

EFP Seminar



Comparative Assessment of the EFPs / PEPs in the Region

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Overview

- Background pre-accession fiscal surveillance
- What are PEPs and EFPs ?
 - Structure
 - Procedure
 - Differences PEPs – EFPs?
- 2010 PEPs and EFPs: Main features

Internet sites

- DG ECFIN

http://ec.europa.eu/economy_finance/index_en.htm

- DG ECFIN Enlargement related issues

http://ec.europa.eu/economy_finance/international/enlargement/index_en.htm

- Pre-Accession Economic Programmes

http://ec.europa.eu/economy_finance/international/enlargement/pre-accession_prog/index_en.htm

- Economic and Financial Programmes

http://ec.europa.eu/economy_finance/international/enlargement/pre-accession_fiscal_surveillance/index_en.htm

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- 2010 PEPs and EFPs: Main features
 - Macro Framework
 - Fiscal Framework
 - Structural reforms
- Overall assessment and recommendations

Main objectives of the PEPs and EFPs

Support transition from (pre-) Candidate Country to (EMU) Memberstate

- Develop institutional and analytical capacity in the pre-accession period
- Set out a medium-term macro-economic and fiscal framework and a structural reform agenda consistent with each other
- Prepare for gradual integration into multilateral fiscal surveillance in the context of EMU

Background

- Embedded in overall enlargement package ...
 - Economic Copenhagen criteria (1993),
 - Annual Progress Reports,
 - Accession Priorities (Candidates) – European Priorities (Pre-accession Countries)
 - Pre-accession Instruments (IPA): Pre-cursor of structural funds,
 - Pre-accession Economic Programmes (PEPs) – Economic and financial programmes (EFPs, since 2006)
- ... but reaching out to EMU procedures
 - Procedures and format are based on EMU multilateral surveillance
- EU is still evolving, leading to changing processes and requirements

Background

- Method
 - Requesting countries to submit annual economic programmes, following standardised outline (learning-by-doing)
 - Procedures (Times schedule, discussion in multilateral fora, ...)
 - Techniques (data, analytical tools, presentation...)
 - Substance (objectives, plausibility, consistency, ...)
- Legal background
 - Based on Council decision in December 2000

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The PEPs/EFPs should :

- Describe a medium-term macroeconomic framework
- Present a consistent fiscal framework
- Describe fiscal and structural reform measures and
- Quantify fiscal effects of major reforms

PEP/EFPs are a precursor of:

Convergence Programme

Prepare member state with a derogation for the adoption of the Euro to:

- Achieve a high standard of sustainable convergence
- **Meet the Maastricht criteria**
- Set out the medium term budgetary objective of a position close to balance or surplus

Stability Programme

Prepare member state which meets the Maastricht criteria and which has adopted the Euro to:

- Maintain a high degree of sustainable convergence
- Maintain sound budgetary position** and set out the medium term budgetary objective of a position close to zero

Differences PEPs / EFPs

Differences between PEPs and EFPs	PEPs	EFPs
1. Overall Policy objectives	yes	yes
2. Macroeconomic framework		
2.1. Recent economic developments	yes	yes
2.2. Medium -term macroeconomic scenario	yes	yes
3. Public Finances		
3.1. General Government balance and debt	yes	yes
3.1.1. Policy strategy and medium-term objectives	yes	yes
3.1.2. Actual balances and medium-term perspectives	yes	yes
3.1.3. Structural balances (cyclical component of deficit, one -off and temporary measures, fiscal stance)	yes	no
3.1.4. Debt levels and developments, analysis of below-the -line operations and stock -flow adjustments	yes	less analysis
3.1.5. Budgetary implications of major structural reforms	yes	yes
3.2. Sensitivity analysis and comparison with previous programmes	yes	no
3.3. Quality of public finances	yes	yes
3.4. Sustainability of public finances	yes	no
3.5. Institutional features of public finances	yes	yes
4. Structural reform objectives		
4.1. Enterprise sector	yes	yes
4.2. Financial sector	yes	yes
4.3. Labour market	yes	yes
4.4. Agricultural sector	yes	not separately
4.5. Administrative reform	yes	not separately
4.6. Additional reform areas	yes	yes
5. Matrix of policy commitments	yes	yes
6. Summary data	yes	yes
Discussion in EU fora	yes	no

The pre-accession fiscal surveillance procedure

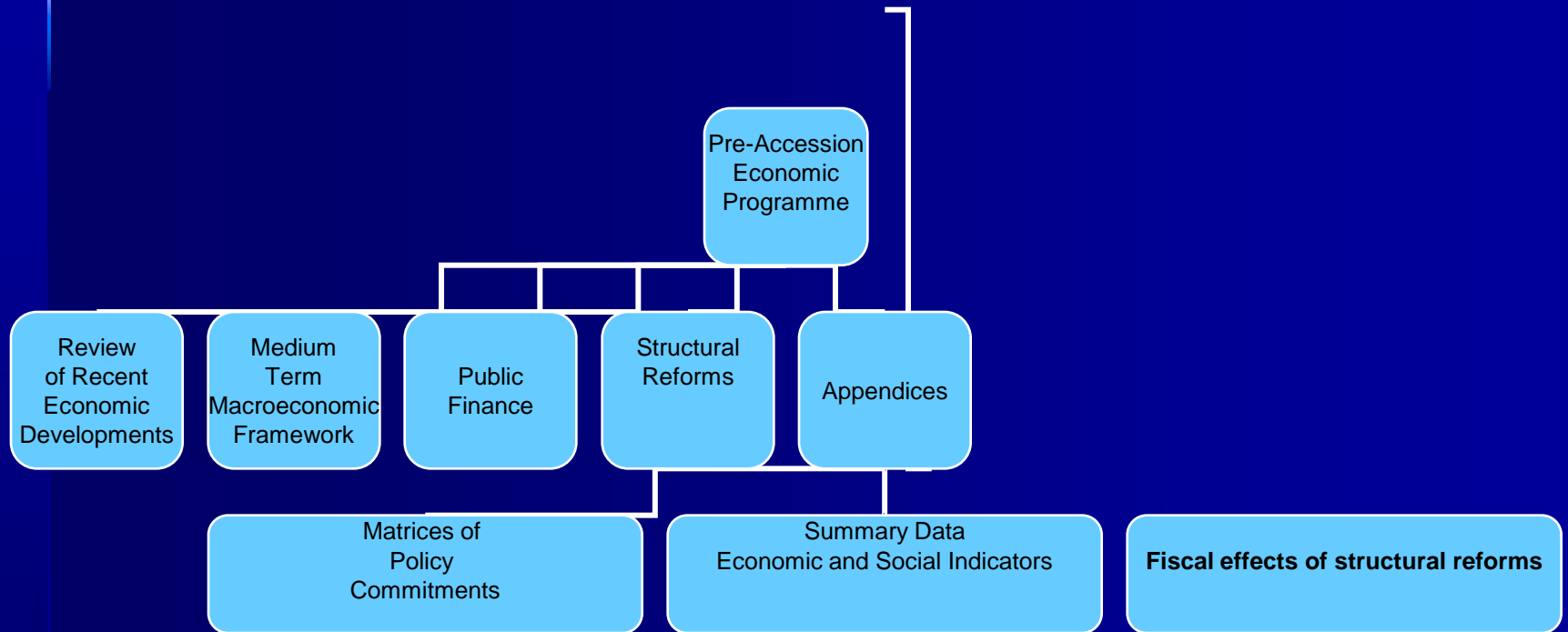
PEPs/EFPs

- Annual submission [January]
- Evaluation by DG ECFIN [February – March]
 - Discussion [April - May]

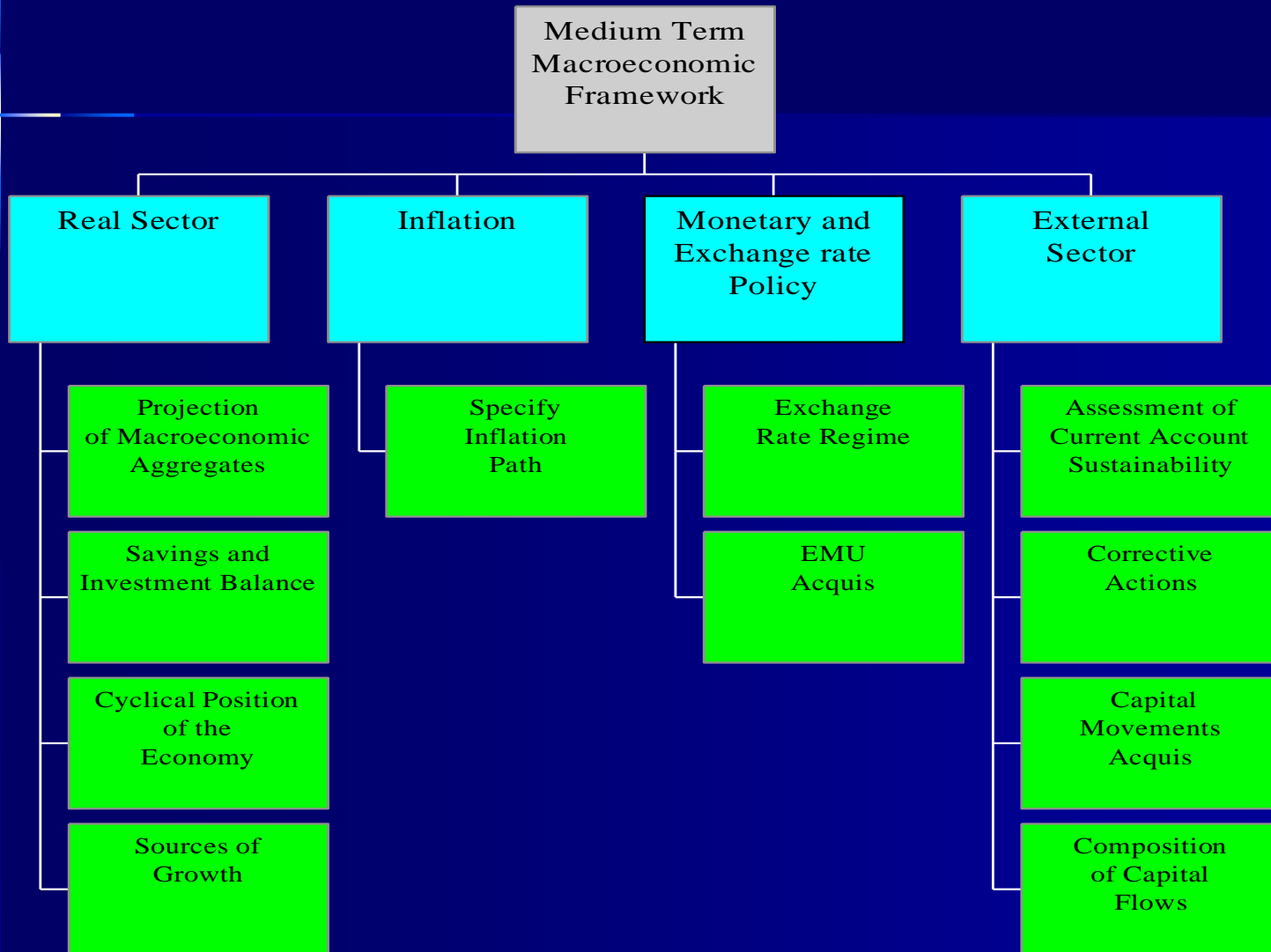
PEP: Discussion in context of Economic and Financial Council (EFC) [April] and in margin of ECOFIN Ministerial Meeting [May]

EFP: Multilateral experts meeting

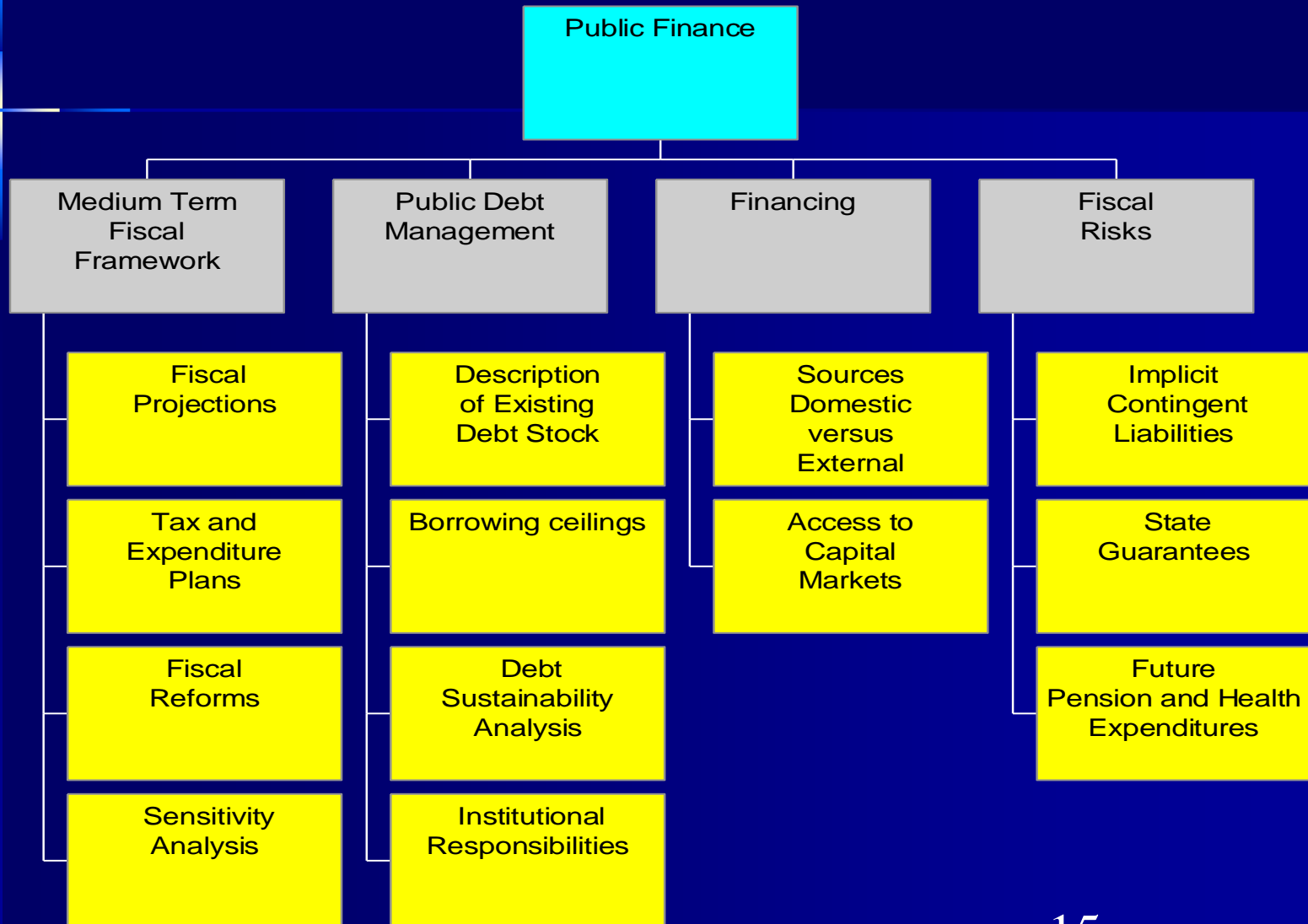
Content of the PEP



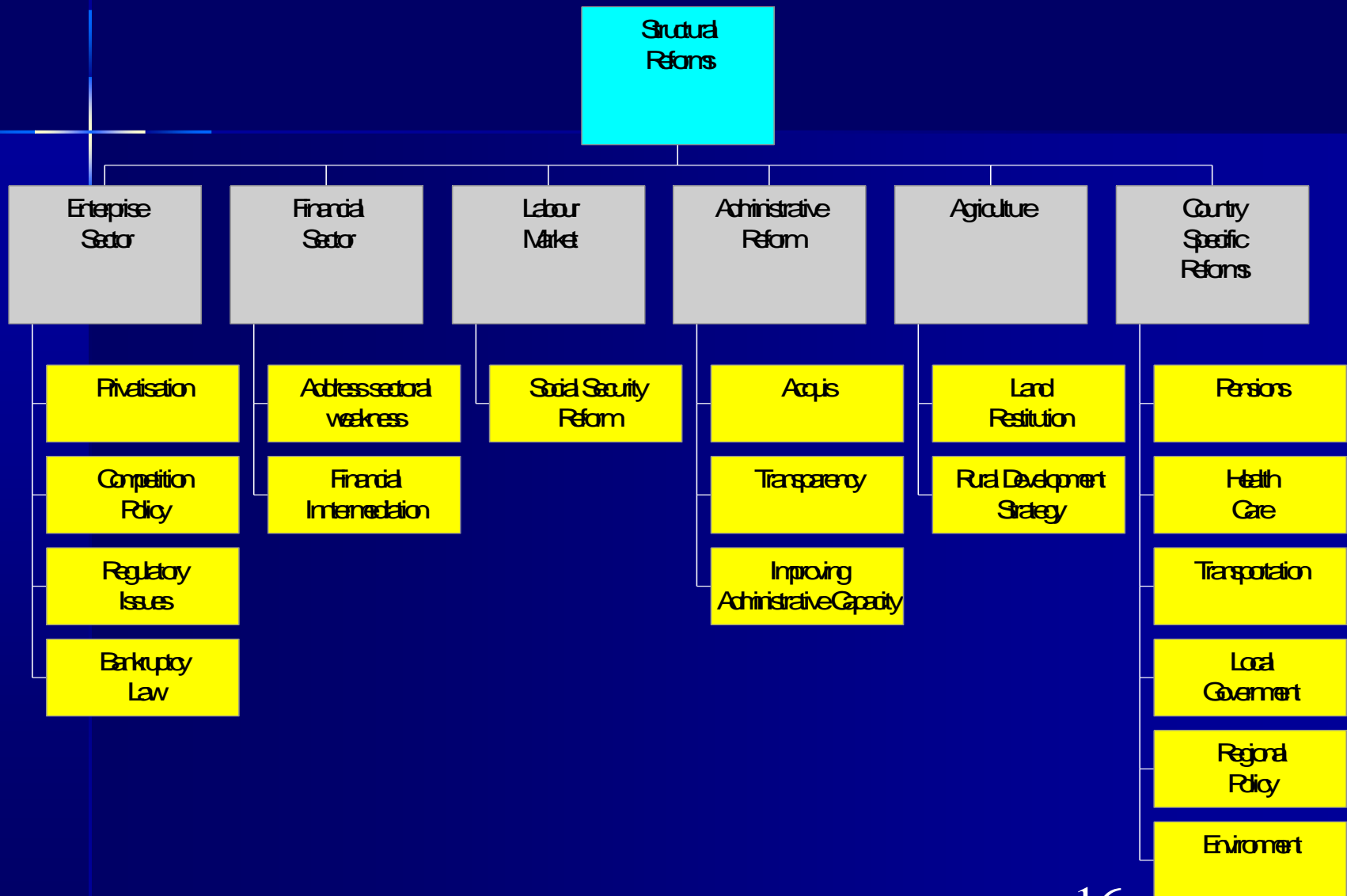
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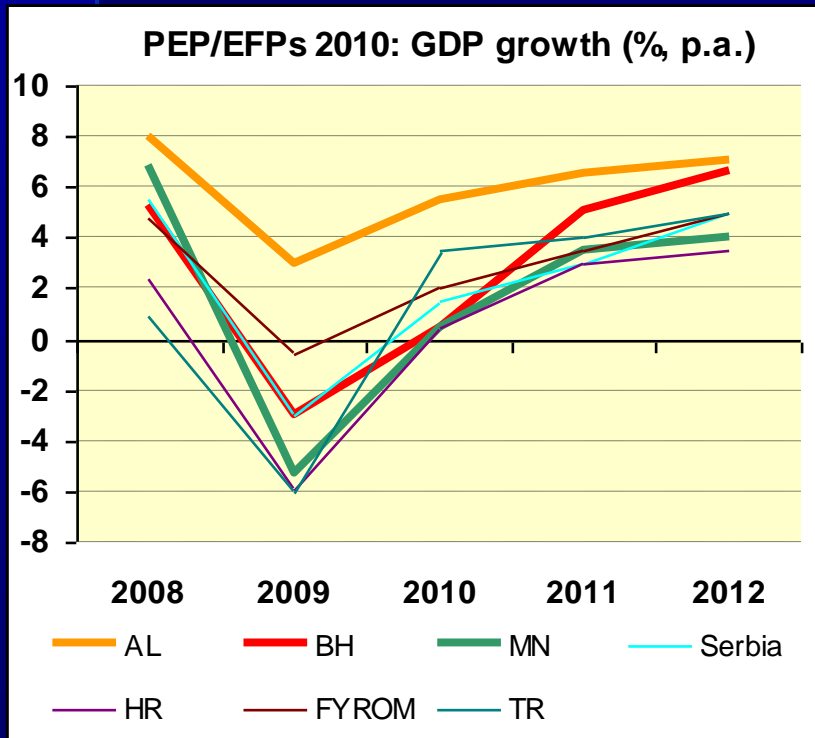
Content of the PEP



Overview

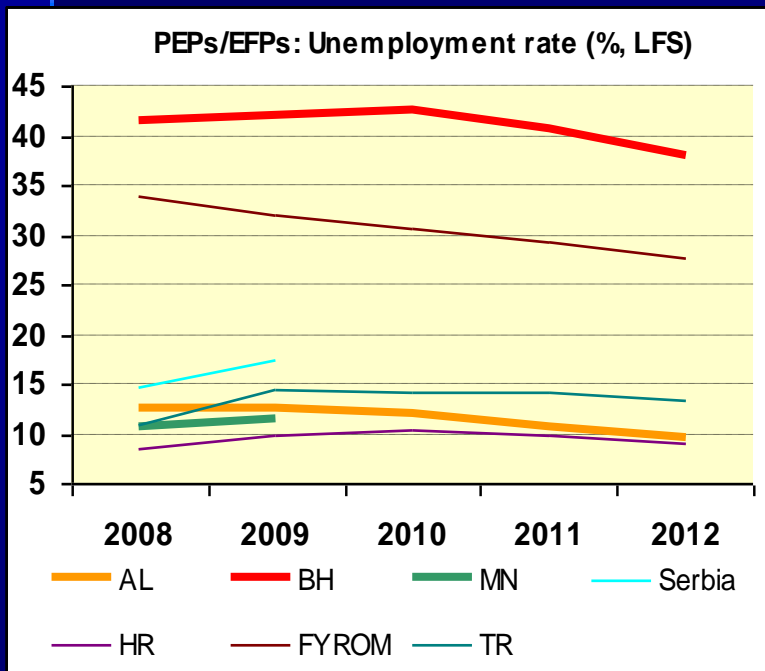
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Main features of Macro Scenario: GDP growth



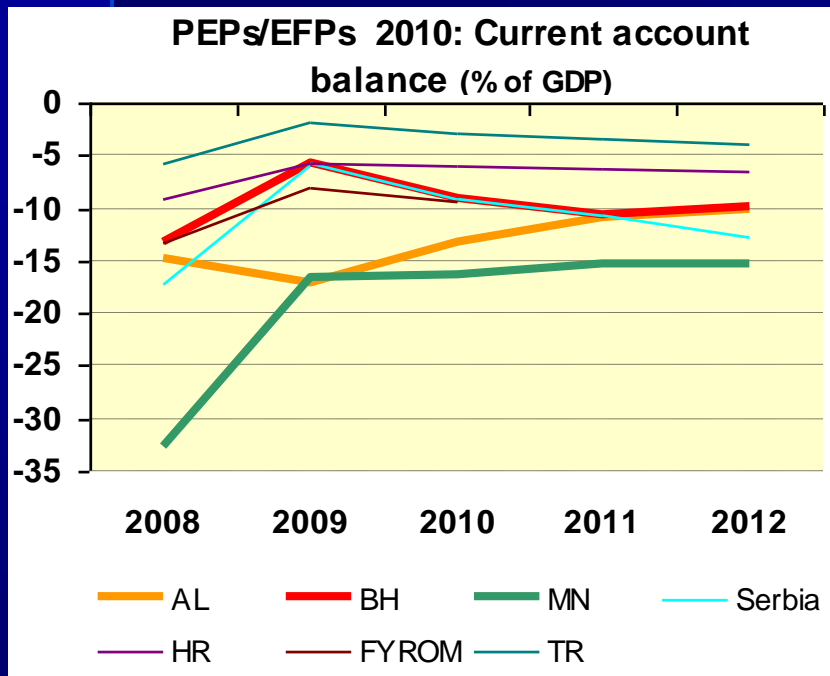
- Similar growth profile
- Sharp recession in 2009
- Robust recovery by 2011
- Albania and BH quite optimistic

Main features of Macro Scenario: Labour Market



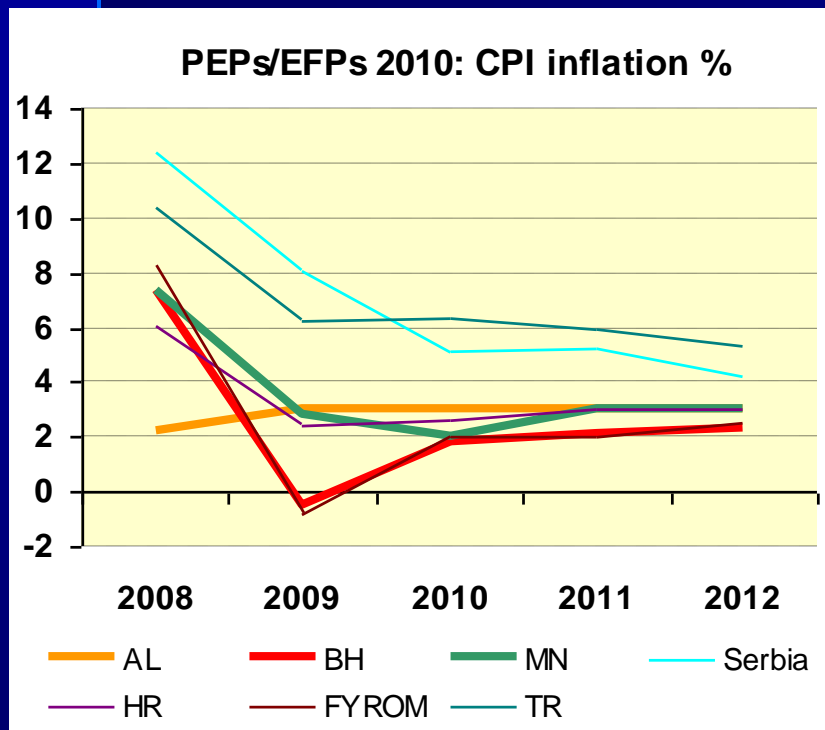
- Sharp increase in 2009 in most countries, gradual recovery afterwards
- BiH and FYROM are outliers

Main features of Macro Scenario: Current Account



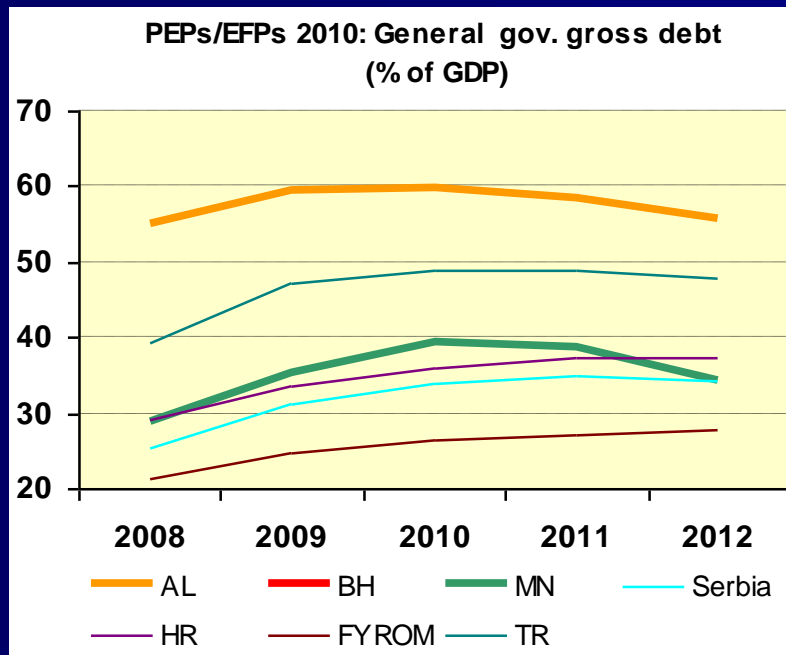
- Sharp improvement in most countries in 2009 (lower domestic demand)
- slight deterioration in most countries, in line with recovery
- Exceptions: AL, BiH, MN

Main features of Macro Scenario: Inflation



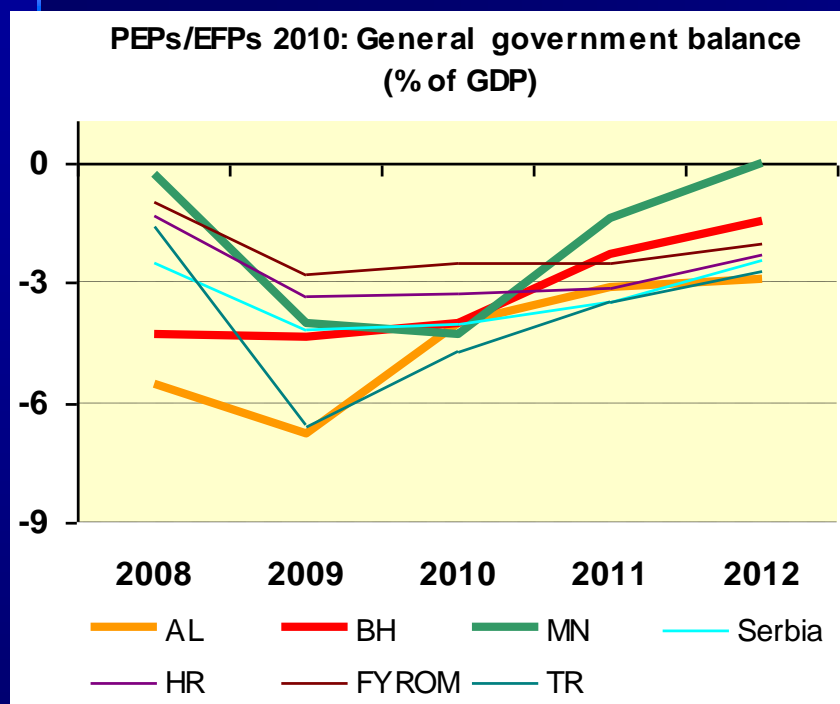
- Levels quite different in 2008 and 2009
- General convergence towards 3%
- Exceptions: TR and Serbia

Main features of Fiscal Scenario: Debt



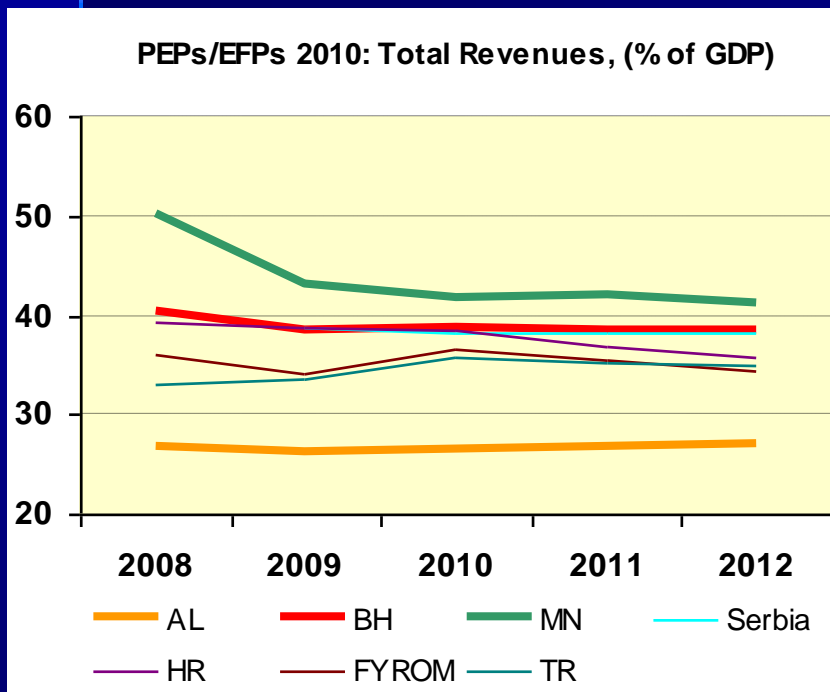
- Marked increase in 2009
- In some countries moderate decline towards 2012 (AL, TR, and in particular MN)
- Further increases in remaining countries (HR: +3.9% of GDP, FYROM: +3.2%, RS: +3%)

Main features of Fiscal Scenario: Deficit



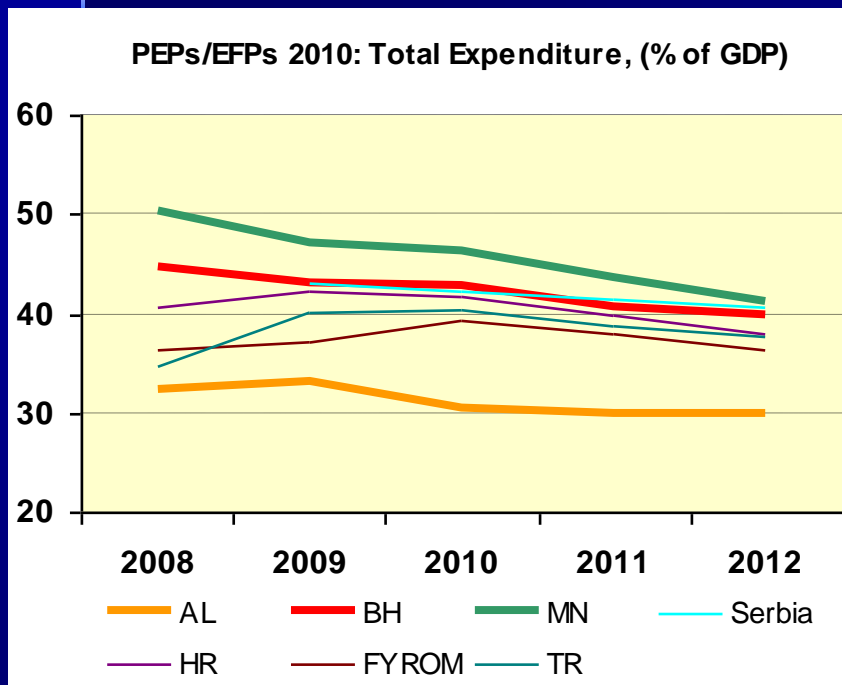
- Sharp deterioration in 2009
- Convergence towards below 3%
- MN, RS, TR plan particularly strong “consolidation”

Main features of Fiscal Scenario: Revenues



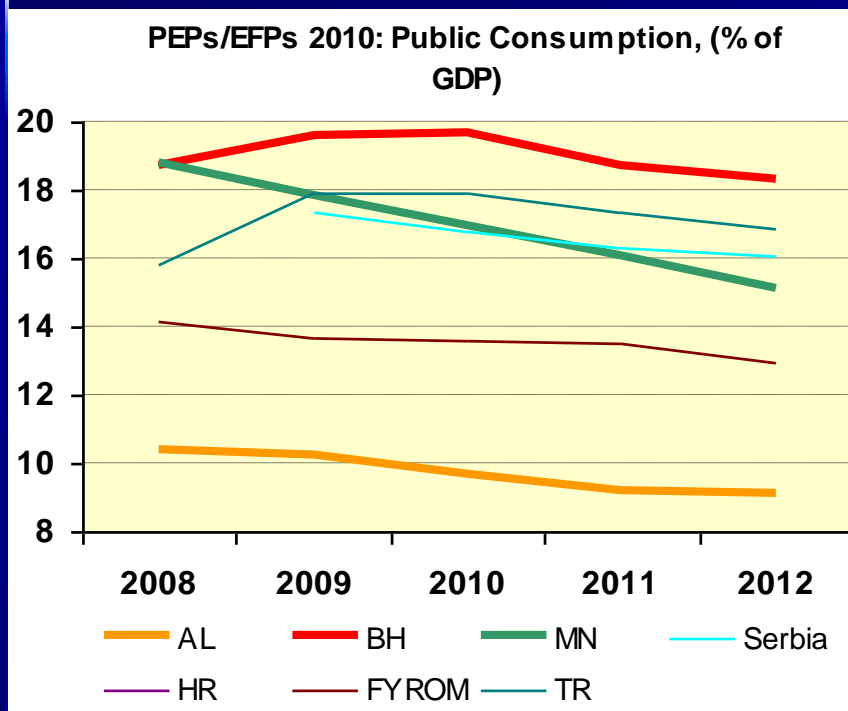
- Rather moderate drop in 2009
- Recovery in 2010 but then again slight decline (result of policy measures?)
- Overall: quite stable in 2009-2012, Exceptions: HR: -3% GDP, MN: -2% GDP, TR: +1.6% GDP

Main features of Fiscal Scenario: Expenditure



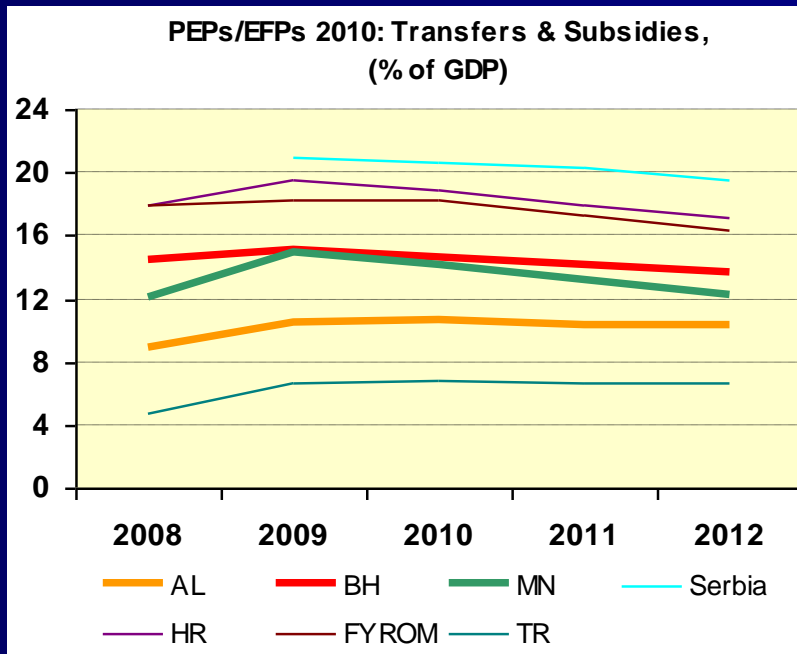
- Deficit reduction mainly driven by lower expenditures
- Reduction mainly towards end of programme period
- Strongest reduction in MN, - 6% GDP, but also HR: -4.1%, AL: -3.3%, BH: -3%

Main features of Fiscal Scenario: Public consumption



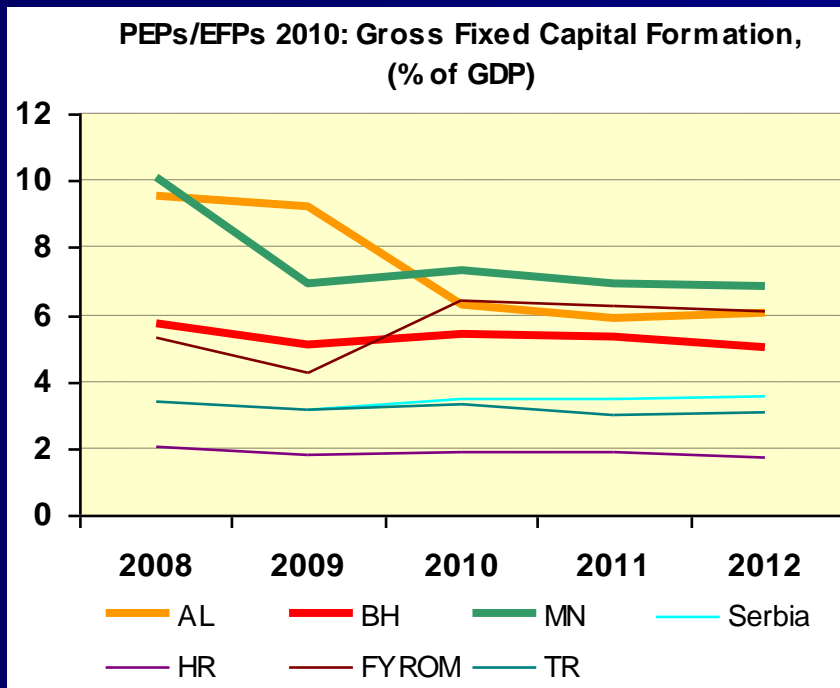
- In some countries significant reduction: MN: -2.8% GDP, most other countries around 1% of GDP

Main features of Fiscal Scenario: Transfers & Subsidies



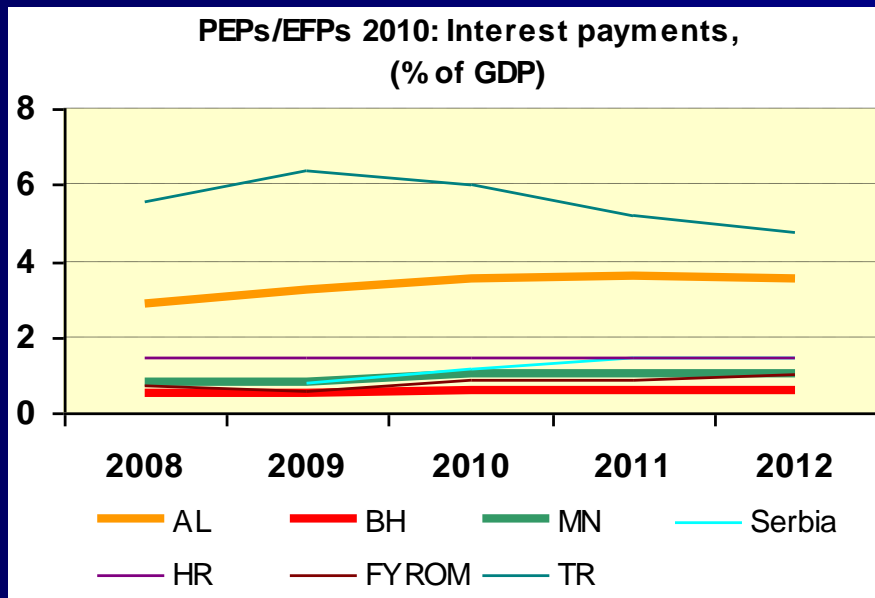
- Here too, in some countries significant reductions:
MN: -2.8% GDP, HR: -2.3% GDP, FYROM: -2%, ...
- Notable: Low level of transfers in TR

Main features of Fiscal Scenario: Gross Fixed Capital Formation



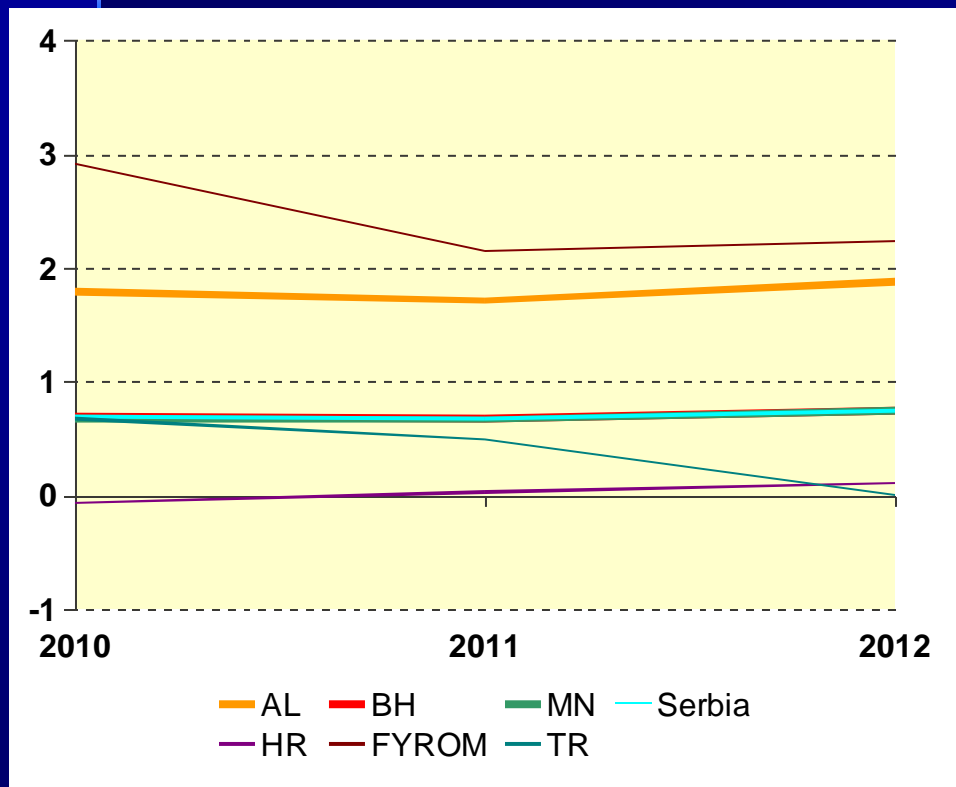
- Major changes in AL (-3.2% of GDP) and FYROM (+1.6% of GDP)
- Level in HR surprisingly low

Main features of Fiscal Scenario: Interest payments



- Relatively high level in TR
- Also relatively high in AL, and increasing

Main features of Fiscal Scenario: Spending for structural reforms



- Relatively low
- Except FYROM and AL
- Might be a result of accounting approach

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General Assessment of presented EFPs/PEPs

- Statistic data base often weak, not in line with ESA95 (national accounts, public sector statistics, enterprise statistics)
- Fiscal frameworks are often rather optimistic, both on the revenue side, but also on spending side. Measures on how to reduce spending are often not very well specified (timing, volume).
- Presentation of structural reform agenda often “encyclopdic”: limited prioritisation, poorly linked to accession process

Comparative Assessment of presented EFPs/PEPs

	AL	BH	MN	RS	HR	MK	TR
Programme Objectives	fiscal consolidation	SBA, fiscal consolidation	fiscal consolidation	sustain macro stability	base for recovery	Anti-crisis measures	minimise crisis impact
Tools	Maintaining investment and growth	lower public consumption	spending cuts	contain fiscal slippage	fiscal consolidation, social fairness	use fiscal space	stable growth
Formal requirements	broadly complies	broadly complies	broadly complies	broadly complies	largely complies	partly complies	largely complies
Data presentation	gaps	little quantification	weak, some inconsistencies	sufficient	limited	weak, some inconsistencies	sufficient
Economic framework	favourable, in particular in 2010	broadly realistic in 2010, optimistic later	plausible, LM optimistic	broadly plausible	optimistic	optimistic	largely realistic
Presentation	underlying determinants not well explained	sound fiscal policy required	missing data underpinning	clear, comprehensive	determinants not sufficiently elaborated	sufficient	comprehensive
Alternative growth scenario	no quantitative assessment of long-term sustainability	no	yes	no	no	no	no

Comparative Assessment of presented EFPs/PEPs

	AL	BH	MN	RS	HR	MK	TR
Fiscal framework	front-loaded consolidation	only short-term measures	largely comprehensive	broadly adequate	appropriate	back loaded	appropriate
Presentation	adequate scenario	insufficient	detailed	good presentation	appropriate	inconsistent	good
Characteristics	ambitious, in particular in 2010	not very ambitious	pragmatic	contingent on bold expenditure measures	not very ambitious, back loaded	feasible	feasible
Risk assessment	insufficiently	not sufficient	yes, quantified	yes	not sufficient	no	yes
Quantification of measures	not for long-term sustainability	not sufficient	to be improved	not sufficient	little evidence	not sufficient	not sufficient
Cyclically adjustment					yes	yes, but insufficient	yes
Debt analysis					yes	yes, but insufficient	yes
sensitivity analysis					yes	yes, but insufficient	yes
Structural reforms	broad, but not clear	no sufficiently ambitious	ambitious	comprehensive, but no roadmap	broad, mainly backward looking, not focussed	broad, not focussed	appropriate
link to fiscal scenario	broadly consistent	broadly consistent	consistent	largely consistent	weak	weak	well integrated
Quantification of measures	no timetable, no quantification	no	only partially	no timetable	limited	yes, very general	better than last year
Aligned with EU accession challenges	largely aligned	partly aligned	largely aligned	largely aligned	partly aligned	not very pronounced	adequately addressed

Recommendations

- Strengthen statistic system (national accounts, public finances)
- Develop simple macroeconomic forecast framework
- Stick to outline
- Pay attention to presentation, credibility

Thank you for your attention !