

LINKING STRUCTURAL REFORMS AND FISCAL FRAMEWORKS

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Outline

STRUCTURAL REFORMS IN ERPs

- Evolution of the term „structural reforms“
- Selection (prioritization) of reforms
- Good design of reform measures
- Implementation and monitoring of reforms

LINKING STRUCTURAL REFORMS AND FISCAL FRAMEWORKS

- Costing and budgeting of structural reforms
- Budgetary outlook in ERPs
- Consistency of ERPs
- Structural reforms and mid-term budgetary planning



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:

- Addressing 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
- Include key performance indicators



Reforms in 2019-2022 ERPs

Based on 7 ERPs, Ch. 4.2 Summary of Reform Measures

ERP policy sector	Number	Share	Most frequent reforms
Energy and transport markets	21	16 %	Market liberalization/opening Energy efficiency, renewable sources Infrastructure
Sectoral development	18	14 %	Agricultural investment, production Industrial policy Tourism
Business environment	36	27%	Reduction of regulatory burden, e-services Informal economy, tax collection, inspections Support to SMEs
RDI and digital economy	15	11 %	RDI system and support Broadband infrastructure/regulation
Trade-related reforms	8	6 %	Trade facilitation
Education and skills	16	12 %	Aligning VET with labour market needs
Employment and labour markets	8	6 %	Active labour-market policy measures
Social inclusion	10	8 %	Social protection system Health system



Implementation of reforms

Implementations of reforms in 2018	
No implementation (0)	0 %
In preparation (1)	9 %
Initial implementation (2)	34 %
On-going (3)	26 %
Advanced (4)	26 %
Completed (5)	5 %

Calculated from EC assessment based on reporting of implementation in ERPs 2019-21, Table 11 (Turkey and BH not included).

Implementation of country-specific policy guidances in 2018	
Limited	3 countries
Partial	4 countries

Based on European Commission's assessment of 7 ERPs 2018-20 (April 2019).

Why is implementation so difficult?

Imprecise planning of activities?
Lack of appropriate reporting and monitoring arrangements?
Institutional, human and financial capacity for implementation?
Mismatch between ERP measures and key political priorities?



Linking reforms with fiscal framework

Costing and budgeting of reforms (ERP Chapter 4 & 5)

COSTING: Fully cost each activity of the measure.

BUDGETING: Make sure that the planned budgetary financing is in line with the approved budget and the MTEF document – have the entries checked by the Budget Department in the MoF.

AGGREGATION: In Chapter 5, calculate the total expected costs of reforms by year, and the total expected budgetary funding per year. Highlight the most costly and the most financially risky reforms.



Linking reforms with fiscal framework

Medium-Term Budgetary Outlook (ERP Chapter 3.3)

EXPENDITURE OUTLOOK: Make sure that at least the costliest reforms are mentioned among spending priorities – have the text of the chapter checked by the ERP Structural Reforms Coordinator.

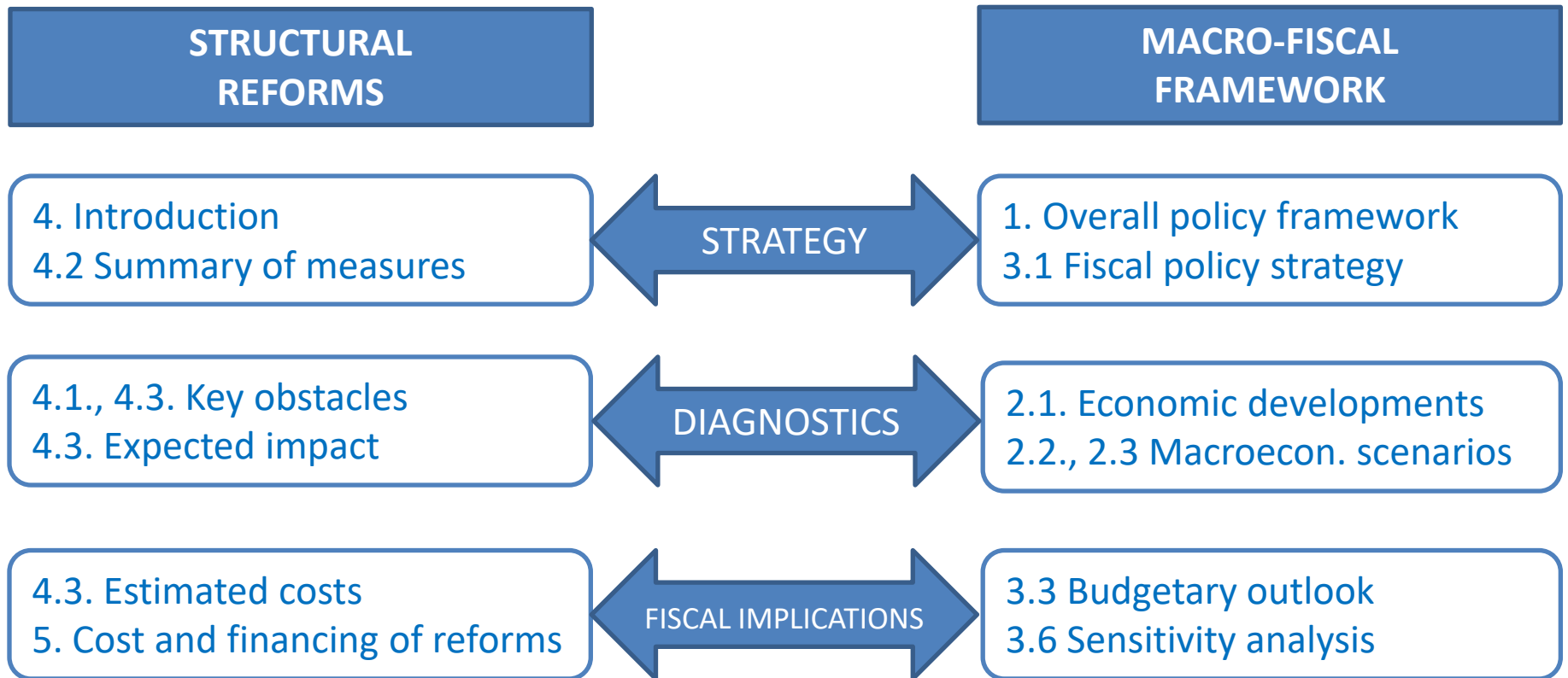
REVENUE OUTLOOK: Specify whether any expected revenue effects from structural reforms are included in the estimations. If yes, provide quantitative estimates of expected effects.

MACROECONOMIC FRAMEWORK: Specify whether any expected economic effects of reforms are included in the baseline scenario which was used for fiscal projections. If yes, provide quantitative estimates of expected effects on economic growth and the budget.



Linking reforms with fiscal framework

Framework for internal consistency of ERPs



Linking reforms with fiscal framework

Assuring consistency through cooperation

- ❑ Strategy. **Policy-makers** should be involved early in the process to define the overall policy strategy.
- ❑ Diagnostics. **Macroeconomic unit** and the **structural reforms coordinator** should align their views on key challenges and possible effects of reforms.
- ❑ Fiscal implications. **Line ministries** and **budgetary department** should assure that costs of reforms are realistic, funded and reflected in the mid-term budgetary outlook. **Structural reforms coordinator** should assure that key reforms are referred to in the fiscal and in the macroeconomic chapter.

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 than in terms of (increasing) costs.
- Base budget negotiations on arguments related to policies and priorities.

