The role of international organisations in the monitoring and coordination of structural reforms

Since the financial crisis, international organisations such as the OECD and the IMF have reinforced and expanded their monitoring and, to a certain extent, coordination of structural reforms, as national structural reforms have clear spillovers to partner countries. In the European Union, this coordination was also enhanced in response to excessive imbalances that developed notably within the euro area. As for the G20, a coordinated structural reform implementation effort has become its primary instrument for achieving the goal of “strong, sustainable and balanced growth” adopted in 2009. These initiatives reflect the need to compare national experiences and to assess their macroeconomic effects, as well as the need for peer pressure to push through reforms at the national level and for international coordination. For France, the recommendations of international bodies are largely convergent and progress has been made on their implementation, even if work remains unfinished particularly in terms of competition and the effectiveness of public sector action.

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Monitoring and coordination of structural reforms: key stages

- Article IV Consultations (IMF)
- Economic Surveys (OECD)
- Going for Growth report (OECD)
- Fiscal Monitor (IMF)
- External Sector Report (IMF)
- Global Financial Stability Report (IMF)
- Mutual Assessment Process
- “2-in-5” objective
- “ESMA” priorities
- Analysis of global imbalances
- Enhanced Structural Reform Agenda (ESRA)
- Strong, Sustainable and Balanced Growth (SSBG)
- Reinforced EU surveillance through specific recommendations (European Semester)

Source: Banque de France.
Note: “2-in-5” objective – 2 additional percentage points of GDP over a 5-year period; SSBG – Strong, Sustainable and Balanced Growth; ESRA – Enhanced Structural Reform Agenda.
Multilateral dialogue on structural reforms initially responded to a need to share best practices aimed at promoting long-term growth and macroeconomic and financial stability. This sharing, within the framework of the bilateral surveillance of the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), entails recognition by the international community of "best practices", known as the "Washington Consensus".

National government authorities have often used this surveillance to support their reform efforts. Particular pressure is exerted by the international community and peers when a country requires external financing in the event of a balance of payments crisis. In return for this financing and, beyond that, the support of the international financial community, an adjustment programme, negotiated with the IMF and more recently also involving for European countries, European organisations, is imposed. The importance of structural reforms within these programmes has significantly increased over the years.

Furthermore, globalisation has amplified interdependencies between countries through trade and financial openness and integration on the one hand and, on the other, the convergence of standards and practices that have intensified competitiveness effects and therefore the spillover effects of national economic policies and also structural reforms. Recognition of this phenomenon and of the weaknesses in multilateral coordination was hastened by the great financial crisis of 2008. After the height of the crisis – globally and then within the euro area – macroeconomic policy coordination became more difficult as economic cycles fell out of sync and fiscal policy leeway diverged, resulting in asymmetric adjustments worldwide as well as in the euro area, and persistent global imbalances. Within the Group of Twenty (G20), like in Europe, efforts to coordinate structural reforms were fuelled by both its greater relevance as a result of interdependencies and the stalled macroeconomic policy coordination as countries exited the crisis at different times, albeit slowly across the board. Although the results of this embryonic coordination were questionable, it produced two notable developments: it established the idea of mutual benefits from national structural reforms; and it strengthened consensus on the assessment of the macroeconomic effects of structural reforms and therefore on the definition of the related best practices.

1 Monitoring and coordinating national structural reforms: a necessity

The findings in the available research encourage the simultaneous and coordinated implementation of structural reforms, particularly in a monetary union.

With regard to the G20, introducing structural reforms in one of the Group’s countries has positive spillover effects in terms of activity on the other member economies. Furthermore, the gains are even greater when the reforms are carried out simultaneously in all the G20 countries (Rivaud, 2015; IMF, 2017). A similar observation was made for a monetary union such as the euro area (Gomes et al. 2013; Varga and Veld, 2014): the spillover effects are amplified if all countries in the area introduce simultaneous reforms rather than acting alone.

The simultaneous implementation of structural reforms in the euro area would make the macroeconomic performance of the member countries more homogeneous (see Gomes et al., 2013, in particular) and the reduced dispersion would make the single monetary policy more effective (Draghi, 2017). Indeed, the likelihood of shocks spreading differently from one member to another increases with the degree of heterogeneity between the markets – goods, labour, etc. – in the area. In particular, in this type of environment there is the risk that the single monetary policy would have asymmetric effects within the euro area.
2 Significant development in international coordination on structural reforms

Historically, three bodies have been responsible for monitoring economic policies: the OECD, the IMF and the World Bank.

A multifaceted approach to macroeconomic and structural policy monitoring

Historically, several international organisations have been responsible for monitoring economic policies, structural reforms and macroeconomic policies. This monitoring takes place on three levels: country-by-country surveillance, multilateral surveillance and thematic analyses.

The first – country-by-country surveillance – is notably carried out through the IMF’s Article IV Consultations or the OECD’s Economic Surveys. These extremely long-standing analyses (dating back to 1952 for the IMF and 1961 for the OECD) consider the economic performances and policies of the countries concerned and propose recommendations, particularly in terms of structural reforms.

The second – multilateral surveillance – has been formalised and generalised through periodic publications, which present a detailed assessment of the global (or regional) economy and its growth outlook, particularly by estimating the spillover effects from systemically important countries. The IMF is the main actor in this multilateral surveillance through its World Economic Outlook exercise, which it has undertaken since 1969 and first began publishing in 1980. The other international organisations perform similar monitoring exercises: for example, the OECD Economic Outlook (since 1967) or the World Bank’s Global Economic Prospects (published every six months since 2010).

The third – thematic analyses – are prepared by international organisations based on a panel of countries. The OECD Employment Outlook is one such example.

Monitoring and coordination of structural reforms: key stages

Source: Banque de France.
Note: “2-in-5” objective – 2 additional percentage points of GDP over a 5-year period; SSBG – Strong, Sustainable and Balanced Growth; ESRA – Enhanced Structural Reform Agenda.
Multilateral surveillance has expanded considerably over recent years and has become more focused on structural reforms. For example, the OECD has published its *Going for Growth* report since 2005, which is a cross-cutting analysis that pulls together the main recommendations for structural reform for member countries (OECD, 2018). The IMF has also significantly extended its multilateral surveillance through a range of tools: the *External Sector Report* (a review of global current account imbalances) since 2011 (IMF, 2018a), and also the *Global Financial Stability Report* since 2002 (IMF, 2018b) and the *Fiscal Monitor* since 2009 (IMF, 2018c). Since 2017, the IMF, encouraged by the G20, has closely monitored the macroeconomic policies and structural reforms of G20 countries and presented its findings in the *Report on Strong, Sustainable, and Balanced Growth* (the SSBG report; IMF, 2017). This surveillance is coupled with a coordination effort through recommendations that target an optimal adjustment of global economic policies.

Increasing attention to structural reforms since the 1990s

Structural reforms have gradually taken on greater importance in the activities of international organisations. Since the mid-1980s, the IMF and the World Bank have attached more structural reform implementation conditions to their lending programmes (price liberalisation, privatisations, opening up goods and services markets, labour market deregulation, etc.). The use of these conditions became more common as the IMF recognised the important role played by structural reforms in achieving longer-lasting results in terms of macroeconomic stability and long-term growth. A turning point was reached in the 1990s when macroeconomic policies were found to be inadequate to tackle mass unemployment. The Washington Consensus, which emerged at the beginning of the 1990s, therefore included several structural reforms, such as the liberalisation of trade and foreign direct investment (FDI), in the package of measures for countries experiencing difficulties. During the last 10 years or so, this tendency has become further established with the recognition of the downward trend in potential growth and particularly total factor productivity.

As a result of the greater attention devoted to structural reforms, monitoring tools have become increasingly integrated into these measures. This trend is continuing, as illustrated by the IMF’s 2014 Triennial Surveillance Review, which recommended greater insistence on labour market structural reforms in the Fund’s reports (IMF, 2014). A consensus is emerging within international organisations around a set of sound policies, such as the liberalisation of goods and services markets or openness to trade. Peer pressure is a major source of leverage to push through the implementation of these policies, along with the definition of comparable indicators across member countries: for example, the OECD’s PMR (Product Market Regulation) statistics (aggregate indicators of the regulation of goods and services markets) or PISA (Programme for International Student Assessment) classifications. The *Going for Growth* report published by the OECD consequently draws on the systematic benchmarking of an ever-greater number of structural indicators between countries.

More closely coordinated fiscal policies, building on the European project

In 2011, in response to the crisis, the European Council reformed the system of surveillance and coordination of European economic policies and introduced the “European Semester”1 (see box on the special case of euro area Member States). The objective of this mechanism is threefold: first and foremost, to reinforce the rules, but secondly to also get involved in the preparation of budgetary plans prior to their being voted by national parliaments in order to raise the awareness of each government as to the impact of its own budget on European fiscal policy as a whole. The third aspect is to support structural reforms in order to create more jobs and growth.

The intergovernmental method was chosen when putting this system in place: the Heads of State within the European Council meet, analyse and decide as opposed to a centralised decision-making process or delegating to a more independent body such as the European Commission (EC). This method has the advantage of being

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1. Or the European Semester of economic policy coordination. Its legal basis is the “Six-Pack” of six legislative acts that reformed the old Stability and Growth Pact.
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The negotiations are performed by elected governments. The downside to this approach is that it can lead to a national bias at the expense of the common interest (Wyplosz, 2010). The new intergovernmental Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) was signed on 2 March 2012 by 25 Member States of the European Union (all EU members except the Czech Republic and the United Kingdom). It incorporated the rules of the European Semester and set the seal on what has become a solemn commitment from EU Member States to govern together and to coordinate their economic policy.

In practice, the European Semester is an annual cycle of surveillance, begun in 2011, which is performed from March to July. There is no actual system in place to impose sanctions on a member if a structural policy recommendation is neglected but the harmonisation with fiscal outlooks reinforces the coordination of structural policies. The “Europe 2020” collective strategy for “smart, sustainable and inclusive growth” serves as a frame of reference. Every year, all Member States submit their national reform programmes. These are assessed by the Commission, which may give recommendations in their feedback.

2 On the basis of a European Commission report, every year in March the European Council issues its economic scenario assumptions. In April, the Member States integrate these assumptions and their implications for their fiscal policies and must submit their budgetary plans for the following year to Brussels. In June and July, the European Council and the finance ministers give their opinion to the Member States, which must correct their draft budget accordingly before presenting it before parliament for approval. If the budgetary targets are not met, sanctions are reinforced and become more automatic.
purely socio-economic indicators, such as gender gaps in employment, exposure to poverty risk, lacklustre growth in wages, inadequate social dialogue, the mismatch between labour market supply and demand, etc.

However, the European Semester is hampered by the poor implementation rate of country-specific recommendations. In 2018, the European Commission found that only 20% of country-specific recommendations for the 2011-17 period had been fully or substantially implemented (all countries included for a scope of several hundred recommendations). 3

Coordination of structural policies within the G20 framework: convergence on the assessment method for macroeconomic impacts and the identification of spillovers

Disappointing economic policy coordination

Economic policy coordination, alongside the reform of financial regulation, was one of the pillars of the G20 agenda as it was transformed following the great financial crisis. This coordination not only aims to establish common assessments and priorities, but also to optimise spillover effects and limit global imbalances. The ultimate objective is to maximise medium-term global growth. 4 At the Pittsburgh Summit in 2009, a mutual assessment process (MAP) was thus defined with the goal of examining and discussing within the G20 the national policies of each of its members. At the height of the crisis, this coordination was reflected in a collective stimulus, essentially based on the easing of fiscal and monetary policies. Since 2011, this exercise has been accompanied by a specific procedure for the surveillance of global imbalances: the G20 identifies countries presenting systemic macroeconomic imbalances (private and public debt, current account, etc.) and makes recommendations to reduce those imbalances.

However, after the height of the crisis, the incentives to coordinate macroeconomic policy declined as the need to act became less urgent and economic cycles fell out of sync. Furthermore, the reduction in imbalances, worldwide as well as at the euro area level, mainly came about asymmetrically, i.e. solely through a decline in demand in deficit countries, and not through an increase in domestic demand in surplus countries. The ineffectiveness of this coordination and even of the dialogue within the G20 on macroeconomic policies and imbalances led to cooperation on structural reforms being largely pushed back.

An emphasis on structural policy coordination since 2014

In 2014, the G20 took another step towards coordinating structural reforms. It set a clearly-stated goal for the G20 as a whole of increasing growth by 2 percentage points of GDP over a 5-year period (the “2-in-5” ambition) by implementing structural reforms and investing in infrastructure. As a result of this 2-in-5 exercise, three important milestones were reached.

- Greater awareness of the spillover effects of total factor productivity (TFP) gains stemming from national reforms. These effects are produced through two channels: the trade channel, and the international competition channel, which generates a direct diffusion of productivity gains. For example, the IMF estimates that these spillover effects account for one-third of total gains, which shows the benefits of this type of international structural policy coordination.

- Acceptance of peer reviews, with the national strategy of each member country discussed by the G20 and more particularly examined by two members assisted by international organisations (the IMF, the OECD and, to a lesser extent, the World Bank), which carry out an ex-ante quantitative impact assessment of commitments made and an ex-post assessment of their actual implementation.

- Agreement on the methodology for assessing the effects of structural reforms on growth. This methodology, which was mainly based on the work of the OECD, 5 and

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3 The recommendation follow-up rate is only made public as an aggregate figure and not on a country-by-country basis, illustrating the Commission’s continuing political prudence.

4 The G20’s objective was set out in the Pittsburgh Summit statement (2009): “...we agreed to launch a framework that lays out the policies and the way we act together to generate strong, sustainable and balanced global growth”.

5 Particularly Bassanini et al. (2009), Barnes et al. (2011), Bouis and Duval (2011) and Bouis et al. (2012).
also of Crette et al. (2010), can be used to connect growth to OECD-developed indicators to measure the deregulation of goods markets or labour market flexibility. This agreement is all the more significant in that it implicitly validates the OECD’s approach to determining the preferred direction for structural reforms – a validation that was far from self-evident, particularly for non OECD member countries.

In 2016, this coordination effort also saw the definition of nine common priority reform areas under the Enhanced Structural Reform Agenda (ESRA). The OECD monitors progress on these nine areas by taking a dashboard approach for each G20 member based on performance and policy indicators.

However, the progress made may not be lasting – the majority of G20 members have no desire to repeat the 2-in-5 experiment after 2018 – and has done nothing to ease the frustrations that stem from the G20’s inability to maintain effective macroeconomic policy coordination since the height of the crisis. In response, the G20 commissioned the IMF in 2016 to prepare a new report (the SSBG report) with the objective of presenting the growth outlook at G20 level and defining a coordinated package of economic policies, including structural policies, that facilitate improved medium-term growth and reduced global imbalances. The report, which was first published at the end of 2017 (IMF, 2017) and will be published for a second time at the end of 2018, should serve as a springboard for a broader coordinated effort from the G20 members.

**Recommendations are largely convergent, particularly on the labour market**

With regard to France, international organisations place particular emphasis on the poor condition of the labour market, the persistent shortfall in competitiveness and the continued existence of entry barriers in the services sector.

The poor condition of the labour market takes the form of a high rate of structural unemployment combined with integration difficulties experienced by certain categories (young people, low-skilled workers and immigrants). It is also reflected in a marked employment duality between well-protected workers on permanent contracts and poorly-protected people in vulnerable situations alternating fixed-term contracts, temporary work and unemployment. International organisations also point out the growing mismatch between supply and demand on the labour market, resulting in unfilled vacancies during periods of high unemployment. In view of this assessment, international organisations recommend reinforcing active employment policies, including a reform of professional training, apprenticeships and the educational system (EC, IMF, OECD). Lastly, the uncertainty that surrounds redundancy costs (IMF, OECD) could be reduced.

The persistent shortfall in competitiveness is in part related to French labour costs, which also play a role in the condition of the labour market. Indeed, France’s cost

6 Promoting trade and investment openness; advancing labour market reform, educational attainment and skills; encouraging innovation; improving infrastructure; promoting competition and an enabling environment; improving and strengthening the financial system; promoting fiscal reform; enhancing environmental sustainability, and promoting inclusive growth.

7 Strong, sustainable and balanced growth.
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competitiveness deteriorated in the 2000s and only began to improve in 2013. International organisations focus on two aspects of labour costs. First, employer social contributions as a percentage of total cost of labour are among the highest in the European Union. They (EC, IMF, OECD) therefore recommend policies that reduce labour costs. Second, the indexation mechanism for the minimum wage does not allow it to keep pace with changes in economic conditions, which has undermined French competitiveness. The European Commission also supports the reform of the minimum-wage indexation mechanism recommended by the SMIC (minimum-wage) Commission group of experts in 2017 (abolishing automatic revaluation or scrapping revaluation based solely on the purchasing power of the hourly base wage of less-skilled workers). The IMF suggests limiting the scope of application of the minimum-wage mechanism and implementing more flexible compensation schemes linked to firm performance. More generally, with regard to wage-setting mechanisms, the OECD recommends reducing the company coverage of sector-specific wage agreements, which almost systematically extend to all companies.

The continued existence of entry barriers in the services sector weighs on its productivity, and also on the productivity of those sectors that are intermediate consumers of the services provided. All three international organisations emphasise the benefits of reforms to encourage competition in the sector in terms of long-term growth and competitiveness. More specifically, the European Commission refers to reforms to business services, retail trade, and hotel and catering services, while the OECD mentions reforming regulated professions and Sunday trading rules and the IMF cites reforms to the French national railway system (SNCF) and regulated professions.

In addition to recommendations in these three areas, the international organisations also mention: pension reforms, advocating the unification of the different pension regimes (EC, IMF); simplification of the taxation system by abolishing ineffective taxes and lessening the use of tax expenditures; a reduction in taxes on production (EC); a reassessment of unemployment benefits (period, rate and level); and a better targeting of social benefits (IMF). Furthermore, there are frequent calls to improve the effectiveness of public spending (EC, IMF) and to rationalise local government structures (IMF, OECD).

Progress on their implementation

The recommendations of international organisations, which for many years have centred on these themes, have been partially implemented. They were drawn up through a process of dialogue with the public authorities and allow us to put the structural problems confronting France in an international perspective. Their regular reporting in the press is also a means of raising awareness among the public of economic policy priorities, viewed from the outside.

With regard to the labour market, the El Khomri Law of 2016 and the Pénicaud Ordinances of 2017 responded to the recommendations regarding safeguards in the event of dismissal and regulations that are better adapted to the needs of the company and its employees through social dialogue. The reform of professional training and apprenticeships and the measures taken in primary and secondary education fall within the scope of the recommendations on employment duality and the mismatch between supply and demand on the labour market.

In terms of competitiveness and employment, the introduction of the CICE® tax credit and, beforehand, policies to cut social contributions focused on low wage earners have been welcomed by the international organisations. They also support the forthcoming conversion of the CICE tax credit into a permanent reduction in social contributions and the new targeted reductions.

Within the G20, France is one of the leading countries in terms of structural reform implementation. For example, France implemented 78% of its commitments under the 2-in-5 initiative (see above) compared with the G20 average of 56%. These structural reforms primarily concerned improvements to labour market flexibility and reductions in labour costs.
Work remains unfinished in terms of competition and the effectiveness of public sector action

However, the recommendations on competitiveness have not been fully implemented. Significant progress was made during the 1990s and 2000s with the introduction of several European directives and national reforms, particularly in the retail trade sector (Law on the Modernisation of the Economy, 2008). In the 2010s, progress was made in the legal professions through the Macron Law of 2015 but in the protected sectors as a whole, breakthroughs were limited. In the same way, the repeated recommendations on the minimum wage have not led to major reform, particularly with regard to its indexation mechanisms. Lastly, the recommendations aimed at improving the effectiveness of public spending and simplifying the taxation system have not yet resulted in any far-reaching reforms.
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