

NATIONAL PRODUCTIVITY BOARDS

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On 19 September 2016, the European Council recommended the establishment of National Productivity Boards (NPBs) by the Member States to help identify structural problems of low growth in productivity and macroeconomic imbalances in euro area countries. This article reviews certain basic aspects of the design and main features of these new institutions. Adequate NPB design, appropriate and clear definition of NPB functions and guaranteed access to the resources necessary to perform such functions could contribute to enriching the analysis and debate, at national and European level, of the structural reforms needed to improve productivity and competitiveness. Insofar as the mandate of these institutions also encompasses the assessment of alternative economic policies, their recommendations could become a catalyst for boosting a reform agenda.

Introduction

Following the creation of the Economic and Monetary Union (EMU), it was expected that internal differences within the euro area would be absorbed mainly through the effect that the misalignment of competitiveness exerts on internal demand and cost and price formation. To aid the proper functioning of this channel, a framework of economic policy coordination was established with the aim, inter alia, that the Member States should pursue the necessary reforms to avoid the emergence of macroeconomic imbalances. However, after the introduction of the single currency, the differences between national current account balances and competitiveness indicators in EMU Member States widened (see Chart 1), rather than narrowing, although the onset of the financial crisis contributed subsequently to their reduction. In parallel, the European coordination framework did not promote the implementation of the economic policies needed to face the main challenges shared by EMU Member States and essentially affecting their long-term growth (see Chart 2), most notably population ageing and low productivity growth.¹ These challenges demand national solutions which sometimes also require coordinated economic policy positions within the Monetary Union.

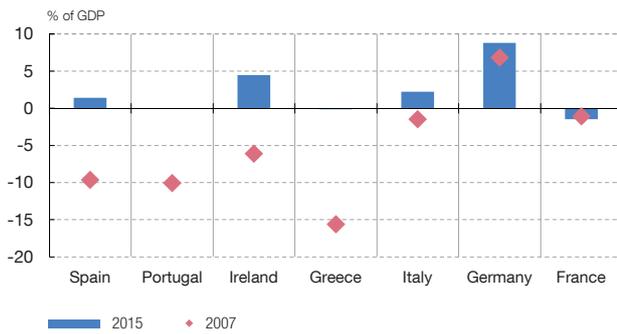
Against this background, the European Council approved the creation of a new framework to monitor macroeconomic imbalances and competitiveness.² This new framework aims to provide the euro area with an appropriate mechanism to detect in time the emergence of macroeconomic imbalances, with special emphasis on the risks associated with the accumulation of such imbalances and the loss of competitiveness within the euro area and its possible contagion to other Member States. This framework should also make it less possible for such imbalances to arise or, if they do arise, it should help to correct them through the implementation of appropriate economic policies.

Thus, the identification of national regulations that may generate competitive differences among the Member States has gained relevance in Europe's political agenda. Notably, these include factors linked to the functioning of the labour market, the financial market,

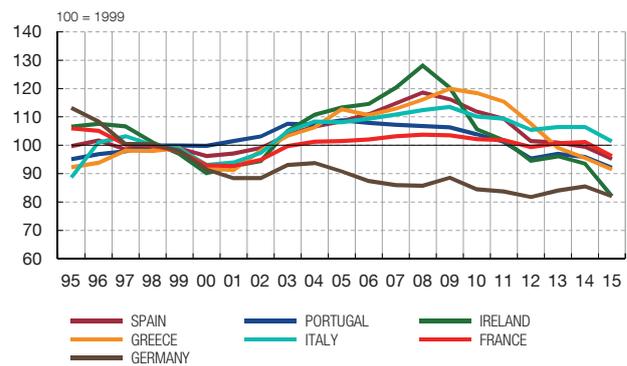
¹ L. Summers (2014), "U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound", *Business Economics*, vol. 49 (2); CEPR (2014), "Secular stagnation: facts, causes and cures"; Banco de España (2015), "Growth and Reallocation of Resources in the Spanish Economy", *Annual Report*, Chapter 3.

² See M. L. Matea (2012), "Nuevo marco de vigilancia de los desequilibrios macroeconómicos de la UE", *Boletín Económico*, March, Banco de España.

1 CURRENT ACCOUNT BALANCE



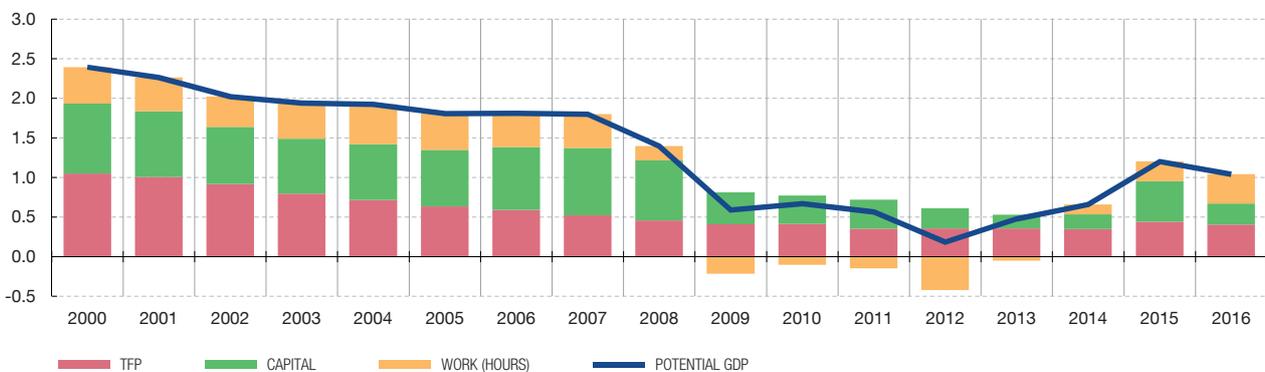
2 LABOUR COST-BASED COMPETITIVENESS INDICES



SOURCES: IMF, INE and Banco de España.

CONTRIBUTION TO POTENTIAL GDP GROWTH IN THE EURO AREA

CHART 2



SOURCE: European Commission.

regulations impacting effective competition among firms and, in general, those relating to productivity growth. It is against this background that the European Council issued on 19 September 2016 a recommendation for the establishment of so-called National Productivity Boards (NPBs) by each of the Member States,³ mainly to monitor competitiveness and related policies.

This article reviews the reasoning behind the establishment of NPBs and describes their mandate and functions, as envisaged by the aforementioned recommendation. The main features of the institutions already existing in certain EU countries which carry out competitiveness monitoring and diagnostic tasks are described under point 3 below.

The design of National Productivity Boards in the European context

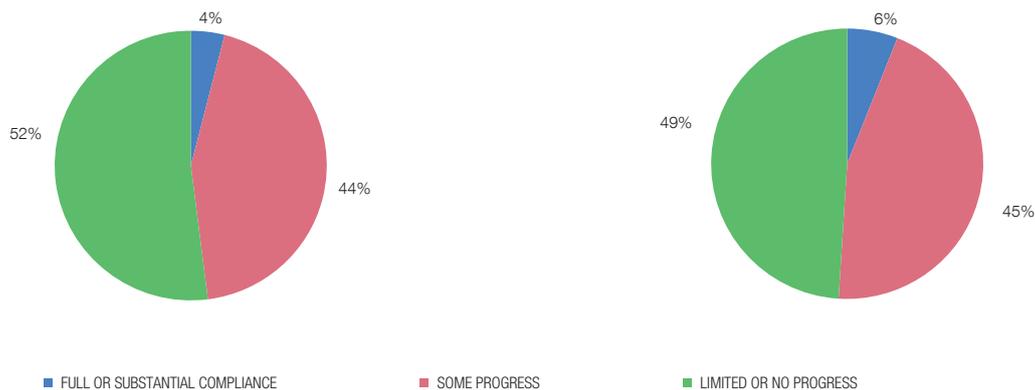
As noted in the introduction, the generation of macroeconomic imbalances and the prospects of lower productivity growth drove the EU authorities to initiate the Macroeconomic Imbalance Procedure (MIP) in 2011.⁴ The monitoring of these imbalances is part of the European Semester for the coordination of economic policies between the European Commission (EC) and member countries. The purpose is to identify, on an annual basis, by

3 The recommendation approved by the European Council was directed at euro area Member States, although other EU Member States are also encouraged to set up similar institutions.

4 http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm.

1 2015

2 2014



SOURCE: European Parliament.

means of indicators and in-depth reviews in each country, the degree of macroeconomic imbalances in each European economy and in the euro area in general and their drivers, with the aim of proposing a series of economic policy recommendations to be approved by the European Council. As occurs with the Excessive Deficit Procedure in connection with budgetary policy, the MIP is endowed with a series of monitoring mechanisms and sanctions in the event that the recommendations are not implemented by the countries involved.

Since its inception, the MIP has encountered difficulties in promoting the implementation of a substantial number of European Council recommendations on structural reforms (see Chart 3). Indeed, despite the fact that the vulnerabilities of economies have lessened since the entry into force of the MIP, there are still high macroeconomic risks requiring policy actions in most countries (see Table 1). In this connection, it should be recognised that there are certain constraints, both external and internal to governments in each country, to promoting far-reaching reform plans. For example, the fact that it usually takes a long time for the positive effects of structural policies to materialise, that these effects are not always uniform within population groups or that they require the coordination of different tiers of government may discourage their implementation.⁵

Precisely for the purpose of fostering national responsibility for identifying any necessary reforms and facilitating their implementation, the Five Presidents' Report⁶ of 12 February 2015 called for the creation of a system of national competitiveness authorities. Specifically, the report recommended the creation of NPBs in each of the euro area Member States in the form of national bodies responsible for monitoring competitiveness and related policies. Also, in order to ensure some supra-national coordination, the report proposed maintaining the European Semester's system of recommendations, although it suggested that the NPBs' analyses should be taken into account by the EC when drawing up its recommendations.

In this setting, the EC initiated in 2016 the work required to prepare the recommendation on the establishment of NPBs approved by the ECOFIN on 17 June 2016,⁷ which was

5 Tompson, William (2009), *The Political Economy of Reform: Lessons from Pensions, Product Market and Labour Markets in ten OECD Countries*, OECD Publishing, Paris.

6 https://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_es.pdf.

7 <http://data.consilium.europa.eu/doc/document/ST-10083-2016-INIT/en/pdf>.

External imbalances and competitiveness					
2015	Current account balance (% of GDP) (three-year average)	Net international investment position (% of GDP) (three-year average)	Real effective exchange rate - 42 trading partners, HICP deflator (three- year percentage change)	World export market share (five-year percentage change)	Nominal ULC index (2010 = 100) (three-year percentage change) (% of GDP)
Thresholds (%)	-4.6	-0.4	+/-5% (EA) +/-11% (non-EA)	6	9 (EA) 12 (non-EA)
Belgium	-0.2	61.3	-1.2	-11.3	1.5
Bulgaria	0.6	-60.0	-4.1	12.8	14.9
Czech Republic	0.2	-30.7	-8.0	0.1	0.5
Denmark	8.8	39.0	-1.5	-8.8	4.9
Germany	7.5	48.7	-1.4	-2.8	5.7
Estonia	0.9	-40.9	6.4	8.5	14.4
Ireland	4.7	-208.0	-5.9	38.3	-18.1
Greece	-1.2	-134.6	-5.5	-20.6	-11.1
Spain	1.3	-89.9	-2.9	-3.5	-0.7
France	-0.7	-16.4	-2.7	-5.4	2.5
Croatia	2.7	-77.7	0.1	-3.5	-5.0
Italy	1.5	-23.6	-2.2	-8.9	1.5
Cyprus	-4.1	-130.3	-6.2	-16.8	-10.5
Latvia	-1.8	-62.5	3.1	10.5	16.0
Lithuania	0.9	-44.7	4.0	15.5	11.6
Luxembourg	5.3	35.8	-0.5	22.9	0.6
Hungary	3.0	-60.8	-6.9	-8.0	3.9
Malta	4.3	48.5	-0.2	-8.8	3.9
Netherlands	9.1	63.9	-0.6	-8.3	0.2
Austria	2.1	2.9	1.8	-9.6	6.1
Poland	-1.3	-62.8	-1.0	9.7	0.4
Portugal	0.7	-109.3	-2.8	2.8	0.0
Romania	-1.0	-51.9	2.7	21.1	0.5
Slovenia	5.4	-38.7	0.6	-3.6	-0.6
Slovakia	1.1	-61.0	-0.7	6.7	2.2
Finland	-1.0	0.6	2.3	-20.5	3.6
Sweden	5.0	4.1	-7.9	-9.3	3.6
United Kingdom	-4.8	-14.4	11.3	1.0	1.7

finally adopted by the European Council on 19 September 2016.⁸ The recommendation specified the objectives and functions of such boards, their organisational and functional characteristics and their relationships with the EC, particularly within the European Semester framework. Also, the countries are required to implement the recommendation within 18 months from its approval on 19 September 2016.

As regards their functions, the recommendation establishes that the Member States shall set up independent bodies (NPBs) that assess and analyse developments in productivity and competitiveness and their drivers, taking into account euro area and EU factors, as well as policies implemented in this field. These boards should review long-term drivers of

⁸ <http://data.consilium.europa.eu/doc/document/ST-12330-2016-INIT/en/pdf>.

2015	Internal imbalances					New employment indicators			
	House price index, deflated 2010 = 100 (annual rate)	Private sector credit flow, consolidated (% of GDP)	Private sector debt, consolidated (% of GDP)	General government gross debt (% of GDP)	Unemployment rate (three-year average)	Total financial sector liabilities, non-consolidated (annual rate)	Activity rate % of population aged 15-64 (three-year rate)	Long-term unemployment rate as a % of active population aged 15-74 (three-year rate)	Youth unemployment rate as a % of active population aged 15-24 (three-year rate)
Thresholds (%)	6.0	14.0	133.0	60.0	10.0	16.5	-0.2	0.5	0.2
Belgium	1.3	4.5	166.3	105.8	8.5	-1.0	0.7	1.0	2.3
Bulgaria	1.6	-0.3	110.5	26.0	11.2	7.0	2.2	-1.2	-6.5
Czech Republic	3.9	0.9	68.6	40.3	6.1	7.7	2.4	-0.6	-6.9
Denmark	6.3	-3.3	212.8	40.4	6.6	-2.0	-0.1	-0.4	-3.3
Germany	4.1	3.0	98.9	71.2	4.9	2.8	0.4	-0.4	-0.8
Estonia	6.8	3.3	116.6	10.1	7.4	8.1	1.9	-3.1	-7.8
Ireland	8.3	-6.7	303.4	78.6	11.3	9.5	0.8	-3.7	-9.5
Greece	-3.5	-3.1	126.4	177.4	26.3	15.7	0.3	3.7	-5.5
Spain	3.8	-2.7	154.0	99.8	24.2	-2.1	0.0	0.4	-4.6
France	-1.3	4.4	144.3	96.2	10.3	1.8	0.8	0.6	0.3
Croatia	-2.4	-1.3	115.0	86.7	17.0	2.1	2.9	0.1	0.9
Italy	-2.6	-1.7	117.0	132.3	12.2	1.7	0.5	1.3	5.0
Cyprus	2.9	4.4	353.7	107.5	15.7	2.8	0.4	3.2	5.1
Latvia	-2.7	0.7	88.8	36.3	10.9	12.2	1.3	-3.3	-12.2
Lithuania	4.6	2.2	55.0	42.7	10.5	6.7	2.3	-2.7	-10.4
Luxembourg	6.1	24.2	343.1	22.1	6.1	15.5	1.5	0.3	-1.4
Hungary	11.6	-3.1	83.9	74.7	8.2	0.4	4.9	-1.9	-10.9
Malta	2.8	5.4	139.1	64.0	5.9	1.3	4.5	-0.7	-2.3
Netherlands	3.6	-1.6	228.8	65.1	7.2	3.2	0.6	1.1	-0.4
Austria	3.5	2.1	126.4	85.5	5.6	0.6	0.4	0.5	1.2
Poland	2.8	3.2	79.0	51.1	8.9	2.4	1.6	-1.1	-5.7
Portugal	2.3	-2.3	181.5	129.0	14.4	-1.6	0.0	0.5	-6.0
Romania	1.7	0.2	59.1	37.9	6.9	4.1	1.3	0.0	-0.9
Slovenia	1.5	-5.1	87.3	83.1	9.6	-3.4	1.4	0.4	-4.3
Slovakia	5.5	8.2	81.4	52.5	13.0	4.5	1.5	-1.8	-7.5
Finland	-0.4	9.5	155.7	63.6	8.8	1.5	0.6	0.7	3.4
Sweden	12.0	6.5	188.6	43.9	7.8	2.3	1.4	0.0	-3.3
United Kingdom	5.7	2.5	157.8	89.1	6.3	-7.8	0.8	-1.1	-6.6

SOURCES: European Commission and Eurostat.

productivity. The recommendation underscores the role of innovation and the capacity to attract investment, physical and human capital, and other factors that can affect prices and the quality of goods and services relative to those of our competitors.

The recommendation indicates that the analysis of competitiveness should be underpinned by transparent indicators and, as far as possible, susceptible to a certain homogeneity across countries. In this connection, it should be borne in mind that competitiveness is a broad concept encompassing both developments in price and cost competitiveness and drivers of productivity, together with other considerations relating to exchange rates

and certain factors affecting the ability to sell a product. In contrast with the Independent Fiscal Institutions which have an explicit mandate and act with binding numerical references that are coordinated at national and supra-national level,⁹ NPBs do not have this reference framework. Accordingly, specifying NPB objectives, subsequent assessment thereof and coordination at euro area level is difficult.

Additionally, these boards will be required to conduct an independent analysis of economic policy challenges in the fields of productivity and competitiveness. In this case, the recommendation provides a certain degree of country discretion to define the final mandate for each NPB in each corresponding national transposition. Thus, each country will decide whether the competencies of the NPB include proposing economic policy alternatives and monitoring those approved or only analysing indicators. Restricting the role of NPBs to the latter tasks could limit the role of these institutions as catalysts and evaluators of the national reform agenda, although the existence of multiple interactions among structural policies makes it difficult to identify “best practices”.

The recommendation allows for different types of institutional design, provided certain minimum requirements are met, guaranteeing functional independence, analytical rigour and transparency.¹⁰ These requirements aim to give credibility to these institutions. In this connection, the recommendation approved by the Council is highly flexible. Thus, NPBs can be newly created institutions, although it is recommended that they be set up based on existing institutions in order to harness accumulated knowledge and save in terms of administrative costs. In the latter case, the necessary measures should be taken to ensure their independence of national and European public authorities in designing and implementing competitiveness and productivity policies. Although the regulations establish that each Member State should set up only one NPB to fulfil the mandate, not all functions need to be directly addressed within the NPB; some can be developed in other institutions that would report directly to the boards, provided that their independence regarding performance and analytical rigour are guaranteed. NPBs should also be underpinned by a national legal provision, although its rank has not been specified. In addition, the legal status should contribute to reinforcing the independence of the new board, endowing it with greater stability and guarantees of continuity.

Under European regulations, NPB heads should be appointed on the basis of candidates’ experience and competence. The resources available to them to fulfil their functions should be appropriate and they should have access to any information sources as may be required to fulfil the mandate. Analyses and recommendations should be disclosed regularly; specifically, it is suggested that an annual report be published or that analyses be included in an already existing report.

Finally, the recommendation highlights the EC’s role in coordinating economic policy at European level, but grants the EC the freedom to take into account NPB conclusions in its recommendations within the framework of the European Semester. In this sense, since the concept of competitiveness is broad, it would be important for at least some of the techniques and indicators on which the NPBs base their analyses to be comparable across the different Member States in order to make a diagnosis at European level.

9 P. García Perea and E. Gordo (2016), “Los mecanismos de supervisión presupuestaria en la UEM”, *Boletín Económico*, March, Banco de España, and E. Gordo, P. Hernández de Cos y J. Pérez (2015), “Instituciones fiscales independientes en España y en la UEM”, *Boletín Económico*, February, Banco de España.

10 These basic principles are similar to those recommended by the OECD for the design of Independent Fiscal Institutions.

Country	Institution
Austria	Institute of Economic Research
Belgium	Federal Planning Bureau Conseil Central de l'Économie
Germany	German Council of Economic Experts IFO, IWH, IfW
France	French Council of Economic Analysis French Economic Observatory
Netherlands	Netherlands Bureau for Economic Policy Analysis
Ireland	National Competitiveness Council
Slovenia	Institute of Macroeconomic Analysis and Development

SOURCE: Banco de España.

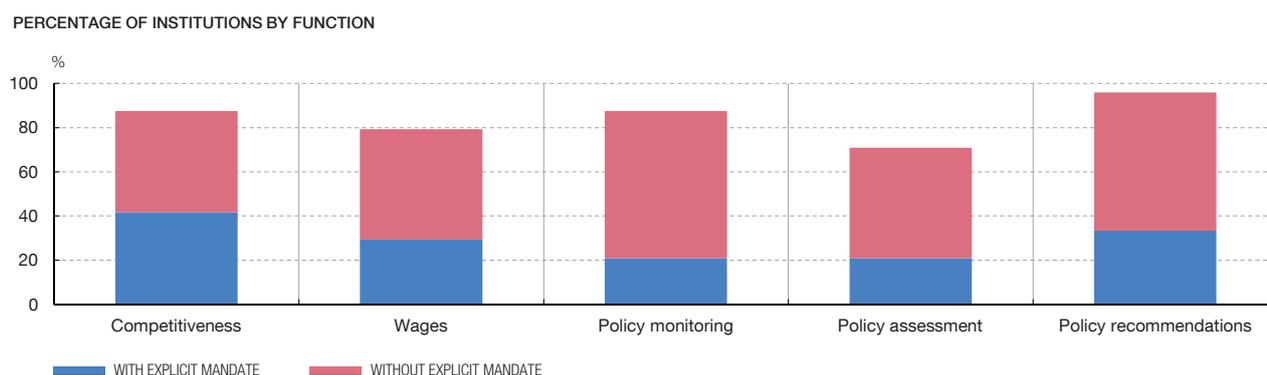
Main characteristics of EMU Member State bodies responsible for analysing productivity and competitiveness

Certain euro area countries already have at least one body that performs the tasks assigned to NPBs by the European Council (see Table 2). Specifically, this set of tasks is performed in the Netherlands by the public body *Netherlands Bureau for Economic Policy Analysis (CPB)*, whereas in France several academic organisations, such as the *CEPII*, the *French Economic Observatory (OFCE)* or the *French Council of Economic Analysis*, coexist with other public agencies, such as *France Stratégie* under the authority of the Prime Minister, or private agencies, such as *Coe-Rexecode*.

The functions currently carried out by the organisations in place include most notably the analysis of competitiveness, productivity and some of their drivers (see Chart 4). In certain cases, such as the Irish *National Competitiveness Council*, the main goal consists precisely of making a proper diagnosis of competitiveness in Ireland and recommending economic policy measures. In view of the multidimensionality of competitiveness, different indicators, such as developments in prices, costs, innovation, education or infrastructure, are monitored. Notably, a large number of institutions focus their analyses on wage performance. Such monitoring is not only of interest for national analyses of competitiveness, but it may also be used on occasion by collective bargaining committees, as occurs in Belgium with the *Central Economic Council* or in France with the *Expert Group for the Collective Bargaining System and the Minimum Wage*.¹¹ Also, there is a fair number of organisations that advise governments on economic policy issues, such as the *French Council of Economic Analysis*, the *German Council of Economic Experts* or the *Belgian Federal Planning Bureau*. In general, these types of organisations are not currently much more involved than formerly in the *ex-ante* assessment and *ex-post* monitoring of government-implemented policies. One of the centres that does perform this task is the Dutch CPB, which participates in preparing economic reports on different laws.

With regard to institutional design, very few of these institutions are financially or organically independent of the public sector. Most receive all of their funding from the public sector and are organically linked to it and, in these cases, the chair of the institution, an expert of recognised standing, is elected by the government or parliament. In principle, in order to ensure independence, it would be advisable for NPBs to have a greater degree of autonomy

¹¹ In Belgium, for example, the *CEC* reports on the performance of competitiveness in Belgium relative to its three main trade partners (Germany, France and the Netherlands). The members of this body are appointed upon the recommendation of organisations representing workers and employers, and its reports are relevant input for collective bargaining. In France, the group of experts is comprised of researchers, professors and representatives of the administration who analyse and provide their viewpoint on the minimum wage. Its annual report is also used for collective bargaining purposes



SOURCE: Banco de España.

(as is the case with the *German Council of Economic Experts*). However, there are examples of highly reputed bodies for their policy analyses and recommendations that are organically dependent on the government, like the aforementioned Dutch CPB. In any event, in order to ensure the effective independence of these institutions, not only is the election of the chair or governing board members essential, but so are the duration of their mandates and the strict appraisal of the reasons why they may be removed from office.

As regards internal structure, there are mainly two organisation models. Some advisory agencies are small in size and their functions are confined to monitoring certain indicators, with scant capacity to develop in-house analyses (such as the *Expert Group for the Collective Bargaining System and the Minimum Wage* in France), whereas the majority of organisations are composed of large agencies with a greater analytical capacity (such as the CPB or the *Federal Planning Bureau* in Belgium). The human capital level of qualification at the latter institutions is appropriate to perform the functions specified by the recommendation. Additionally, as mentioned previously, it is important for NPBs to have access to the information needed to perform their functions efficiently (this is the case of the CPB or the *Federal Planning Bureau*).

Conclusions

The recommendation on the establishment of NPBs adopted by the European Council on 19 September, on a proposal from the European Commission, seeks to drive the reform agenda of the Member States and the EU as a whole in order to address the structural problems of low productivity growth and the build-up of macroeconomic imbalances in euro area countries. Adequate NPB design, appropriate and clear definition of NPB functions and guaranteed access to the resources needed to perform such functions could contribute to enriching the analysis and debate, at national and European level, of the structural reforms that are necessary to improve productivity and competitiveness. Insofar as the mandate of these institutions encompasses the assessment of alternative economic policies, their recommendations could become a catalyst for boosting a reform-driven agenda.

21.11.2016.