



Brussels, 29.5.2013  
COM(2013) 352 final

Recommendation for a

**COUNCIL RECOMMENDATION**

**on Bulgaria's 2013 national reform programme**

**and delivering a Council opinion on Bulgaria's convergence programme for 2012-2016**

{SWD(2013) 352 final}

Recommendation for a

## **COUNCIL RECOMMENDATION**

**on Bulgaria's 2013 national reform programme**

**and delivering a Council opinion on Bulgaria's convergence programme for 2012-2016**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies<sup>1</sup>, and in particular Article 9(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances<sup>2</sup>, and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission<sup>3</sup>,

Having regard to the resolutions of the European Parliament<sup>4</sup>,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

- (1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.
- (2) On 13 July 2010, on the basis of the Commission's proposals, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States<sup>5</sup>, which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.
- (3) On 29 June 2012, the Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area

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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

<sup>2</sup> OJ L 306, 23.11.2011, p. 25.

<sup>3</sup> COM(2013)352 final.

<sup>4</sup> P7\_TA(2013)0052 and P7\_TA(2013)0053.

<sup>5</sup> Council Decision 2013/208/EU of 22 April 2013.

levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

- (4) On 6 July 2012, the Council adopted a recommendation on Bulgaria's national reform programme for 2012 and delivered its opinion on Bulgaria's updated convergence programme for 2011-2015.
- (5) On 28 November 2012, the Commission adopted the Annual Growth Survey<sup>6</sup>, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report<sup>7</sup>, in which it identified Bulgaria as one of the Member States for which an in-depth review would be carried out.
- (6) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.
- (7) On 10 April 2013, the Commission published the results of its in-depth review<sup>8</sup> for Bulgaria, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Bulgaria is experiencing macroeconomic imbalances, which deserve monitoring and policy action. In particular, the impact of deleveraging in the corporate sector as well as the continuous adjustment of external positions, competitiveness and labour markets deserve continued attention.
- (8) On 19 April 2013, Bulgaria submitted its 2013 convergence programme covering the period 2012-2016 and its 2013 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.
- (9) Based on the assessment of the 2013 convergence Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that public finances in Bulgaria have overall been sound. The medium-term objective (MTO) was reached in 2012. The macroeconomic scenario underpinning the budgetary projections in the convergence Programme is plausible for the 2013-14 period, when annual growth is expected to reach 1.0% in 2013 and 1.8% in 2014. The Commission 2013 spring forecast foresees a GDP growth of 0.9% in 2013 and of 1.7% in 2014. The objective of the budgetary strategy outlined in the programme is to keep the structural budget balance close to the MTO throughout the programme period. The programme confirms the previous MTO of -0.5% of GDP which is more ambitious than required by the Stability and Growth Pact. Based on the (recalculated) structural budget balance, which is estimated to weaken slightly from a deficit of 0.4% of GDP in 2012 to between 0.7-0.8% of GDP over 2013-2016. Bulgaria falls marginally below its MTO over the Convergence Programme period. In 2013-15, the growth rate of government expenditure, taking into account discretionary revenue measures, would respect the expenditure benchmark of the Stability and Growth Pact, yet breach it in 2016. The debt ratio is below 60% of GDP and, according to the Convergence Programme, it is expected to peak at 20.4%

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<sup>6</sup> COM(2012) 750 final.

<sup>7</sup> COM(2012) 751 final.

<sup>8</sup> SWD(2013) 114 final.

of GDP in 2014 and then to decrease over the Programme period. Similarly, the Commission 2013 spring forecast foresees the debt ratio to amount to 20.3% of GDP in 2014.

- (10) Bulgaria has substantially strengthened its fiscal framework in recent years which has contributed to maintaining fiscal discipline and increasing fiscal policy credibility. The new public finance law which will enter into force in 2014 retains the existing numerical fiscal rules, further strengthens requirements at the municipal level and reforms the three-year medium-term budgetary framework. It is important that the authorities maintain the reform momentum and prepare the ground for implementation of the new law, in particular by establishing the envisaged independent fiscal and giving it a clear mandate, functional autonomy and adequate resources. There is considerable scope for improvement in tax compliance and progress in this area would allow Bulgaria to support higher growth-enhancing expenditure. While Bulgaria has taken some recognisable steps to reduce compliance costs and to improve revenue collection, the tax system remains characterised by significant tax evasion and low administrative efficiency. Administrative costs for tax collection are high, as are the costs for businesses associated with paying taxes. Despite the measures taken to improve tax compliance, the share of the shadow economy is still estimated to be high and reducing it requires sustained long-term efforts.
- (11) Reducing early labour market exit is a key challenge for improving the adequacy of the pension system, as well as for the supply of labour. The employment rate of older workers, in particular of older women, is below the EU average and results in inadequate pension entitlements for a large share of the beneficiaries. Whilst important reforms are already being undertaken in this area, the remaining special schemes for certain professions are among the factors contributing to lowering the effective retirement age. Continuing the progress achieved in raising the pension age, Bulgaria should also prepare and set a date for the introduction of the same statutory retirement age for men and women with full career contributions. A review of the criteria and controls for the allocation of invalidity pensions (e.g. introduction of ability to work as criterion) would be an important contribution to effectively limiting abuse.
- (12) Bulgaria suffers from below-average and declining employment as well as high unemployment disparities across regions and population subgroups. The crisis has had a particularly strong impact on low-skilled workers and has significantly raised youth unemployment. Long-term unemployment has risen faster than in the rest of the EU. A reformed Employment Agency would have the potential to play a prominent role in matching supply and demand in Bulgaria's labour market through more effective counselling, targeted employment measures and better forecasting of future skills requirements. An early evaluation of the on-going Youth Employment Initiative could help to ensure that resources are directed to those actions that generate the highest job-creation returns. It remains a challenge to ensure that the system of minimum social security contributions attains the objective of reducing the shadow economy, while not pricing out low-skilled workers. Bulgarian citizens experience the highest risk of poverty or social exclusion in the EU. The implementation of the national Strategy for Combating Poverty and Social Exclusion should be treated as priority. There is a need to improve the accessibility and effectiveness of social transfers and to enhance the efficiency and access to social services, in particular for children and older people. The National Roma Integration Strategy should be accompanied by an action plan indicating specific measures, sufficient funding and the establishment of a monitoring mechanism for measuring the impact of actions.

- (13) Bulgaria is facing the challenge of improving the overall quality and efficiency of its education system. The final adoption of the School Education Act before the end of 2013 would provide a framework for progress on the necessary reforms, including modernising curricula and implementing improvements to teachers' training and incentives. In higher education, reforms have made very limited progress. The existence of an important disparity between higher education outcomes and labour market demand worsens structural unemployment and hampers the development of high-value, innovative sectors. The poor performance of higher education is linked to a lack of incentives at institutional level as well as to the standard of individual researchers and teachers. Improving the quality and coverage of the health-care system is a long-standing challenge for Bulgaria. Increased transparency in health-care financing would contribute to growth and competitiveness in the sector. The share of healthcare spending on ambulatory care is low, limiting access to cost-effective healthcare services. The high rate of out-of-pocket payments effectively excludes certain segments of the population from health-care services. Bulgaria faces important challenges in the rationalisation and management of the hospital sector.
- (14) The competitiveness of domestic companies and the attraction of foreign investments would benefit greatly from improvements to Bulgaria's business environment, including increased efficiency of public services. A speedier, systematic introduction of e-government offers considerable potential and could, inter alia, reduce compliance costs and the administrative burden for business. Moreover, full implementation and enforcement of corporate legislation, including late-payments and insolvency procedures, would considerably improve the framework conditions, not least for SMEs. Inadequate access to finance remains a brake on SME development. A well-functioning, independent judicial system is a prerequisite for sustainable economic development. Bulgaria has over recent years made progress in reforming the judicial system, in particular in modernising the legal and institutional framework. At the same time, there remains considerable potential for making full use of this framework, securing the sustainability of results and enhancing the ownership of reforms at all levels. Enhanced efforts to fight corruption would likewise constitute a positive contribution to improving the business environment.
- (15) Effective implementation of EU funds remains critical to necessary public investment. The 2011 reform of public-procurement legislation was a significant step towards improving the monitoring, prevention and punishment of irregularities. While new rules covering inter alia EU co-funded projects have entered into force, giving broader powers to the Public Procurement Agency would further enhance the effectiveness of ex ante control.
- (16) The capacity and independence of regulators in key economic sectors are important framework conditions for competitiveness. Bulgaria's transport infrastructure has experienced some improvements over recent years, whilst considerable potential remains for making service provision and maintenance sufficiently efficient. Bulgaria has yet to fully implement its obligations under the Internal Energy Market. Considerable challenges remain at both wholesale and retail levels. Persistent market barriers, guaranteed profit arrangements and regulated prices, together with the absence of a wholesale market for electricity and natural gas, constitute areas of particular concern. Given its considerable dependence on a single energy route, Bulgaria is highly exposed to the risk of supply shocks. The implementation of electricity and gas interconnector projects should be speeded up to improve diversification and security of supply. Low energy efficiency remains a significant

economic burden on both business and private consumers. In particular, the energy efficiency of buildings, both public and private, holds considerable potential.

- (17) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Bulgaria's economic policy. It has assessed the convergence programme and national reform programme, and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Bulgaria but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.
- (18) In the light of this assessment, the Council has examined Bulgaria's convergence programme, and its opinion<sup>9</sup> is reflected in particular in recommendation (1) below.
- (19) In the light of the Commission's in-depth review and this assessment, the Council has examined the national reform programme and the convergence programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (3), (4) and (5) below,

HEREBY RECOMMENDS that Bulgaria should take action within the period 2013-2014 to:

1. Preserve a sound fiscal position by ensuring compliance with the medium-term objective and pursue a growth-friendly fiscal policy as envisaged in the convergence programme. Implement a comprehensive tax strategy to strengthen all aspects of the tax law and collection procedures with a view to increase revenue, notably by improving tax collection, tackling the shadow economy and reducing compliance costs. Establish an independent institution to monitor fiscal policy and provide analysis and advice.
2. Phase out early retirement options, introduce the same statutory retirement age for men and women and implement active labour market policies that enable older workers to stay longer in the labour market. Tighten the eligibility criteria and controls for the allocation of invalidity pensions to effectively limit abuse.
3. Accelerate the national Youth Employment Initiative, for example through a Youth Guarantee. Reform the Employment Agency with a view to providing effective counselling to jobseekers and develop capacity for forecasting and matching skill needs. Enhance active labour-market policies, in particular concerning national employment schemes. Undertake a review of the minimum thresholds for social security contributions to ensure that the system does not price the low-skilled out of the labour market. Ensure concrete delivery of the National Strategies on Poverty and Roma integration. Improve the accessibility and effectiveness of social transfers and services, in particular for children and older people.
4. Adopt the School Education Act and pursue the reform of higher education, in particular through better aligning outcomes to labour-market needs and strengthening cooperation between education, research and business. Improve access to inclusive education for disadvantaged children, in particular Roma. Ensure effective access to healthcare and improve the pricing of healthcare services by linking hospitals' financing to outcomes and developing out-patient care.

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<sup>9</sup> Under Article 9(2) of Council Regulation (EC) No 1466/97.

5. Take further steps to improve the business environment, by cutting red tape, implementing an e-government strategy and implementing the legislation on late payments. Improve the quality and independence of the judicial system and fight corruption more effectively. Improve the access to finance for SMEs and start-ups.
6. Accelerate the absorption of EU funds. Ensure sound implementation of public-procurement legislation by extending ex-ante control by the Public Procurement Agency to prevent irregularities.
7. Strengthen the independence of national regulatory authorities and the administrative capacity in particular in the energy and transport sectors, as well as for waste and water management. Remove market barriers, quotas, territorial restrictions and regulated prices and complete the market design by setting up a transparent wholesale market for electricity and natural gas. Accelerate electricity and gas interconnector projects and enhance the capacity to cope with disruptions. Step up efforts to improve energy efficiency.

Done at Brussels,

*For the Council  
The President*