

What's new in the ERP Guidance (and how to make the most of it)

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Novelties in the ERP Guidance

- 1) Linking structural reform (SR) measures with economic recovery
- 2) Embedding ERPs into the new EU strategic framework
- 3) Stronger links with IPA and the EU accession process
- 4) Costing of SR and fiscal implications of COVID
- 5) New section on Quality of Public Finance



1. Linking SR measures with recovery

Most relevant quotes from the Guidance

*ERPs will have to **focus on the post Covid-19 recovery**, while integrating mid-term reforms that make this recovery sustainable and build up economic resilience [...] A particular attention will be paid to the post-Covid 19 recovery measures.*

*The ERP is a rolling programme [...] activities included in the ERP 2021-2023 should be the same as those included in the ERP 2020-2022 [...] **Some reforms may however need to be reprioritised to support in the most adequate way the recovery from the Covid-19 crisis.** [...] As a rule, measures should only be discontinued if they [...] **are no longer considered a priority for the government, especially in the context of Covid-19 crisis.***

*While also reporting on the implementation of immediate short-term measures to mitigate the Covid-19 crisis in 2020, the **structural reforms for 2021-2023 should again focus on measures supporting the country's medium-term economic development**, duly adjusted to the context of recovery from the crisis.*

The key to introducing new measures is a sound analysis of COVID induced obstacles

*This section [on **obstacles** to competitiveness and inclusive growth] will first provide a concise overview of the main structural obstacles to competitiveness and inclusive growth at national level as **reviewed in the light of the impact of the Covid-19 crisis**.*

*It should **update the analysis from the previous programme [...]** also **identify any new obstacles that may have emerged, especially in the context of the Covid-19 crisis**.*

*Based on this analysis, the section should then **identify 15-20 reform measures [...]** to **tackle the most important structural obstacles and thereby support the post-Covid-19 recovery**.*

Examples of possible re-prioritization

How is recovery referred to in descriptions of policy areas

Education and Skills *Specific reference should also be made to the provision of digital skills through the corresponding training of teachers and **digital education**.*

Employment and Labour Markets *In the context of the Covid-19 pandemic, this section should also inform on the **short-term work schemes** that were introduced in order to mitigate the impact of the pandemic [...]*

Social protection and inclusion, **including health care** *This section will cover public policies modernising social protection systems [...] fostering social inclusion, promoting equal opportunities and addressing inequalities and poverty, **particularly in view of the impact of the Covid-19 crisis**.*

*This section should provide an assessment and include the relevant reform measures related to the **universality** of health insurance, and the **accessibility**, **adequacy** and **affordability** of healthcare services, as well as the **sustainability** of its financing.*

Summary

Reforms may be adjusted or new reforms introduced to support economic recovery, but pure recovery measures which do not have a 'reform element' should not be included.

A good way to combine reforms with recovery is to:

- analyse which obstacles (to competitiveness and inclusive growth) have emerged or became stronger because of the COVID crises and recession
- see how these newly identified obstacles could be addressed by adjusting existing structural reforms or by new reforms replacing the old ones

Of course, reforms addressing recovery may be introduced in any policy area, not only in the three areas where the Guidance mentions some examples (as shown above).

Descriptions of policy areas are not prescriptive – they are a menu from which the country chooses based on its priorities and key obstacles.

2. Link with the EU strategic framework

Most relevant quotes from the Guidance

*ERPs will have to focus on the post Covid-19 recovery, while **integrating mid-term reforms** that make this recovery sustainable and build up economic resilience **in line with the EU green, digital and just transition priorities**.*

*Structural reforms [...] should be as much as possible progressively aligned with the EU inclusive growth strategy of the Green Deal **aiming at a resource-efficient, decarbonised and competitive economy**.*

*If applicable, clearly state [...] how the [...] reform measure will contribute towards the implementation of the European Green Deal and/or **achievement of the United Nations Sustainable Development Goals (SDGs)**.*

*The reform measures [...] can help drive national economic and employment policies towards the achievement of the [...] SDGs and the implementation of the European Green Deal by **monitoring progress** and ensuring **closer coordination** of national efforts. [...] ideally based on indicators in line with **Eurostat's EU SDG indicator set**.*

Examples of possible re-prioritization

How are new priorities reflected in descriptions of policy areas

Energy and transport
market reform

*Reform measures [...] could focus on supplying **clean, affordable and secure energy** and on building and renovating in an **energy and resource efficient** way, unlocking the **renewable energy** potentials and **reducing the environmental and health impact** of the energy and transport sectors..*

Agriculture, industry
and services

*Reform measures [...] could focus on **sustainable production and consumption** as well as **decarbonisation** and modernisation of energy-intensive industries. They can also promote the introduction of **circularity in the business models**, in terms of resource use. The measures in the agriculture could target the development of more **sustainable food production systems** with a neutral or positive environmental impact.*

Research,
development and
innovation and the

*Measures related to the **digital transformation** in line with the European Commission's **priorities** will also be covered under this sub-section but can be mainstreamed in other areas as well.*



How to make sense of the new priorities

Green Deal and Just Transition

Useful explanations in the Guidance about the Green Deal:

*SR [...] supporting an **economic growth model which is more resource-efficient, less carbon-intensive and more resilient towards environmental and health issues.***

*[...] **progressive mainstreaming of environmental and climate sustainability in all relevant reforms.***

Just transition is about helping regions, industries and workers affected by ,green transition‘.

Useful sources (overview and EC communication):

https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en#actions

<https://eur-lex.europa.eu/legal->

[content/EN/TXT/?qid=1576150542719&uri=COM%3A2019%3A640%3AFIN](https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1576150542719&uri=COM%3A2019%3A640%3AFIN)



How to make sense of the new priorities

EU Digital Strategy

EU digital strategy – another one of the 6 priorities of the new Commission

Related ERP policy areas:

Energy and transport – Intelligent Transport Systems.

Business environment – e-government, e-commerce, security, standards.

RDI and digital transformation – ICT and AI innovation, broadband.

Economic integration – standards, interoperability.

Social – digital divide/inclusion, e-health, e-social services.

Digital skills relevant for several areas (business, RDI, education, employment, social).

Useful sources (overview and EC communication):

https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age_en

https://ec.europa.eu/info/sites/info/files/communication-shaping-europes-digital-future-feb2020_en_4.pdf



SDG indicators most relevant for ERP

<https://ec.europa.eu/eurostat/web/sdi/indicators>

<https://www.sgi-network.org/2019/>

| ERP policy area | Indicators related to specific SDGs |
|----------------------|--|
| Energy, Transport | SDG 7 (Affordable and clean energy) SDG 9 (Industry, innovation and infrastructure) - transport |
| Sectoral policies | SDG 12 (Responsible consumption and production) SDG 2 (Zero hunger) – agriculture, environment |
| Business environment | SDG 16 (Peace, justice and strong institution) |
| RDI, digital | SDG 9 (Industry, innovation and infrastructure) - innovation |
| Economic integration | / |
| Education | SDG 5 (Quality education) |
| Employment | SDG 8 (Decent work and economic growth) |
| Social, health | SDG 10 (Reduced inequalities), SDG 1 (No poverty), SDG 5 (Gender Equality), SDG 3 (Good health and well-being) |



Summary

There is no conflict between the ERP objective (competitiveness and inclusive growth) and the new European strategic framework:

- Green Deal is a growth strategy, not only an environmental programme
- Digital transformation already part of ERP, but can be much broader
- SDGs largely focus on inclusiveness and sustainability of growth

Some existing ERP measures may thus already be well aligned with this new strategic framework, or could be easily adjusted to it.

There is no obligation to immediately align all ERP measures with the EU's new strategic framework – what is expected is a gradual evolution of measures/ERPs in this direction.



3. Stronger link with EU Integration

Most relevant quotes from the Guidance

Close **involvement of the national IPA coordinator** (NIPAC) is crucial to reinforce the link between the ERP reform priorities and the IPA programming.

The structural reform priorities should in particular **contribute to the achievement of the economic criteria for EU accession**.

Where relevant, shortly refer to how the measure supports the achievement of the economic criteria for EU accession.

Coordination of ERP, IPA, EU integration

Involve NIPACs

- Costing – check the size and realism of funds planned from IPA.
- Coordinate planning of ERP measures with IPA programming.
- Make sure that Action Fiches for IPA include projects which are aligned with existing or planned ERP measures.
- Be aware that consistency with ERP and Country Specific Policy Guidance is one of the criteria for assessing relevance of IPA programming documents.

Involve EU Integration ministry / coordinator

- Coordinate ERP priorities and the policy part of the plan for adoption of the Acquis (NPAA) or equivalent document
- Reflect and refer to ERP measures in priorities of the NPAA – in the sense of key measures to meet the economic accession criteria

4. Costing and fiscal implications

Instructions for dealing with risks and uncertainty

- ❖ ***Uncertainties and assumptions** related to cost and funding estimations should be explained.*
- ❖ ***Only funds that are already secured** should be planned and the use of 'to be determined' category should be avoided.*
- ❖ ***For measures which require substantial funding or whose costs are highly uncertain**, a contingency scenario should be developed with an indication of which activities would be implemented as priority in the case that not all the planned funding will be available.*
- ❖ ***For measures which do not immediately result in direct expenditures** (e.g.: loan guarantees or reductions of taxes and fees), the ensuing contingent liabilities or reductions of revenues should also be specified in this section.*

Reporting on fiscal implications of the COVID crisis

| Estimated fiscal impact of the Covid-19 crisis in 2020 | Due to one-off discretionary measures (in % of GDP) | Due to further discretionary measures (in % of GDP) | Due to the slowdown of economic activity (in % of GDP) |
|--|---|---|--|
| On budget expenditure | | | |
| On budget revenue | | | |
| Total budget impact | | | |
| On public debt | | | |
| On contingent liabilities | | | |

*Provide specific information on **contingent liabilities** incurred as part of the Covid-19 response measures such as credit guarantee schemes.*

Comment

The purpose of the reporting table is to support an assessment of sustainability of public finances in the medium-term.

The logic behind the table is:

- Expenditures related strictly to COVID measures are expected not to be continued after the health crisis is contained
- Any other increases of expenditures may undermine the medium-term fiscal position
- Revenues lost due to the decline of GDP will normalize after recovery

You are entitled to adjust/simplify the format of the table, but it must support the assessment of the fiscal situation along these lines.

5. Quality of Public Finance

This new section (4.8) should report on:

- implemented and planned changes in the composition of **public spending** to improve its **growth-friendliness and contribution to social inclusion** (e.g. share of capital spending, share of education and health expenditure - Table 3 in the Annex).
- major reforms related to the efficient use of resources in the public sector.
- measures to improve the structure and efficiency of revenues, e.g steps to **address taxation with major distortionary effects**, such as a high fiscal burden on labour **hindering job creation** and **inducing informality**,
- When appropriate, refer to **redistributive effects of taxation** and the **sustainability of social security systems** vs contributions.

The highlighted text underlines the need for cooperation between the MoF and the SR coordinator in drafting this section.

Tour de table discussion

- ❖ How is your line ministry thinking about your measures in light of:
 - COVID induced economic recession
 - New EU strategic framework
- ❖ What is your line ministry doing to address the **Country-Specific Policy Guidance**?
- ❖ What will be the most challenging in the new ERP Guidance for your line ministry?
- ❖ How will the coordinators
 - **Lead on the process of re-prioritisation** of measures in light of recession and the new strategic framework?
 - Assure that **Country-Specific Policy Guidance** is addressed by relevant ministries and the government?
 - Involve and **cooperate with NIPACs** and **EU integration ministry**?
 - Contribute to **linking the fiscal framework** with the planned structural reforms?

