Linking ERP Reforms with Budget and EU accession

Mojmir Mrak, Janez Šušteršič
CEF affiliated expert
European economic governance

- 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
European economic governance and member states: period after the crisis

- Overall approach to the overall reform of the European economic governance
  - No treaty changes (secondary legislation)
  - Operationalization of the fiscal surveillance, especially its public debt part
  - Introduction of the surveillance that tackles macroeconomic imbalances problem
  - Change of the decision making process into more automatic one (less political influence)
European economic governance and member states: European semester

• The reformed European economic governance is being implemented through European semester

• European semester is an annual cycle of fiscal, economic and structural reforms policy coordination of EU MS to achieve goals of Europe 2020 strategy
  – Goal of the Europe 2020 is growth (smart, inclusive and sustainable)
  – Objectives: employment, R&D, climate change and energy, education, poverty and social exclusion
• Milestones in the annual cycle
  – November: Commission drafts analytical documents
  – January: Political guidance at the EU level – Council and Parliament
  – February: Country reports on macroeconomic imbalances
  – April: MS submit Stability and Convergence programs (medium term budgetary framework) and National Reform Programs (program of structural reforms – growth, employment)
  – May: Country specific recommendations drafted
  – July: European Council adopts them

Funded by the European Union.
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)
ERPs as part of candidate countries’ European economic governance

• ERPs replaced PEPs / EFPs as of 2015
  – ERPs broader in coverage (two parts); growth and competitiveness as an important subject
  – ERPs more specific in terms of policy recommendations (includes country specific policy guidance provided by ECOFIN)
  – One type of a document for candidates and potential candidates
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
• 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
Evolution of the term „structural reforms“

- Structural reforms became popular with the emphasis on flexibility and competitiveness of economies, as opposed to macro-management of economic cycles – also known as „supply side economics“

- The EU‘s Lisbon Strategy (2000) tried to combine the drive for competitiveness with the modernization of the „European Social Model“

- The ERP definition combines competitiveness with the need to strengthen employment and welfare – this reflects the key development challenges in candidate and potential candidate countries
The ERP definition of structural reforms

The term structural reform shall be understood to mean public policies that:

- tackle obstacles to the fundamental drivers of growth,
- facilitate the use of resources and productive factors as efficiently as possible,
- or contribute to a more equitable and inclusive economy.

(ERP Guidance 2019)

This includes policies that:

- modernise labour markets and make them more adaptable & responsive,
- make product and service markets more efficient,
- simplify the regulatory environment for businesses while increasing transparency overall in the economy,
- create equal opportunities and ensure social inclusion.

Public investments in infrastructure can be included as measures if they contribute to reforming a market.
Selection (prioritization) of reforms

Based on OECD’s Prioritization Manual

SCREENING (CUT-OFF) QUESTIONS:
  - Adressing a binding constraint to growth?
  - Sufficient capacity and funding for implementation?
  - Clearly defined activities for implementation?

SELECTION QUESTIONS:
  - Impact on competitiveness / growth
  - Impact on employment
  - Implementation complexity
  - Implementation risks
  - EC assessment of the measure (if rolled-over)
Good design of ERP measures

- Assign only one objective to the measure
- Explain the link with obstacles to competitiveness and employment
- Clearly describe what the measure is about
- Specify concrete activities with their expected outputs
- Estimate the cost of activities and provide funding sources
- Include key performance indicators
Linking reforms with fiscal framework
Mid-Term Budgetary Planning Document

GENERAL RECOMMENDATION: Make financing of key priorities, including ERP structural reforms, visible in the document.

POSSIBLE APPROACHES:
   o Full programme budgeting.
   o Partial programme budgeting of key reforms and priorities.
   o Separate budget lines for key reforms and priorities.
   o Presentation of expenditures by policy sectors.
   o Presentation of a separate „reforms and investment“ budget.
   o Make use of policy based classifications of expenditures (programme classification; classification by governments functions – COFOG)
   o Ask line ministries to present budget requests in terms of policies and objectives rather then in terms of (increasing) costs.
   o Base budget negotiations on arguments related to policies and priorities.