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

<table>
<thead>
<tr>
<th>Temporary 'survival' measures (up to 3 months)</th>
<th>Short-term recovery measures (1-2 years)</th>
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<tbody>
<tr>
<td>• Intended to support the health sector, businesses and population during the virus outbreak and the lockdown</td>
<td>• Intended to support fast economic recovery and improvement of social situation after the lockdown</td>
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<td>• Extremely high budgetary costs</td>
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<td>• Will impact on the fiscal outlook for ERP 2021-2024 and funding available for structural reforms</td>
<td>• Will be the top priority of governments – should they be included in the ERP 2021-2023 in place of some less urgent structural reforms?</td>
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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 manoeuvre'** 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?