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Third International Seminar on Early Warning and Business Cycle Indicators

17 – 19 November 2010
Moscow, Russian Federation

Recent European Experience with Macroeconomic Monitoring and Surveillance

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Introduction

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With its Communications on ‘Europe 2020 - A strategy for smart, sustainable and inclusive growth’ and on ‘Enhancing economic policy coordination for stability, growth and jobs — Tools for stronger EU economic governance the European Commission has opened the ‘post crisis’ season for official statistics, that will lead the development of statistics in the coming years.

This paper provides a broad overview on the recent initiatives of the European Commission and outlines some potential implications regarding the further development of European economic statistics.

The article is extracted from the forthcoming issue of European Economic Statistics – 2010 Edition.

Europe 2020 and enhanced EU macro-economic, budgetary and structural surveillance: What are the implications for statistics?

By Roberto Barcellan and Christine Gerstberger — Eurostat, National Accounts — Production[1]

1.1 Introduction: the crisis heritage

The recent financial and economic crisis has shown that the instruments for the coordination of the economic policy in the EU have not been fully used and gaps in the current system of governance still exist.

Against this background, Olli Rehn, the European Commissioner for Economic and Monetary Affairs, stressed: '*The need for greater coherence, greater coordination and foresight in the preparation of national budgets and national reform plans to ensure Europe's financial stability and achieve better growth while creating employment, in line with the objectives of the strategy set out in Europe 2020. We need more EU coordination, but also a more rigorous implementation of the rules we have adopted, with dissuasive sanctions to prevent slippage and regain confidence.* '

With its Communications on 'Europe 2020 - A strategy for smart, sustainable and inclusive growth' and on 'Enhancing economic policy coordination for stability, growth and jobs — Tools for stronger EU economic governance[2] the European Commission has opened the 'post crisis' season for official statistics, that will lead the development of statistics in the coming years.

Indeed, both initiatives – Europe 2020 and the macro-economic, budgetary and structural surveillance – address the consequences of the financial, economic, social and public finance crisis not only from a political point of view. They require, at the same time, a strong statistical input to provide the necessary information to establish, assess and monitor European economic and monetary policies in the coming years.

Whilst the perception in analysing the main lines set out by the two communications clearly points to an emphasised role of statistics, the concrete references to them and their exact role have still to be detailed in the coming months.

Accordingly, this article provides a broad overview on recent initiatives and outlines some potential implications regarding the further development of European economic statistics.

1.2 Status of recent initiatives to improve EU governance and surveillance

1.2.1 Europe 2020 – headline targets and flagship initiatives

On 3 March 2010, the European Commission launched the Europe 2020 Strategy to follow up the 2000 Lisbon Strategy. Formally adopted by the European Council on 17 June 2010, its declared objective is to overcome the crisis and prepare EU economy for the next decade.

"Smart, sustainable and inclusive growth' is the motto of Europe 2020.

According to the European Commission, the European Union needs a strategy to emerge stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion.

[1] We are grateful to Ales Capek (Head of Unit, Eurostat, Key indicators for European policies) and John Verrinder (Head of Unit, Eurostat, Statistics for Excessive Deficit Procedure II) for their contributions to this article.
[2] See: COM (2010) 2020 and COM(2010) 367/2

Europe 2020 establishes three mutually reinforcing priorities:

- Smart growth: developing an economy based on knowledge and innovation.
- Sustainable growth: promoting a more resource efficient, greener and more competitive economy.
- Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

These priorities are linked to concrete targets at European level (see Box 1) and national level.

BOX 1: EUROPE 2020 EU HEADLINE TARGETS

The EU needs to define where it wants to be by 2020. To this end, the Commission proposes the following EU headline targets:

– 75 % of the population aged 20-64 should be employed.

– 3% of the EU's GDP should be invested in R&D.

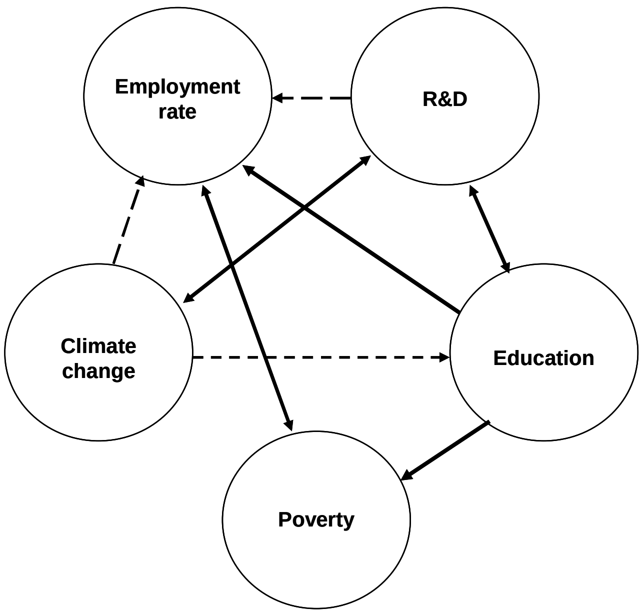
– The '20/20/20' climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right).

– The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree.

– 20 million less people should be at risk of poverty.

These targets are critical to the overall success of the initiative (see Figure 1). To ensure that each Member State tailors the Europe 2020 strategy to its particular situation, the Commission proposes that EU goals are translated into national targets and trajectories.

Figure 1: Europe 2020 – Headline Targets – Synergies/interlinkages



The targets are representative of the three priorities of smart, sustainable and inclusive growth but they are not exhaustive: a wide range of actions at national, EU and international levels will be necessary to underpin them. The Commission is putting forward seven flagship initiatives to catalyse progress under each priority theme (see Box 2).

BOX 2: EUROPE 2020 FLAGSHIP INITIATIVES

– "**Innovation Union**' to improve framework conditions and access to finance for research and innovation so as to ensure that innovative ideas can be turned into products and services that create growth and jobs.

– "**Youth on the move**' to enhance the performance of education systems and to facilitate the entry of young people to the labour market.

– "**A digital agenda for Europe**' to speed up the roll-out of high-speed internet and reap the benefits of a digital single market for households and firms.

– "**Resource efficient Europe**' to help decouple economic growth from the use of resources, support the shift towards a low carbon economy, increase the use of renewable energy sources, modernise our transport sector and promote energy efficiency.

– "**An industrial policy for the globalisation era**' to improve the business environment, notably for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally.

– "**An agenda for new skills and jobs**' to modernise labour markets and empower people by developing their of skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand, including through labour mobility.

– "**European platform against poverty**' to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.

1.2.2 EU macro-economic, budgetary and structural surveillance

Meanwhile, initiatives for enhanced EU macro-economic, budgetary and structural surveillance have also gained momentum.

On 29 September 2010, the European Commission adopted a legislative package containing the most comprehensive reinforcement of economic governance in the EU and the euro area since the launch of the Economic and Monetary Union. These proposals are the concrete translation of the recent Commission communications on economic governance dated 12 May and 30 June into legislative proposals[3].

The cornerstone of a set of tools to strengthen the economic governance of the EU and the euro area is the implementation of enhanced surveillance of fiscal policies, macroeconomic policies and structural reforms.

Enhanced surveillance will be based on a 'European semester' and comes with an array of sanctions to prevent or correct imbalances that could jeopardize the financial stability of the EU and the euro area. The Stability and Growth Pact will be reinforced with particular attention given to the evolution of debt as well as public deficits.

[3] See: IP/10/561; IP/10/859 and IP/10/1199 as well as related documents on the website: http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-09-eu_economic_governance_proposals_en.htm

The proposals of this ‘toolkit’ are based on three main blocks of reform. Firstly, they call for a synchronization of the European Union surveillance with the national budget procedures in a single framework, the ‘European semester.’

Member states must submit their Stability and Convergence Programmes and their National Reform Programmes simultaneously. This will facilitate a better integrated and more effective ex-ante policy co-ordination at the European level. In the second part of the year, this review should guide the drafting of domestic budgets for the following year.

The Stability and Growth Pact should be reinforced both on the preventive and corrective arms. The Commission proposes to require a faster pace of progress towards budgetary balance for countries with high level of debt or pronounced risks in terms of debt developments. The debt criteria should be applied effectively through a clear and simple numerical benchmark for defining a satisfactory pace of debt reduction.

Secondly, beyond budgetary surveillance, the Commission proposes to address the macroeconomic imbalances among member states, which weaken the cohesion of the EU and in particular the euro area. Early detection through a scoreboard of indicators together with a more constraining European framework would spur the correction of divergences.

Thirdly, the EU-wide surveillance of structural reforms in Member States should ensure that sufficient progress is made in line with the overall goals of the Europe 2020 strategy for a more sustainable and more environmentally friendly growth that is based on knowledge and creates jobs, as adopted at the European Council in June 2010.

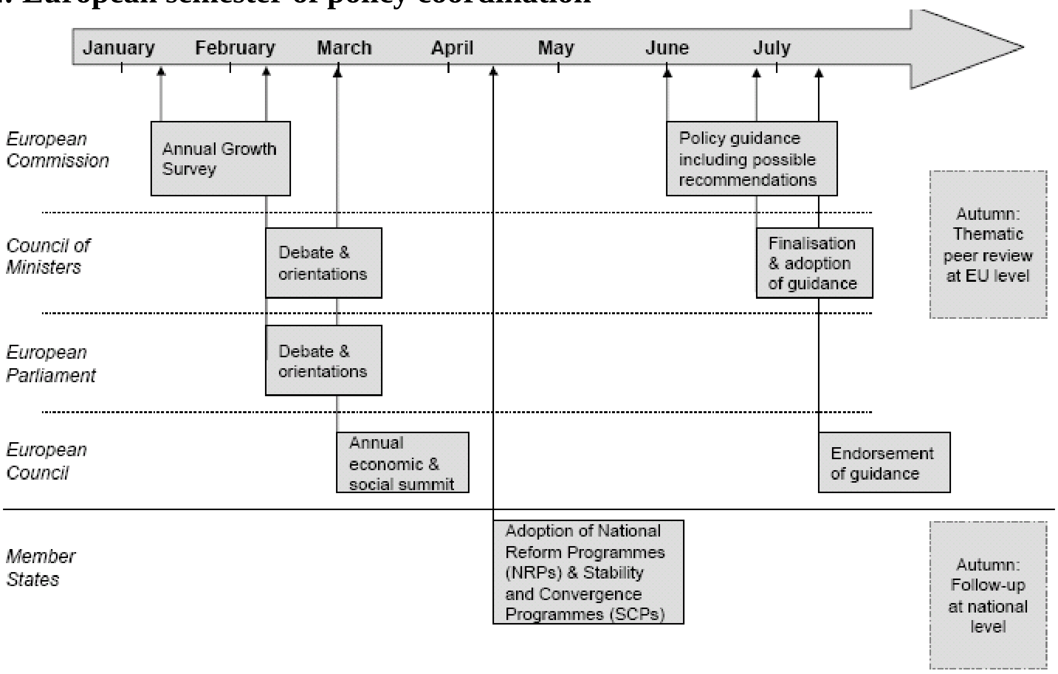
On 7 September 2010, the European Council endorsed changes to the manner in which the EU's stability and growth pact is implemented in order to allow a ‘European semester’ to be introduced, as from 2011, as part of a reform of EU provisions on the coordination of the member states' economic policies[4].

The so-called European semester is one of the first initiatives to emerge from a task force on economic governance set up at the request of the European Council in March and chaired by the President of the European Council, Herman Van Rompuy. The aim is to boost coordination of the member states' economic policies on the basis of expected results.

The new six-month cycle will start each year in January when the Commission will present an annual growth report. It will continue in March when, on the basis of a report from the Commission, the European Council will identify the main economic challenges and give strategic advice on policies. Taking this advice into account, during April the member states will review their medium-term budgetary strategies and at the same time draw up national reform programmes setting out the action they will undertake in areas such as employment and social inclusion. In June and July, the European Council and the Council will provide policy advice before the member states finalise their budgets for the following year (see Figure 2).

[4] See: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/116295.pdf

Figure 2: European semester of policy coordination



Source: http://ec.europa.eu/economy_finance/articles/euro/documents/com_367_european_semester_en.pdf

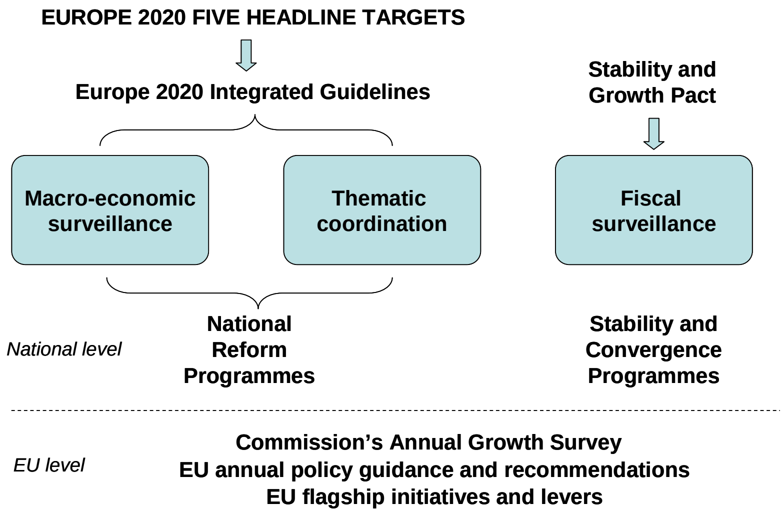
1.2.3 Europe 2020 – Integrated country surveillance

Accordingly, Europe 2020 will rely on two pillars: the thematic approach outlined above, combining priorities and headline targets; and country reporting, helping Member States to develop their strategies to return to sustainable growth and public finances (see Figure 2).

Integrated guidelines will be adopted at EU level to cover the scope of EU priorities and targets. Country-specific recommendations will be addressed to Member States.

National targets should be ambitious but realistic, correspond to EU targets, reflect different starting positions and national circumstances and be coherent among them. National targets will be discussed bilaterally between Member States and the Commission.

Figure 2: Europe 2020 – Integrated country surveillance



1.3 Implications for European economic statistics

The successful achievement of the Europe 2020 targets and the implementation of the enhanced surveillance rely on the availability of timely, reliable and comparable statistics. What are the potential implications of these enhanced goals, processes and procedures on European economic statistics?

On the one hand, it is too early to be specific, as discussions on the concrete set of indicators that should be in the integrated surveillance process are still ongoing, but a main focus will certainly be on achieving further improvements of existing official statistics and their production processes.

1.3.1 Europe 2020: building on the Lisbon Strategy's structural indicators

The predecessor of the Europe 2020 initiative, the Lisbon Strategy, was already supported by a number of structural indicators (the so-called Structural Indicators).

These indicators were instruments for the objective assessment of progress made towards the Lisbon objectives, and supported the key messages of the annual progress report. The majority of indicators stemmed from the European Statistical System (ESS) but there were also indicators that came from sources outside the ESS.

These indicators covered the six domains: ‘General Economic Background", ‘Innovation and Research", ‘Economic Reform", ‘Employment', ‘Social Cohesion’ as well as the ‘Environment’ and a short list of thirteen indicators which are available on Eurostat's website (see Table 1).[5]

Table 1: Short list of structural indicators

General economic background
GDP per capita in PPS
Labour productivity per person employed
Innovation and Research
Youth education attainment level by gender
Gross domestic expenditure on R&D (GERD)
Economic Reform
Comparative price levels
Business investment
Employment
Employment rate by gender
Employment rate of older workers by gender
Social Cohesion
At-risk-of-poverty rate after social transfers by gender
Long-term unemployment rate by gender
Dispersion of regional employment rates by gender
Environment
Greenhouse gas emissions, Kyoto base year
Energy intensity of the economy
Volume of freight transport relative to GDP

The new Europe 2020 indicators follow a slightly different logic. The set of headline target indicators comprises eight main indicators for monitoring the five headline targets of the strategy. These indicators are compiled for the EU as a whole and also for the individual Member States. The progress made towards the objectives of the strategy will be then measured using these indicators and the headline targets defined both for the EU and the Member States. This set

[5] See: http://epp.eurostat.ec.europa.eu/portal/page/portal/structural_indicators/indicators

should be complemented by additional indicators to measure developments relating to the flagship initiatives and to provide more detail on the achievements towards the objectives of the strategy.

1.3.2. Enhancements for fiscal surveillance

Similarly, fiscal surveillance in the EU is already supported by well established datasets and procedures[6].

The Maastricht Treaty, which foresaw the creation of the Euro, organized the way multilateral fiscal surveillance is conducted within the European Union. It obliges Member States to comply with budgetary discipline by respecting two criteria: a deficit to GDP ratio and a debt to GDP ratio not exceeding reference values of 3% and 60% (or sufficiently diminishing and approaching the reference value at a satisfactory pace) respectively, as defined in the Protocol on the Excessive Deficit Procedure (EDP) annexed to the Treaty.

The EDP sets out schedules and deadlines for the Council, following reports from and on the basis of opinions by the Commission and the Economic and Financial Committee, to reach a decision that an excessive deficit exists in a Member State.

These reference values are based on government finance statistics (GFS) which show the economic activities of government, including: government revenue, expenditure and deficit as well as its transactions in assets, liabilities and other economic flows.

Council Regulation 479/2009 requires that Member States report EDP-related data to Eurostat twice per year – at end-March and end-September in harmonised tables (see Box 3).

During the recent financial crisis, Eurostat provided guidance on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis. It has also collected and published data on government interventions for the years 2007 and 2009.

BOX 3: EXCESSIVE DEFICIT PROCEDURE (EDP) NOTIFICATION TABLES

EDP notification tables are designed specifically to provide a consistent framework, with a link to national budgetary aggregates and between the deficit and changes in the debt. They should be fully consistent with GFS data and have the following format:

Table 1 provides a summary view showing the net lending / net borrowing for general government and sub-sectors, the general government debt by instrument, interest payable by general government (reported both with and without interest payments on swaps and FRA), gross fixed capital formation of general government, as well as the GDP of the reference year.

Tables 2 (2A, 2B, 2C and 2D) provide the link between the so-called working balances (i.e., the public deficit as reported nationally to parliament) and the net lending / net borrowing in ESA 1995 for each sub-sector.

Tables 3 (3A, 3B, 3C, 3D, 3E) make the link between the net lending / net borrowing (ESA deficit) and the change in debt.

Table 4 shows supplementary information: the stock in trade credit payable by government; the amount outstanding in the government debt from the financing of public undertakings; the extent and the reasons in case of substantial differences between the face value and the present value of government debt; and the Gross National Income (GNI).

[6] http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit

Following identified difficulties with Greek data, Eurostat's powers to verify statistical data used for the excessive deficit procedure were strengthened by the granting of enhanced verification powers[7].

These recent developments will contribute to further improve the quality of public finance statistics as the basis for fiscal surveillance

1.3.2 Work on a surveillance scoreboard

On 29 September 2010, the Commission put forward a legislative package of reforms to strengthen existing tools and extend them for coordinating economic and fiscal policy in the EU which will now be examined by the Council, the European Parliament and the Economic and Social Committee.

Four proposals deal with fiscal issues, including a wide-ranging reform of the Stability and Growth Pact (SGP), while two new regulations aims at detecting and addressing effectively emerging macroeconomic imbalances within the EU and the euro area.

The foreseen mechanism strives to provide the framework for identifying and addressing macroeconomic imbalances, including deteriorating competitiveness trends[8].

Surveillance would start with an alert mechanism that aims at identifying Member States with potentially problematic levels of macroeconomic imbalances.

The alert mechanism would consist of a scoreboard complemented by expert analysis. The scoreboard would be composed of a set of indicators in order to identify timely imbalances emerging in different parts of the European and national economies.

The set of indicators should be sufficiently large to cover any possible case of major imbalance and making sure that it is sufficiently sensitive to detect imbalances early on.

- Possible indicators would most likely include both external (e.g. current accounts) and internal ones (e.g. private and public sector debt).
- The composition of the scoreboard may evolve over time due to changing threats to macroeconomic stability or advances in data availability.
- Alert thresholds would be defined and announced for each indicator. The thresholds should be seen as indicative values which would guide the assessment but should not be interpreted in a mechanical way. They should be complemented by economic judgment and country-specific expertise.

These specifications suggest that the enhanced economic governance and surveillance process in the EU will largely rely on official statistics that are already produced within the ESS, with probable requests to improve specific areas.

Within the ESS, Eurostat will play a key role to contribute to the development and production of concrete indicators. Building on positive experience with the establishment of EU/EMU short-term indicators (Principal European Economic Indicators), a dedicated group has been set up in the ESS to analyse the mplications of indicators and raise the awareness of policy makers and Member States of the statistical implications. This should ensure an appropriate response of the ESS to any additional statistical requirements and contribute to enhancing the EU economic governance and surveillance process.

[7] See: COUNCIL REGULATION (EU) No 679/2010 of 26 July 2010 amending Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the excessive deficit procedure.
[8] See: MEMO/10/454 form 29/09/2010: Economic governance package (2): Preventing and correcting macroeconomic imbalances; http://europa.eu/rapid/