Linking ERP Reforms with Budget and EU accession

Mojmir Mrak, Janez Šušteršič

CEF affiliated expert

Funded by the European Union.

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)

Funded by the European Union.

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**

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:

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