

# The Importance of Economic Impact Assessment (EIA) of Structural Reforms

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# Overview of Economic Impact Assessment of Structural Reforms

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Kosovo began assessing the economic impact of structural reforms for the first time in 2019 (for the ERP 2020-2022), this was done primarily because it was part of the ERP guidelines and a request for Kosovo to conduct such analysis.

The assessment of the reforms has now been included in the ERP for two years in a row

Besides being a requirement for the ERP process, assessing the Economic Impact of Reforms is done primarily because it:

1. Allows us to have a better view on the impact of SR on the economy and the budget items
2. Provides us with a better picture of how the reforms will impact different sectors
3. Acts like a prioritization tool for reforms that have the greatest positive impact
4. Helps us conduct a thorough cost benefit analysis

# Explanation of the Model

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Kosovo's main macroeconomic model did not allow for economic impact analysis being conducted. Therefore, together with TA from the EU office, a new tool for this purpose was developed.

A CGE model was created and included a specific level of aggregation in all sectors of the Kosovo economy (20 main economic sectors). The model links commodity demand and supply, factor incomes, transfers and expenditures, savings and investment in a Social Accounting Matrix.

This helps to see what sectors are affected by the reform and in what way. So there is a direct linkage to the impacted sectors.

The drawbacks of using this model are: human resource capacities (high turnover), data limitations, understanding by the policy makers, simpler models can be more useful.

# The Reforms Assessed in Kosovo's ERP

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Using the model 4 reforms have been assessed:

## 1. The Establishment and Functioning of the Commercial Court

- ✓ The cumulative medium-term effects of a reduction in risk premiums on GDP growth is 2.1% from 2020 to 2023.

## 2. Reduction of the Informal Economy

- ✓ Under this scenario, real GDP growth increases by a cumulative amount of 0.2 % between 2020 and 2023, driven by higher government savings (+1.8 %) and investment (+9%).

## 3. Energy Efficiency Measures

- ✓ Elimination of energy subsidies in Kosovo will raise GDP growth in market price by 0.2%.

## 4. Targeted Training-increased employment

- ✓ Real GDP is expanding by 0.4% over the baseline

# Importance of Economic Assessment of Reforms in Policy Making

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It is important that we understand the importance of using the results of the Economic Impact Assessment and convey that importance to policy makers:

- ❑ Helps governments improve the design and implementation of public policies that can, in turn, lead to prosperity for their country and well-being for its citizens
- ❑ Contributes to promoting public accountability, learning and increased public sector effectiveness through improved decision-making
- ❑ Helps countries to improve the decision making
- ❑ Focus on tangible results stemming from the reforms.
- ❑ Focus on presenting results that have a direct impact on economic growth or in budget revenues