

Strengthening the Policy Analysis: A Central Banker Point of View

(Daniela Bobeva, National Bank of Bulgaria)

The conventional wisdom of central banking suggests that everything which contributes to the price stability is good for the economy, for the society, for the people. Yes, but it is not enough. Let's take the example of Bulgaria. We consider it as a success story, since the country achieved a high economic growth beyond 5% of GDP, sustainable financial stability, moderate inflation and even a budget surplus. It seems that Bulgaria's performance as to the Stability and Growth pact requirements is much better than many of the euro area member countries. Yet, Bulgaria falls in the group of the least developed countries in Europe and has high poverty and social exclusion. And here is the first fundamental mission for the policy analysis – to provide with clear and accessible conclusions as to the level of poverty and exclusion. The relative poverty indicators suggest that Bulgaria is among the middle group of countries according to the Laeken indicators, particularly the Gini coefficient, fallen to 26% in 2002 while the risk of poverty rate was 14% in 2003. But according to the absolute poverty indicators Bulgaria is the poorest among EU and acceding countries. The at-risk-of-poverty threshold was 638 euro in 2001 as compared to 8319 euro in EU (15) and in PPS 1630 as compared to 8253 euro.

The research and policy analysis should provide with clear and understandable messages for the policy makers and the public. In this respect the concept and the assessment of relative poverty may be misleading and may hide the gravity of social exclusion and poverty. The clear and accessible policy analysis conclusions are essential for the policy formulation and implementation. As rightly mentioned in the report, social inclusion policy does not enough utilize the research tools and outcomes. One of the reasons is that there is a gap of understanding between research and policy making. There is a need of common language or translation of the research and policy analysis outcomes in concrete policy measures. Here a capacity building is needed as much as appropriate institutional settings capable of accommodating the growing complexity of social inclusion process and the growing demand for research and advocacy in this area.

The policy analysis will be further strengthened if a **cost-benefit approach** is followed. The costs of the social inclusion process should be viewed not only as a budgetary expenditure, but in a broader context. For example, in the last four years in Bulgaria, the

expenditures for social protection were almost doubled but poverty dropped only by one or two per cent. Integrating the cost-benefit analysis will guide the policy makers to more efficient measures to encourage the social inclusion process. Usually, NAPs include the measures that demonstrate good results. But the efficiency of the measures included in the national action plans should be further strengthened.

Broadening the impact assessment of policy measures would further strengthen the policy analysis. What we need is not just to assess how many people dropped out of poverty, but for how long and at what price, as well as how much that costs to the society.

Poverty and exclusion are not any more a social problem only; they are also an obstacle to achieve a higher economic growth. The policy analysis should aim at assessing the impact of social inclusion measures on the labour market flexibility, regional development, government budget, economic competitiveness, financial and price stability, etc. Social inclusion measures become more and more complex and diverse, and therefore restricting the policy analysis to the social domain may be misleading.

Furthermore, policy analysis should be **more open to the dynamics**, the growing instability and global competition. The report suggests that there is a need to show what works best. From this perspective policy analysis should identify the risks and how they can be better mitigated. More forecasting of poverty and social exclusion indicators is thus demanded.

In order to strengthen the policy analysis we need a **new mechanism to link research and policy making**. In this respect model family analysis and micro-simulation models are beneficial tools of analysis. However, further training by the responsible public administration may be required. Joint working groups and task forces between researchers, NGOs and policy makers proved to be a powerful instrument of cooperation so badly needed in the policy analysis as regards the social inclusion process. Usually this cooperation is most intensive at the stage of designing new policy measures but almost missing at the stage of the implementation and impact assessment. A close cooperation is needed within the whole cycle of the policy analysis of the social inclusion measures.

The main message of the report “Taking Forward the EU Social Inclusion Process” is that social inclusion process needs further reforms. The policy analysis may serve as the major generator of the directions and mechanisms of these reforms. What we need is understandable, frank and more dynamic policy analysis.