Growth in emerging countries will decelerate but only marginally thanks to a solid domestic demand and a cleansed financial situation. The euro zone will be penalized by the appreciation of the euro and negative wealth effects, but growth should remain close to its potential. A credit crunch should be avoided as banks prudential constraints are not saturated at the macro-economic level.

JEL classification: F01.

Threats on French Growth
Forecasts for the French economy for 2008 and 2009
Département analyse et prévision

Forecasts on the French economy for 2008 and 2009 are ambivalent. On the one side, the risks we identified 6 months ago (financial crisis, strength of euro and oil prices) did affected French growth in 2007 (+1.9%). This international environment should remain the main constraint in 2008 and 2009. On the other
side, business surveys remain optimistic: first, their solid financial situation should allow firms to invest. Second, German competitive disinflation should stop. Moreover, household consumption should remain dynamic, thanks to a slight decrease in the saving rate and the implementation of the tax cuts voted in 2007. All together, French growth should reach 1.9% in 2008 and 2.3% in 2009. But this expansionary fiscal policy should draw the public deficit over the Maastricht criteria of 3% of GDP, which could force the government to implement restrictive measures in 2009.

**JEL classification**: F01.

### Monetary Policy: a Policy for Each Central Bank

**Département analyse et prévision**

The financial crisis and inflationary pressures driven by oil and food prices generated various monetary policy answers. The Fed lowered the target for the Federal Funds rate by 3 percentage points since last August to 2.25% and will lower it again to 1.75% from April to avoid a too sharp slowdown of US activity. The ECB kept interest rates unchanged and will leave them at 4%, waiting for inflation to decelerate below 2% in the euro area. The Bank of England cut the base rate by 0.75 percentage point to 5.0 and will lower it to 4.25% by early 2009, to allow inflation to decelerate without output growth falling too rapidly. The Bank of Japan will maintain interest rates at 0.5% with inflation remaining subdued and output growth prospects uncertain.

**Keywords**: Monetary policy. Interest rates.

**JEL classification**: E52.

### Inflation: the Price to Pay

**Département analyse et prévision**

Considering the ongoing process of strong increases in inflation rates, this paper is interested in the risk that price and wage-setting behaviour could add to inflationary pressures. We first come back to the reasons that recently fuelled the rise in prices (oil and food prices) and assess whether those increases may be permanent or transitory. On that point, we expect that tensions and headline inflation rates should moderate. Then, we focus on the risks for second-round effects due to past increases. Inflation models are estimated for Germany, France, Italy, Spain, the United States and the euro area as a whole where we analyze the elasticity of consumer price inflation to oil prices. It is shown that prices are not fully indexed. Second-round effects should then not materialize.

**Keywords**: Inflation rate. Second round effect.

**JEL classification**: E31.
Discredited Financial Markets

Département analyse et prevision

The crisis that began in summer 2007, after the reversal of the housing market in the United States, had a negative impact on the activity of international banks in the second half of 2007 and will also influence their results in 2008. Confidence has not been restored as doubts about banks’ solvency remain. The crisis has induced a rise in the financing conditions for companies and households. For the former, no deceleration of credit has been noticed yet. For the latter, there had already been a deceleration of credit due to the tightening of monetary policies in the years preceding the crisis. A less dynamic consumption may be observed, through wealth effects, in France, in Spain, in the United Kingdom and in the United States, due to the ongoing adjustment in housing markets.

Keywords: Banks’ solvency. Liquidity. Credit.

JEL classification: E44.