

ERP in the time of Corona pandemic and economic recovery

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Introduction

- The current economic crisis caused by the **COVID 19 pandemic will have profound implications on economies in the region** and, consequently, next year's edition of ERPs simply cannot be done on the basis of »business as usual« approach.
- **Government priorities will be on** mitigating the negative consequences of the COVID 19 crisis and **supporting a rapid economic recovery**, and will be prioritized over medium-term oriented structural reforms.
- These realities **should be reflected in the ERP Guidance note 2021-2023**, if ERPs aim to remain relevant within candidate countries themselves.
- This presentation is **based on a note by CEF Experts** sent to the EU Commission for consideration when preparing the next ERP Guidance.
- The aim of this presentation is **to collect feedback** to the proposals **from ERP stakeholders in the region**



A brief economic and policy context



How is the COVID 19 economic crises different from the financial crisis of 2008?

- **Caused by non-economic factors:** by the pandemic, and by the lockdown measures of governments to moderate the spread of virus.
- **Affects the entire economy at the same time:** all sectors of the economy affected, and both supply and demand side (disruptions to production, reduction of household incomes and consumption).
- **Governments** reacted quicker and with more resolve, but they **face the trade-off between health objectives and economic objectives.**
- The fall in GDP is similar to 2008-19, but **the recovery is expected to be faster** (high positive growth projected for 2021).
- A fast recovery is **less likely in countries with existing structural imbalances and weak competitiveness.**



Economic measures to address the crises

Temporary ‚survival‘ measures (up to 3 months)

- Intended to support the health sector, businesses and population during the virus outbreak and the lockdown
- Extremely high budgetary costs
- Will **impact on the fiscal outlook for ERP 2021-2024** and funding available for structural reforms

Short-term recovery measures (1-2 years)

- Intended to support fast economic recovery and improvement of social situation after the lockdown
- High budgetary costs
- Will be the top priority of governments – **should they be included in the ERP 2021-2023 in place of some less urgent structural reforms?**

Short-term measures and ERP reforms

Some examples

Revenue measures

- Tax deferrals, cancellations and reductions
- Reduced charges for public utilities, rents etc.
- Relevant for the **Budget Outlook** – a pressure to reduce expenditures and **funding of planned structural reforms**

Liquidity measures

- Moratorium on loan repayments, loan guarantees
- Increased **contingent liabilities** – ERP Fiscal Chapter
- Could be combined with existing **reforms on Access to Finance**

Business survival measures

- Subsidies to prevent bankruptcies due to crisis
- Costly; **may take resources away from already planned structural reforms** (sectoral reforms, business environment, RDI etc.)

Business restructuring measures

- Support for restarting and upgrading of their activity – for specific sectors, groups (SMEs, exporters) or activities (RDI)
- **Synergies** with already planned structural reforms **possible** – **but existing reforms need to be adjusted**

Employment retention measures

- Subsidies for shorter work time, time out of work; wage subsidies
- Costly; **may take resources away from already planned structural reforms in the labour market**

Income support measures

- Directed at parts of population most affected by the crisis
- Difficult to implement with inefficient social protection systems and weak coverage – **increasing the need for reforms in social security**

How to reflect this context in the ERP Guidance and preparation?



ERP Guidance – overall

- **Economic “Reform” > “Recovery” Program:** Countries will respond to crisis with measures aimed primarily at restoring economic recovery, prioritized over medium-term oriented reforms
- **‘COVID 19 crisis’ intro chapter:** (i) overall philosophy of policy response, (ii) response so far, (iii) responses planned ahead, (iv) creating fiscal space to fund response measures, (v) tracking ‘temporary’ response character’ in budgets
- Macro chapter: detailed explanation of **COVID 19 macroeconomic implications** in each sub-chapter
- Fiscal chapter: special sub-chapter for **detailed presentation and analysis of COVID 19 fiscal implications** as per time of drafting, including how they affected funding of structural reforms



ERP Guidance – SR chapter

- Redefined focus on SRs and measures aimed at (i) **rapid economic recovery**, and (ii) **addressing social effects of crisis**
- Obstacles: redefined in line with focus of chapter. **Explain how human and financial resources to implement SR in 2020-21 were affected**
- **SR re-prioritized and focused** on possible complementarities (synergies) with short-term economic recovery measures
 - **Reconsider and redesign existing reforms** to support economic recovery in short-term and achieve structural change in medium-term
 - **Postpone existing reforms that cannot be redesigned** to later ERP update, don't roll-over for ERP 2021-23
 - **Introduce short-term measures to speed up economic recovery or alleviate the social consequences of crisis** in place of postponed reforms, even if not a 'structural reform'
- 15-20 priority measures but apportioned btw **“new” measures aimed at rapid economic recovery – largely articulated by countries – and “traditional” SRs**

CEF Costing Guidance

- **COVID 19 implications** (see chapter 5): (1) funding reduced or SRs postponed, (2) funds reallocated towards economic stimulus
- Existing **costing methodology remains applicable for both** “new” and “traditional” measures
- **Increased uncertainty and riskiness of costs and available funding** poses main challenge for costing of reforms in next ERPs:
 - carefully assess **implementation risks + risks to funding availability** → strictly include only funds already firmly secured, avoid using 'to be determined'
 - develop **contingency scenario** for reforms requiring substantial funding / prioritized activities when insufficient funding
 - proactively explore '**room to manouver**' to secure additional funding for priority measures, re-allocate within budget, repurpose donor support
 - more realistic planning greatly facilitated by **closer aligning ERP and budget preparation and approval** calendars
 - be **open and forthcoming about uncertainties** in cost estimates.



Your comments and suggestions?

