

Linking the Stability and Convergence Programmes and the National Reform Programmes: Possible contribution of the LIME WG

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2005: a crucial year for European processes

Reform of the Stability and Growth Pact aimed at:

- ❑ *Improving governance*
- ❑ *Strengthening the preventive arm*
- ❑ *Improving the implementation of the corrective arm*

Relaunch of the Lisbon Strategy:

- ❑ *Focus on growth and employment*
- ❑ *Improved governance*
- ❑ *National ownership*
- ❑ *Partnership approach*

SGP and Lisbon reforms: an implicit link

- Interdependence between the national reform strategies underlying the Stability and Convergence Programmes (SCPs) and the National Reform Programmes (NRPs).
- Consistency and transparency between the two programmes at national level **leads to improved governance**, facilitating **implementation** of reforms.
- Direct/indirect effect of Lisbon-type reforms on budget.

SGP and Lisbon reforms: an explicit link

- Lisbon strategy has fiscal implications: Integrated Guidelines 1-6 of Lisbon focus on macroeconomic issues with an explicit reference to the SGP.
- Reform of the preventive arm of the SGP:

Reforms which have direct long-term cost-saving effects, including by raising potential growth, will be taken into account when defining the adjustment path/temporary deviation from the MTO.

Recent developments

■ ECOFIN November 2007:

Reiterates the need for consistency between the Lisbon Strategy, sound and sustainable fiscal policies and a macroeconomic environment conducive to non-inflationary growth.

Recent developments (cont'd)

■ EMU@10 report:

*"The move towards stronger evidence-based policies would imply the need to design a **structural reform review mechanism** to validate the expected effects of reforms on potential growth, prices and public finances. **This could build on the analytical work done in the context of the Lisbon Strategy for Growth and Jobs**".*

Recent developments (cont'd)

- Commission's proposal to EFC on including additional information, on a voluntary basis, in the forthcoming SCPs:
 - Description of the decision processes underlying the the SCPs and the NRPs;
 - Additional and detailed information on **direct budgetary costs** of the structural reforms envisaged in the NRPs, including the introduction of a **specific table**.

A few suggestions on the way forward

- *Avoid duplications!*
- *Keep reporting burden for MSs at a minimum!*
- *Enhance coordination at different levels!*
- *Exploit existing work!*

The LIME WG and its possible contribution

The EPC Lisbon Methodology Working Group (LIME)

- The EPC LIME started working in February 2007 with the mandate to *"drive forward the development of methodological approaches to track, analyse and model structural reforms carried out in the context of the Lisbon strategy"*.
- The group benefited from close co-operation with the **European Commission** and the contribution of the **ECB** and the **OECD**.

The methodological framework: a three-pronged approach

- The LIME has focussed so far on three main methodological strands for evaluating progress against the Lisbon agenda:
 - ❑ Tracking progress with implementation of structural reforms
 - ❑ Identifying growth enhancing policies
 - ❑ Modelling issues in assessing the impact of structural reforms

Tracking progress with structural reforms

- Reporting table to be submitted by Member States along with their National Implementation Reports in mid October.
- Characteristics of the table:
 - Web-based application
 - Allows for **timely and comparable analysis of progress** with structural reforms, by standardising the information content
 - Provides **information for analysis** using other methods
 - Feeds into **Commission's existing databases**

Structure of the reporting table

■ Three building blocks:

- ❑ A description module: content, rationale and timing of reform measures;
- ❑ A classification module: integrated guidelines, key challenges, country specific and Euro Area recommendations, points to watch;
- ❑ An impact and follow up module (optional): national evaluation procedures, direct budget impact, structural indicators, LAF policy areas.

Reporting table: impact and follow up module

Impact and follow-up module				
Budgetary information: description	Budgetary information: amount	Enforcement, monitoring and evaluation	Structural and main EMCO indicators	LAF policy areas
			<i>Drop down list</i>	<i>Drop down list</i>

Explanatory qualitative information

Quantitative information for each year of the programme. Preferably on the gross budgetary impact on revenues and expenditures, alternatively the net budgetary impact.

Identifying growth enhancing policies: the LAF

- Systematic approach to analysing the areas where MSs underperform, highlighting where further structural reforms may be needed.

The Lisbon Assessment Framework (LAF)

ANALYSIS	GDP Analyses of 12 GDP components in level and changes	Policy Performance Evidence-based analysis of 20 policy areas affecting GDP. Indicator-based assessment which is then qualified with country-specific information	Screening Examines links (identified in the literature survey) between performance in policy areas and relevant GDP components
	OUTPUT Relative performance (+ = -) of GDP components	Relative performance (+ = -) of policy areas	Underperforming policy areas qualified with links to GDP components

The LAF contribution

- Provides an **analytical framework** for examining performance in a number of important policy areas.
- May be a **useful input** for Member States to define and update their **key challenges** and for **policy formulation in general**.
- Offers to MSs and the Commission a **basis for a structured dialogue** in the context of multilateral surveillance and increases transparency.
- Could also be used for **broader analysis**, e.g. focus on overperforming policy areas or mismatches, help with the identification of best practices.

Caveats and limitations of the LAF

- Usual caveats associated with growth accounting.
- Data and theoretical limitations in a number of policy areas.
- Inevitable **time lags** between implementation and measurable results.
- Provides **no indication of causality**, only additional considerations when assessing growth priorities.
- Does not cover all Lisbon areas and dimensions.

Modelling of structural reforms

- **Modelling forum:** platform for national experts and the Commission to undertake a model comparison exercise and exchange experience and best practises.
- **Objectives:** mutual learning and greater transparency on available modelling tools and their use to assess the full impact of structural reforms.
- **Main issues tackled:** general reform shocks as well as specific reform shocks such as R&D, administrative burdens, migration and venture capital.

Spillovers

- In the context of the modelling exercise **spillovers and complementarities** of reforms were also considered.
- Central aspect of the Lisbon agenda, but still **significant uncertainties as to the quantification/analysis of effects**.
- Independent study on IGs: **importance of framing a policy debate for effective outreach to relevant stakeholders**. Long-term process requiring substantive analysis, robust indicators, useful benchmarks of good practice.

Future work of the LIME

- Develop transparent analytical frameworks to evaluate the adequacy of policy initiatives at both national and EU level.
- Develop analytical approaches that can be used to quantify the macroeconomic implications of microeconomic reforms.

Conclusions

- Building on this preliminary work, the LIME is in a position to develop analytical approaches – **agreed both by MSs and the Commission** – that can contribute to **evaluating the expected impact of reforms**.
- In order to avoid duplications, LIME work could provide **useful inputs** to other existing processes both in terms of **information and analytical tools**.
- **Coordination** between different committees/WGs at the EU level, as well as among delegates at national level, **is crucial**.

Thank you for your attention!