European economic governance with special reference to candidate countries and their ERPs

(based extensively on EC documents)

Mojmir Mrak

CEF Affiliated Expert

Structure of the presentation

- **Concept of European economic governance**

- **European economic governance and member states**

- **European economic governance and candidate states**

- **ERPs as part of the EU candidate countries' European economic governance**

- **ERPs in the context of COVID-19 crisis**

1. Concept of European economic governance

- **Economic governance describes**

  - the overall philosophy and architecture of economic policy-making

  - the institutions and processes that guide the evolution of the economy.

- **Specifics of European economic governance caused by main reasons**

  - Evolution of the integration from customs union to monetary union

  - *Deepening* of integration had to be accompanied strengthened economic governance

  - *Widening* through enlargements increased heterogeneity of EU; impact on governance

2. European economic governance and member states: period before the crisis

- *Before the mid-1980s*, the focus of the EU policy debate focused on policies rather than on processes – delegation was the key economic governance method

- *In the period between mid-1980s and 2008,* due to extensive deepening and widening of EU, the delegation method of governance (monetary policy) was increasingly complemented with EU surveillance based on legislation and on policy coordination (fiscal policy)

2. European economic governance and member states: period after the crisis

- **Strategic objectives for overall reform of the European economic governance**

  - **To establish a robust economic and fiscal component of the monetary union that will be able to prevent new crises (to strengthen drastically the existing GSP)**

  - **To put in place an entirely new mechanism to manage crises in case they erupt**

- **General approach to the overall reform of the European economic governance**

  - **No treaty changes (secondary legislation)**

  - **Broadening surveillance (fiscal and macroeconomic)**

2. European economic governance and member states: period after the crisis

- **Complex legal framework introduced for reforming EU economic governance**

  - **Crisis prevention legislation**
    - „Six-pack"
    - Fiscal pact
    - „Two-pack"
    - Banking Union

  - **Crisis resolution mechanism – ESM**

- **The reformed European economic governance is being implement through European semester (annual cycle of policy coordination)**

Fiscal Implications of Structural Reforms

3. European economic governance and candidate countries: before the crisis

- **European economic governance for candidates before 2004 enlargement limited to fiscal policy**

- **In 2000, ECOFIN initiated an intensified dialogue with candidates on macro-economic and especially on fiscal issues**

- **Components of „pre-accession fiscal surveillance"**

  – **PEPs (simplified stability /convergence programmes + structural reforms)**

  – **Fiscal notifications**

3. European economic governance and candidate countries: before the crisis

- **Historical overview**
  - **Starting in 2001, Pre-Accession Economic Programmes (PEPs) for candidate countries**
  - **From 2006 on, Economic and Fiscal Programmes (EFPs) for potential candidates (simplified form of PEPs)**
- **PEPs and ERPs (3 main chapters), but strongly focused on macro and fiscal side**

3. European economic governance and candidate countries: after the crisis

- **Reformed European economic governance trickled down into the EU accession process through two channels**
  - **Broadened framework for economic policy dialogue and coordination based on Economic Reform Programmes (ERPs)**
  - **Broadened scope for acquis harmonization within the EU accession negotiations on European Monetary Union (chapter 17)**

4. ERPs as part of candidate countries' European economic governance

- **ERPs replaced PEPs / EFPs as of 2015**
  - **ERPs broader in coverage; growth and competitiveness became an important subject**
  - **Dialogue between EU and a candidate country based on ERP became more specific in terms of policy recommendations (includes country specific policy guidance provided by ECOFIN)**
  - **One type of a document is being produced both by official candidates and potential candidates**

4. ERPs as part of candidate countries' European economic governance

- **Objectives of ERPs**
  - **To provide a coherent and comprehensive framework for domestic policy-making and policy dialogue with the EU**
  - **To support countries to effectively address key economic challenges**
  - **To strengthen domestic coordination, stakeholder involvement and ownership**
  - **To support countries to gradually meet the Copenhagen economic accession criteria**

4. ERPs as part of candidate countries' European economic governance

- **Structure (3 main chapters) the same as before in PEPs and ERPs ….**
  - **Macro-economic framework**
  - **Fiscal framework**
  - **Structural reforms**
- **….. BUT, ERPs broadened their focus from macro and fiscal issues on structural reform issues. Why?**
  - **To better reflect European semester logic**
  - **To complement fiscal stability with growth**

4. ERPs as part of candidate countries' European economic governance

- **Macro and fiscal chapters**
  - **Concept of the chapters largely unchanged from PEPs / ERPs with a focus on macro-fiscal framework**
  - **Substance, structure tables based on Convergence and Stability Reports of MS**
  - **On the EC side, DG ECFIN responsible for managing the relations with candidates**

4. ERPs as part of candidate countries' European economic governance

- **Structural reforms chapter**
  - **Substance substantially strengthened vis-a-vis PEPs / ERPs**
    - **Obstacles to growth**
    - **Structural reforms policy areas (around 8)**
    - **Priority reform measures (impact on competitiveness, costing, reporting)**
  - **On the EC side, DG NEAR responsible for managing relations with the candidates (important role of OECD assistance)**

4. ERPs as part of candidate countries' European economic governance

- **ERP process**
  - **Summer: ERP Guidance made available**
  - **January: ERPs submitted by candidates**
  - **February / March: Assessment of ERPs by EC and ECB**
  - **April: Discussion on a new set of policy guidance at working level (EFC)**
  - **May: Policy guidance adopted at ECOFIN**

5. ERPs within the context of COVID-19 crisis: what is to be expected?

- **The crisis will have profound implications on economies in the region and consequently ERPs will have to be adjusted to this new reality**

- **It is realistically to expect that overall philosophy of ERPs' adjustment will be guided by changing the meaning of the letter „R" from „Reform" to „Recovery" at least for the next couple of years**