

European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on Bulgaria's 2012 national reform programme and delivering a Council opinion on Bulgaria's convergence programme for 2012-2015.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 13 April 2012, **Bulgaria** submitted its convergence programme covering the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Bulgaria has been successful in reducing its budget deficit as requested in the budget deficit procedure. The Commission's 2012 spring forecast projects the general government deficit to stay below the reference value of the Treaty and to further decline over the forecast period. As a result, and in line with the provisions of the Stability and Growth Pact, on 30 May the Commission adopted a recommendation for a Council decision **abrogating the decision on the existence of an excessive deficit** under Article 126 (12) of the Treaty.

Based on the assessment of the 2012 convergence programme, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is optimistic for the 2012-13 period, when annual growth is expected to reach 1.4% in 2012 and 2.5% in 2013. **The Commission's 2012 spring forecast foresees a GDP growth of 0.5% in 2012 and 1.9% in 2013.**

The objective of the budgetary strategy outlined in the programme is to achieve a budgetary position which is close to balance, both in terms of the structural and headline budget balances, by the end of the programme period. The medium-term budgetary objective (MTO), defined in structural terms, has been marginally revised from a deficit of 0.6% of GDP to a deficit of 0.5% of GDP. The new MTO adequately reflects the requirements of the Stability and Growth Pact. Based on the (recalculated) structural deficit⁸, Bulgaria plans to achieve its MTO over the programme period.

According to the Commission, the **main policy challenges** for the country are as follows:

- The Bulgarian government has made considerable progress on some of the pension reform measures including those on the pensionable age for both men and women and on the length of service for army and police-sector employees. However, addressing the shortcomings in the adequacy of pension provision remains a key challenge in the medium term.
- Bulgaria has the highest rate of people at risk of severe material deprivation in the EU, with the elderly and children being particularly affected. Only half of the economically active Roma are employed.
- The crisis has had a particularly strong impact on low-skilled workers (who account for almost 70% of the unemployed) and has significantly raised youth unemployment. A national initiative has been launched to comprehensively address the integration of young people in the labour market. Since 2009, the increase in long-term unemployment has been significantly faster than in the rest of EU and principally reflecting an increase in skills and geographical mismatches as job cuts were concentrated in the low-skilled segment. Public employment services are still of relatively low quality.
- There exists considerable structural obstacles to ensuring quality education. The low educational achievements are linked to weak access to education of disadvantaged groups, in particular the Roma population, insufficient autonomy of schools, lack of incentives for better performance, a poor national assessment system and insufficient accountability. In higher education, progress remains very limited even though some promising efforts have been made recently.
- Bulgaria has a low level of research and innovation (R&I). R&I investment needs to be raised to reach the 2020 target and an appropriate strategy for innovation must be established. Bulgaria needs to strengthen its universities and develop a strategy to engage higher education institutions in innovation activities. Frameworks fostering collaboration between universities and the private sector do not exist, and funding should be allocated in a competitive, merit-based and transparent way. Bottlenecks remain for start-up companies and innovative SMEs seeking bank finance.
- Currently, the administrative capacity of Bulgaria is insufficient to properly manage and maintain road, rail and water infrastructures projects. The use of EU funds remains low despite consistent progress in the last two years. Significant challenges also remain in terms of further improving the business and regulatory environment and achieving progress in increasing the administrative capacity of the public sector.
- Despite initiated reforms, Bulgaria still maintains some restrictions to entry into network sectors such as rail transport, telecommunications and energy. The functioning of energy markets at both wholesale and retail levels remains problematic. Bulgaria is highly dependent on a single energy route and its domestic energy market functions inadequately, exposing it to risks of significant supply shocks.

Recommendations proposed for Bulgaria for the period 2012-2013:

Budgetary measures:

- continue with sound fiscal policies to achieve the medium-term budgetary objective by 2012 (to this end, implement the budgetary strategy as envisaged, ensuring compliance with the expenditure benchmark);
- stand ready to take additional measures in case risks to the budgetary scenario materialise;
- strengthen efforts to enhance the quality of public spending, particularly in the education and health sectors and implement a comprehensive tax-compliance strategy to improve tax revenue and address the shadow economy;
- further improve the contents of the medium-term budgetary framework and the quality of the reporting system.

Pension system:

- take steps to reduce risks to the sustainability and to improve adequacy of the pension system by restricting access to early retirement and by making the statutory retirement age the same for men and women with full career contributions;
- introduce tighter criteria and controls for the allocation of invalidity pensions.

Employment:

- accelerate the implementation of the national Youth Employment Initiative;
- ensure that the minimum thresholds for social security contributions do not discourage declared work;
- step up efforts to improve the Public Employment Service's performance;
- to alleviate poverty, improve the effectiveness of social transfers and the access to quality social services for children and the elderly;
- implement the National Roma Inclusion Strategy.

Education:

- speed up the reform of relevant legal acts on schools and higher education and of accompanying measures by focusing on modernising curricula, improving teacher training, and ensuring access to education for disadvantaged groups;
- improve the access to finance for start-ups and SMEs, in particular those involved in innovative activities.

Administrative capacity:

- step up efforts to enhance administrative capacity and reforms by reducing red tape and the cost of tax compliance and collection, and further improving the absorption of EU funds, in particular in road and rail transport and water management;
- improve the quality and independence of the judicial system and speed up the introduction of e-government. Strengthen public administrative capacity in key transport sectors and regulatory authorities;
- ensure sound implementation of public procurement legislation. Strengthen the prevention of irregularities and effectively apply the sanctions under the Public Procurement Law and those of the Law on Conflict of Interest.

Market barriers:

- take measures to remove market barriers, guaranteed profit arrangements and price controls;
- ensure the independence of transmission and distribution system operators;
- complete the market design in particular for the energy exchanges and balancing markets;
- improve electricity and gas connections, boost energy efficiency and enhance the capacity to cope with disruptions.

These recommendations should be endorsed by the European Council on 28-29 June and formally adopted by the Council in July 2012.