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Assessment of the 2014 national reform programme and convergence programme for BULGARIA

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on Bulgaria's 2014 national reform programme and delivering a Council opinion on Bulgaria's 2014 convergence programme

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EXECUTIVE SUMMARY

Bulgaria's economic recovery is expected to broaden and pick up in 2014. Nevertheless, the economic rebound is expected to be relatively slow as GDP growth is forecast to reach 1.7% in 2014 and 2.0% in 2015 according to the Commission 2014 spring forecast. The labour market is forecast to remain in distress, with only weak recovery in employment and a slight reduction in unemployment projected over 2014-15. Following three years of budgetary consolidation, the general government deficit increased from 0.8% of GDP in 2012 to 1.5% of GDP in 2013, reflecting an expenditure-driven fiscal expansion in that year. The general government deficit is expected to increase further in 2014, but to decrease somewhat in2015. The ratio of general government gross debt to GDP is forecast to remain low — the second lowest among the EU Member States.

Overall, Bulgaria has made limited progress in addressing the 2013 country-specific recommendations. On the positive side, Bulgaria's public finances are unlikely to face particular challenges over the short to medium term, provided it complies with its medium-term budgetary objective. The authorities have also taken some steps towards improving tax collection and the business environment. The plans to tackle challenges in education, healthcare and youth employment are still in preparation despite years of delays. In some areas such as pension reform, the government initially moved in the wrong direction, while in others, such as energy, taxation and public procurement, it has presented a fragmentary picture. Policy plans presented in the 2014 national reform programme and convergence programme are relevant but reforms, particularly to the labour market, education and the energy sector; do not go far enough to address the challenges in a comprehensive way. The effectiveness of the national reform programme will depend on the proper design of the measures outlined and their full and swift implementation in respect of the timetable set in the programme.

Bulgaria faces a set of interrelated policy challenges to stimulate sustainable, robust growth while addressing its macroeconomic imbalances. As pointed out by the European Commission in March 2014, these relate in particular to corporate sector deleveraging and the labour market. Despite the progress the government has made in implementing its fiscal agenda, the most pressing challenges for the country have remained broadly unchanged since 2013 i.e. the labour market, poverty and social exclusion, education, healthcare, the business environment, public procurement, energy and resource efficiency. Weak institutional capacity is causing critical delays to the implementation of necessary reforms.

- **Labour market**: Declining labour force participation, high youth unemployment, skills and regional mismatches exacerbated by high emigration and inadequate pensions are major concerns, given Bulgaria's population ageing. One challenge is to ensure that workers stay longer on the labour market, which will ease the pressure on pensions. Active labour market policies have not been effective in facilitating adjustment, while weaknesses in the educational system hamper a broad-based accumulation of human capital and wage floors risk pricing the vulnerable groups out of the labour market.

- **Poverty and social exclusion:** Adequate social protection is also a challenge, as Bulgarian citizens are at the highest risk of poverty or social exclusion in the EU (49.1% in 2011) and social assistance schemes are ineffective in supporting the inclusion of those furthest from the labour market. A systematic approach to the inclusion of Roma children into quality mainstream education and the integration of Roma into the labour market is missing. Employment accessible and effective social transfers and services and policies to support a broad-based labour market recovery remain key ingredients for addressing poverty.

- **Education**: Bulgaria’s education and training systems are not adapted to the needs of the labour market. Bulgaria has the EU’s highest share of low achievers in reading and mathematics, and the third highest share of low achievers in science. Overall investment in education and training — particularly in primary, secondary and early childhood– are well below the EU average.

- **Business environment**: A major challenge is to create a more favourable business climate, including for foreign investors, and to foster investment in innovation. Businesses would also benefit from improved tax administration, insolvency procedures and contract enforcement. Shortcomings in public procurement and the independence, efficiency and quality of the justice system also persist.

- **Energy intensity and resource efficiency**: Bulgaria is highly dependent on imported energy. There is limited competition among energy suppliers, a lack of interconnections with neighbouring countries and an inadequately functioning energy market. High energy intensity, low energy efficiency and poor environmental infrastructure also hamper business activity and competitiveness.

1. INTRODUCTION

In May 2013, the Commission proposed a set of country-specific recommendations (CSRs) for economic and structural reform policies for Bulgaria. On the basis of these recommendations, the Council of the European Union adopted seven CSRs in the form of a Council Recommendation in July 2013. These CSRs concerned taxation, retirement policies, the labour market, education, the business environment, and some aspects of national administration. This staff working document (SWD) assesses the state of implementation of these recommendations in Bulgaria.

The SWD assesses policy measures in the light of the findings of the Commission's 2014 Annual Growth Survey (AGS)[1] and the third annual Alert Mechanism Report (AMR),[2] which were published in November 2013. The Survey sets out the Commission's proposals for building the necessary common understanding about the priorities for action at national and EU level in 2014. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The AMR serves as an initial screening device to determine whether macroeconomic imbalances exist or risk emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that complete and durable rebalancing is achieved, Bulgaria and 15 other Member States were selected for a review of developments in the accumulation and unwinding of imbalances. These in-depth reviews were published on 5 March 2014 along with a Commission communication.[3]

Against the background of the 2013 Council Recommendations, the AGS, the AMR and the in-depth review, Bulgaria presented a national reform programme (NRP) and a convergence programme on 17 April 2014. These programmes provide detailed information on progress made since July 2013 and on the government's plans. The information contained in these programmes provides the basis for the assessment made in this staff working document. The programmes submitted went through a consultation process involving the national parliament and the social partners. Stakeholders as well as the general public were invited to submit proposals for consideration by the government.

2. ECONOMIC SITUATION AND OUTLOOK

Economic situation

Economic recovery in Bulgaria was still subdued in 2013 and early 2014, but has accelerated somewhat in recent quarters. Growth was driven by net exports and a surge in public expenditure in 2013, whereas household spending remained sluggish. Annual growth reached 0.9% in 2013 and the economy continues to operate well below its potential. Nevertheless, inflation fell sharply over 2013 and the first months of 2014, driven by falling

[1] COM(2013) 800 final.
[2] COM(2013) 790 final.
[3] Aside from the 16 Member States identified in the AMR, Ireland was also covered by an in-depth review, following the conclusion by the Council that it should be fully integrated into the normal surveillance framework after the successful completion of its financial assistance programme.

import prices, decreases in the administratively set energy prices and the good harvest that led to lower food prices.

After four consecutive years of falling employment and rising unemployment, the first signs of stabilisation appeared in the second half of 2013. This is mainly due to the traditionally volatile agricultural sector, which benefited from a good harvest in 2013. While employment in service sectors also appeared to be stabilising, manufacturing and construction sectors continued to significantly shed labour in 2013. Unemployment increased at almost 13% of the labour force in 2013 and further peaked to 13.1% by March 2014. In particular, young people, the low-skilled and older people face considerable challenges on the labour market.

Economic outlook

According to the Commission 2014 spring forecast, GDP growth is forecast to pick up only slowly over 2014-15. Economic growth is expected to expand to 1.7% in 2014 and 2.0% in 2015 as domestic demand gradually joins exports as the main engine of growth, but to remain below its potential in the forecast horizon. Household consumption is forecast to rebound over 2014-15 in line with the gradual improvement in the labour market situation and strengthening consumer confidence. Investment will be supported by the fairly strong financial sector, which has been able to bolster non-government lending over the crisis years. Exports are forecast to remain relatively strong too over 2014-15, sustained by the expected economic recovery in the EU. Nonetheless, the rebound in domestic demand would also drive up imports and turn the growth contribution from net exports slightly negative. The labour market is projected to improve only gradually as marked labour market mismatches have built up over the extended crisis years. Unemployment is expected to decline slowly to about 12% by 2015. The expected moderate increase in economic activity is projected to lift inflation somewhat in 2015 to about 1.2%, from -0.8% in 2014.

The economic scenario underlying both the national reform programme and the convergence programme is optimistic for the 2014-15 period. It projects real GDP growth of 2.1% in 2014 and 2.6% in 2015, which is about 0.4 pp. and respectively 0.6 pp. above the Commission 2014 spring forecast. The programmes do not include the estimate of the macro impact of the structural reforms.

3. CHALLENGES AND ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The main goal of the 2014 convergence programme's medium-term budgetary strategy is to commence with a gradual fiscal consolidation from 2015 onwards, meeting the MTO by 2016. The new programme has lowered the MTO from the previous year. While in 2013 the MTO was set at -0.5% of GDP, the new program sets it at -1% of GDP as from 2014, which is still more stringent than what the Stability and Growth Pact requires. While the previous 2013 programme foresaw to reach the MTO of -0.5% of GDP by 2017, the new programme targets to reach the new MTO of -1% of GDP by 2016.

In 2013, the fiscal position loosened compared to the previous year and compared to the target of the previous convergence programme. The general government headline deficit increased from 0.8% of GDP in 2012 to 1.5% in 2013, slightly above the target of 1.3% of GDP set in the previous programme. This was largely driven by lower than expected revenues (notably VAT and personal income tax) and discretionary social spending increases after the new government took office in the summer of 2013. However, compared to the new governments' revised budgetary targets (a deficit of 2% of GDP), announced in August 2013, the budgetary outcome in 2013 was better than expected, mainly on account of lower-than-planned investment expenditure.

In 2014, the convergence programme projects the nominal fiscal deficit to increase further to 1.8% of GDP. This is weaker than the deficit target of 1.3% of GDP for 2014 foreseen in previous year's programme, reflecting the government's expenditure increases announced in August 2013 and the 2014 budget. The deficit is set to weaken from the previous year on account of further expenditure increases (notably investments and social expenditure). In structural terms, this implies also a repeated fiscal stimulus in 2014, by 0.3 pp. according to the programmes' recalculated structural deficit[4] . The Commission 2014 spring forecast projects a slightly lower fiscal balance at 1.9% of GDP for 2014. The difference arises as the Commission expects significantly lower growth in VAT and personal income tax revenues in 2014 compared with the Ministry of Finance. However, since at the same time the Commission projects lower growth in investment expenditure (which has been typically lower than official plans in recent years), the difference in the aggregate fiscal deficit is small. In structural terms, the Commission forecast projects the deficit to increase by 0.4 pp. in 2014, which is slightly more than the recalculated programme figures.

The latest convergence programme has also loosened the medium term fiscal targets as compared with the previous programme. In line with the lower MTO, the new programme also targets somewhat higher headline deficits in the medium term. The headline deficit is set to improve more gradually from 1.8% of GDP in 2014 to 1.5% of GDP in 2015 and to 0.9% by the end of the programme horizon in 2017. This revised fiscal outlook is explained by the government's intention to boost economic growth through a fiscal stimulus, notably increasing spending for investment, and also social- and labour market programmes. The recalculated structural deficit is projected to increase by 0.3% of GDP in 2014 (from 1% of GDP in 2013 to 1.3% of GDP in 2014) and to decrease by 0.3% of GDP in 2015 (to 1.0% of GDP in 2015). The primary balance (net of interest payments) reaches zero by 2017.

The envisioned gradual mid-term budgetary consolidation is primarily driven by expenditure restraint, with the expenditure to GDP ratio projected to decline by 2.5 pps. between 2013-2017, while the revenue to GDP ratio declines by 2 pps. These trends are similar to the ones presented in the previous Convergence Programme. Tax revenues to GDP are projected to actually increase over the period, given the expectations for a tax-rich economic growth based on consumption and the governments' plans for reducing tax evasion. However, the absorption of EU funds is expected to be significantly lower in the initial years of the new 7 year EU budget period. This entails both lower revenues and expenditures compared with the EU funds absorption peak years in 2013-14. Also, the expenditure plans foresee public wages and social benefits growing slower than GDP in the medium term (see annex: Table 3). These fiscal projections are supported by detailed measures fully for 2014 and only partly for 2015 (see Box 1). For the period 2016-17, the budgetary adjustment represents projections under a no-policy-change assumption. There are no significant one-off or other temporary measures planned in the programme.

[4] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

Box 1. Main measures

The box provides an overview of all discretionary measures with a significant budgetary impact as well as macro-structural measures mentioned in the Convergence Programme/National Reform Programme. While the main tax rates remain unchanged, some specific legislative changes will have an overall small revenue impact in 2014 and 2015 (see the table below). However, in addition the programme expects to significantly boost VAT revenue both in 2014 and 2015 through various measures to fight tax evasion (reverse VAT, tighter control for goods with high fiscal risk, improvements to excise duty legislation/collection). The Commission 2014 spring forecast does not assume additional revenues from these measures. While these measures might be effective and necessary, the Commission forecast takes a more cautious approach in its revenue projections. On the expenditure side, the 2014 budget increases substantially investment and social expenditure (including raising pensions). As already noted, the Commission forecast assumes lower investment expenditure for the year, as typically not all budgeted projects are completed according to the original plans. Notably, the 2014 budget law envisages a possibility for limiting non-interest expenditure and state budget transfers (with an effect of about 0.3% of GDP) in case any risks to the budget balance should materialise. However, the programme does not specify details of how it would be operationalized in practice.

Main budgetary measures

Revenue	Expenditure
2014	
• Measures improving revenue collection[5] (0.8% of GDP) • Legislative changes to corporate income tax recording (0.1% of GDP) • Wind and solar energy fee (0.2% of GDP)	• Public investment programme (0.6% of GDP) • Various changes to increase pension generosity (0.3% of GDP) • Energy sector investment (0.2% of GDP) • Education programmes (0.1% of GDP) • Social allowances (0.1% of GDP) • Limiting current expenditure and state budget transfers in case fiscal targets are at risk (-0.3% of GDP)

[5] The Commission 2014 spring forecast does not assume additional revenues from measures aiming to fight tax evasion. While the measures might be effective, the Commission forecast takes a cautious approach in its revenue forecast.

2015	
• Tax relief on minimum wage (-0.2% of GDP) • Increasing tobacco excises but reducing excises on agricultural fuels (0.05 % of GDP in net terms) • Measures improving revenue collection[6] (0.8% of GDP)	• No concrete expenditure measures announced
Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.	

Assessed against the deficit projections in the Commission 2014 spring forecast, the deficit projections of the programme appear broadly realistic for 2014 but slightly optimistic for 2015. However, several risk factors exist. The macroeconomic scenario of the programme is somewhat more optimistic than the Commission 2014 spring forecast for both 2014 and 2015. The programme expects somewhat faster GDP growth and significantly higher inflation in those years. Additionally, major discrepancies exist between the two forecasts for some tax and expenditure items. The programme assumes very high tax elasticity for VAT and personal income collection, in relation to their tax base growth. Unlike the Commission forecast, the programme scenario assumes that measures to improve tax collection would boost revenues. As a result, the programme assumes substantially higher VAT and income tax growth, especially in 2014 and to some degree in 2015. Nevertheless, the divergence in the deficit projection between the two forecasts is much smaller than the differences in revenue projections, as the programme also assumes significantly higher investment expenditure in 2014 and 2015. In recent years, public investment has been much lower than initially planned in the budgeting procedure. Other revenue and expenditure items are broadly consistent between the two forecasts. As mentioned in the Bulgaria section of the Commission 2014 spring forecast, the Commission perceives a risk due to a potentially weaker-than-expected recovery in private consumption compared to its baseline macroeconomic scenario, given the slow recovery in employment. Also, a country specific risk relates to the reliance of Bulgaria on Russian gas imports. These risk factors are also valid for the Programme's macroeconomic scenario. Somewhat reducing the risks above, the authorities have a proven track record of meeting and even over-performing their fiscal targets in the past. Also, the current nominal and structural fiscal deficit is already close to the limits set by the domestic fiscal rules[7], which should act as an additional barrier to further deviations from the plans presented in the programme.

[6] Based on conservative forecast assumptions, the Commission 2014 spring forecast does not project additional revenues from this measure.

[7] 2% of GDP nominal budget deficit and structural deficit/ medium term objective of 1% of GDP, which are somewhat more stringent limits than required by the SGP.

Box 2. Bulgaria`s status vis-à-vis the Stability and Growth Pact

Bulgaria is subject to the preventive arm of the Pact and is at its Medium Term Objective in 2013. However, it is expected to deviate from its Medium Term Objective in 2014-15. Therefore, it should preserve a sound fiscal position which ensures compliance with the Medium Term Objective.

Measured against the recalculated structural balance and also taking into account the so called "investment clause", Bulgaria was compliant with the Pact in 2013. The so called "investment clause" allows for a temporary deviation from the MTO by 0.6 pp. in 2013 and by 0.1 pp. in 2014. Bulgaria also over-achieved its fiscal targets in 2012 and therefore the increase in the structural deficit to 1% of GDP in 2013 was in compliance with the Pact and complies with the Council Recommendations of 10 July 2013.

The programme plans to deviate from the MTO in 2014. The programme foresees a further increase in the structural (recalculated) deficit in 2014 by 0.3 pp. to 1.3% of GDP, which is more than the 0.1 pp. deviation allowed by the "investment clause". In 2015 the recalculated structural deficit is projected to decrease to 1% of GDP, reaching the MTO. The Commission forecast projects a marginally higher structural deficit (by an additional 0.2% of GDP) in 2014-15, which points to some risks to the fiscal targets set by the programme. According to the information provided in the programme, the growth rate of government expenditure, net of discretionary revenue measures, would not exceed the relevant reference medium-term expenditure benchmarks in 2014-15, which are estimated at between 1.8-2.1%.. Therefore, the budgetary plans are in line with the requirement of the Stability and Growth Pact.. However, taking also account of the Commission 2014 spring forecast projections and the risks to the budgetary projections arising from the macroeconomic scenario, there is a risk of a deviation from the MTO for both 2014 and 2015.

In 2013, Bulgaria recorded the second-lowest debt ratio among EU Member States, with general government gross debt at 18.9% of GDP, well below the 60% Treaty reference value. The programme projects government debt to peak at 23.3% of GDP in 2016 and then to abate to 20.6% of GDP in 2017. The underlying debt dynamics reflect the positive impact of a gradual improvement in the primary balance and increasing nominal GDP growth. The projected debt ratio fluctuates slightly from year to year over the programme period, reflecting the planned repayment and refinancing operations of some larger bonds in certain years (notably a single large bond maturing in early 2015). The projections of the debt-to-GDP ratio in the programme appear plausible taking into account the Commission 2014 spring forecast and latest available information. Since the debt-to-GDP ratio is below the reference rate, the debt reduction benchmark is not applicable.

Fiscal framework

Bulgaria has continued on the path to strengthen its fiscal framework in 2013, albeit with some delays in practical implementation. Previous reforms in the field of numerical fiscal rules and medium-term fiscal planning have been continued, but with some delays in legislature. With a view to complying with EU Directive 2011/85/EU on national budgetary frameworks and preparing the implementation of the Fiscal Compact[8], a new public finance law was adopted in January 2013 and it entered into force in January 2014 as planned. Some secondary related legislative acts were delayed in 2013 compared with original plans (notably

[8] Bulgaria has signed the Treaty on Stability, Coordination and Governance in the EMU, but not ratified it to date.

regarding the 'fiscal council' and a' correction mechanism'), but the overall processes appear to be on track. Most notably, the Public Finance Act also required the government to submit to parliament by mid-2013 a proposal on the establishment of an independent body, the so called fiscal council, whose mandate would include the monitoring of national numerical fiscal rules. The establishment of such an institution was also recommended to Bulgaria as part of a 2013 CSR. The legislative act for the establishment of the fiscal council is currently debated by the parliament and the practical establishment of the institution is awaiting the passing of the law. It remains to be seen to what extent the new institution will in practice have functional autonomy and adequate resources to effectively carry out its mandate.

Long-term sustainability

Despite pronounced demographic challenges, Bulgaria's public finances do not appear to face major sustainability risks. Government debt (18.9% of GDP in 2013 and expected to rise to 22.7% in 2015) is currently below the 60% of GDP Treaty threshold and projected to further rise by 2030 although remaining below the reference value. However, the full implementation of the convergence programme would put debt on a decreasing path by 2030. The medium-term sustainability gap[9], showing the adjustment effort up to 2020 required to bring debt ratios to 60 % of GDP in 2030, is at -1.2% of GDP, primarily related to the current low level of government debt. In the long-term, Bulgaria appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs contributing with 2.6 pp. of GDP over the very long run, in particular due to the pension and health components. The long-term sustainability gap[10] shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at 3.4% of GDP. Risks would be lower in the event of the structural primary balance reverting to higher values observed in the past, such as the average for the period 2004-2013. It is therefore appropriate for Bulgaria to further contain age-related expenditure[11] growth to contribute to the sustainability of public finances in the medium/long term.

Bulgaria has one of the most rapidly ageing populations in the EU, bearing a negative impact on both the labour market and growth potential of the economy. Nevertheless, policy action to counter the decline in the working age population by boosting labour supply is still lacking. Extending working careers and the inclusiveness of the labour market is a major challenge. Employment rates are particularly low for the Roma, the elderly (especially women) and young people. The high proportion of workers retiring through early retirement

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[9] See Table V. The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance to be introduced until 2020, and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp. of GDP per year until 2020 after the last year covered by the autumn 2013 forecast (year 2015) is required(indicating an cumulated adjustment of 2.5 pps.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 pp. of GDP per year is necessary), it is assigned high risk].

[10] See Table V. The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

[11] Ageing costs comprise long-term projections of public age-related expenditure on pension, health care, long-term care, education and unemployment benefits. See the 2012 Ageing Report for details.

schemes and invalidity pensions, the non-inclusive labour market and the high prevalence of informal work leads to incomplete working careers, and in turn challenges the sustainability of the pension system as a whole. These factors are also reflected in largely inadequate pension outcomes and high rates of old-age poverty.

Bulgaria has made no progress in addressing the CSR on pension reform and labour market participation. The new government has backtracked considerably on previous pension reform by freezing the increase in the retirement age in 2013[12]. In addition, the re-introduction of a partial wage indexation rule (Swiss rule) for pensions casts doubts on the long term sustainability of the public pension system. Moreover, instead of phasing out early retirement options, Bulgaria has re-introduced special early retirement schemes. Bulgaris has made no progress on introducing the same pensionable age for men and women and implementing active labour market policies that enable older workers to stay longer in the labour market. Equalising the pensionable age for men and women and increasing the number of years spent in the labour market would contribute to closing the gender pension gap of 33% and reducing the very high rate of women (62.8%) and men (53.6%) over 65 who are at risk of poverty and social exclusion.[13] Also, no progress has been made in tightening eligibility criteria and checks on the allocation of invalidity pensions to effectively limit abuse.

Tax system

Bulgaria faces the challenge of improving tax compliance and the quality of tax administration with a view to improving both revenue collection and the business environment. Bulgaria's tax structure is growth friendly overall, with a low tax burden on labour and capital compensated by relatively high taxation of consumption. On aggregate, the country had the second lowest tax-to-GDP ratio in the EU in 2012. Although revenue from energy taxes is the second highest in the EU, the implicit tax rate on energy indicates that the high revenue stems from the high energy-intensity of the economy rather than from high excise rates on energy products, which are in fact below average. Revenue from recurrent housing taxes is below the EU average. Available estimates[14] suggest the shadow economy is sizeable, and this is confirmed by data for undeclared work. The costs of revenue collection remain above the EU average and the compliance costs of paying taxes are high.[15]

Bulgaria has made limited progress on measures taken to address the 2013 recommendation concerning the implementation of a comprehensive tax strategy and strengthening all aspects of the tax law. A number of measures have been implemented by consecutive governments in recent years and others have been introduced for 2014 both to reduce the administrative burden and curb tax evasion and fiscal fraud. These include: raising the thresholds for quarterly advance payments of corporate income tax and personal income tax for smaller firms (2013); strengthening controls over the movement of non-excise goods of high fiscal risk and introducing an optional cash-based VAT regime for small businesses; implementing new e-services for taxpayers; extending the scope for reverse charging to more

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[12] As stated in the 2014 update of the NRP, one of the reasons for the temporary suspension of raising the retirement age is the fact that the burden of the reform launched in 2000 is taken by a single generation.

[13] Bulgaria Country Fiche on Gender Equality and Policy Developments (ENEGE, Fourth Quarter 2013).

[14] Tax reforms in EU Member States 2013 — Tax policy challenges for economic growth and fiscal sustainability.

[15] There are several factors affecting comparability of data on the costs of revenue collection, calculated as the ratio of administrative costs per net revenue collected. The National Revenue Agency does not administer excise duties, which are therefore not included in the sum of net revenue collected. However, it is in charge of the collection of social security and health insurance contributions Source: OECD (2013), Tax Administration 2013: Comparative Information on OECD and Other Advanced and Emerging Economies, OECD Publishing, pp. 178-183. Compliance costs are measured as time to comply, see World Bank. (2013). Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises. Washington, DC: World Bank Group.

sectors at risk of fraud; and introducing compulsory connections of automated vending machines to the tax agency's information systems. However, the restrictive conditions[16] related to the recently introduced refund of personal income tax for the lowest wage earners could add to the risks of underreporting of labour income. In 2014 some of the control rules for tax warehouses for excise goods have been relaxed but their impact on the administrative burden for businesses and on tax compliance remains to be seen. Despite the measures taken, Bulgaria still lacks a fully-fledged tax compliance strategy, which would include estimates of tax gaps, analysis of the underlying causes, impact assessment of the measures already in place and new policy measures. A comprehensive tax compliance strategy would lead to a coordinated approach to risk management and allow cooperation between the tax, customs[17] and law enforcement authorities.

3.2. Financial sector

Macro-financial stability appears intact. Bulgaria's bank-dominated financial sector remains stable overall, maintaining strong capital buffers. The overall capital adequacy ratio stood at 16.9% at the end of 2013, as compared with 16.7% at the end of 2012. The core tier-one ratio[18] stood at 15.6% in December 2013, up from 15.2% a year ago. Both ratios remain above EU averages and the regulatory requirements. The average quality of the credit portfolio has remained broadly unchanged, with the non-performing loans ratio standing at 16.9% of gross loans at the end of 2013. However, the high non-performing loans ratio does not imply financial sector risks as provisioning is adequate. In contrast, provisioning expenses continued to limit profitability, with return on assets unchanged at 0.7%. Two acquisitions of foreign-owned banks by domestic entities have further increased the systemic importance of the latter.

Overall credit activity remained sluggish. Credit growth decelerated further in the second half of 2013 compared to the previous years. Credit growth is not expected to accelerate in 2014, given the still highly leveraged non-financial corporate sector. At the same time, liquidity in the system remains ample, coming mostly from the growing domestic deposits.

The aggregate picture conceals differences across economic sectors. Export-oriented companies can access credit with relative ease, while SMEs face difficulties, including high loan rejection rates. Micro-financing alternatives to bank loans are underdeveloped and limit SMEs' access to finance. Some initiatives, including EU-funded JEREMIE products in the seed and venture capital market, have had a clear positive effect on increasing the availability of credit to SMEs.

3.3. Labour market[19], education and social policies

The labour market has been underperforming in recent years, limiting the adjustment capacity of the economy and undermining its growth potential. Bulgaria is facing the challenge of high unemployment and persistent overall weakness of its labour market, characterised by structural unemployment, mismatches between labour supply and demand (in

[16] There are two main restrictions for claiming the relief. First, individuals have to gain their income only from employment. Even a small amount of income from, e.g., savings interest would disqualify an individual applying for the relief. Second, individuals cannot earn more than the minimum salary.

[17] The customs administration is responsible for the collection of excise duties, which, together with consumption taxes other than VAT, represent more than 18 % of total tax revenue. Source: Eurostat.

[18] The ratio of a bank's core equity capital to its total risk-weighted assets.

[19] For further details, see the 2014 Joint Employment Report, COM(2013)801, which includes a scoreboard of key employment and social indicators.

terms of both the quality and quantity), and labour market polarisation. This in turn hampers employability and reintegration into the labour market. A significant proportion of unemployed people are not covered by standard safety nets (unemployment benefits and social assistance) and tend to rely on family solidarity or informal work. Gross household incomes have increased slightly since 2008 and relative poverty among people of working age is contained. The level of inequalities is still high (1 pp. higher in Bulgaria than the EU average) and the severe material deprivation rate remains the highest in the EU in 2012. The poorly educated workforce, concentrated in some regions, contributes to low labour productivity and structural bottlenecks in several areas — such as skill mismatches, particularly in relation to new technologies, and the continuous decline in the working-age population — continue to hamper the prospects for long-term sustainable growth. The early school leaving is a particular problem among Roma – according to FRA survey 85% versus 32% for non-Roma. [20]

In 2013, Bulgaria received CSRs concerning unemployment, education, pension reform and social exclusion. The authorities were urged to tackle high levels of youth unemployment by increasing the scope and efficiency of active labour market policies (ALMPs), improving work incentives and strengthening the Employment Agency with a view to providing better services. In addition, the authorities were invited to improve the accessibility and effectiveness of social transfers, review the employment impact of minimum tresholds for social security contributions, ensure the education system makes a greater contribution to human capital formation at all levels and adjust the pension system to increase the participation of older people in the labour market. Bulgaria has introduced some subsidised employment programmes for older workers, a national plan aimed at jobs for youth and further opportunities for traineeships, but overall, Bulgaria has achieved only limited progress in these areas.

Labour market

The efficiency and effectiveness of active labour market policies remain a challenge for Bulgaria. Coverage and efficiency of ALMPs is low and is reflected in low lifelong learning participation (in 2013, 1.7% of population versus 10.4% for the EU-28[21]), low transition rates from unemployment to employment and a relatively high share of long-term unemployed (57.4% of all unemployed in 2013) [22]. A strategy on lifelong learning was adopted in 2013 with a target of 7% of adults participating in lifelong learning by 2020. ALMP are not well targeted at those unemployed people most in need of activation and those with the greatest employability. A net impact assessment of the efficiency and effectiveness of active programmes and measures, as well as of the overall effect of ALMPs was launched in 2013, but has not yet been finalised. As a result, Bulgaria has achieved limited progress in enhancing active labour-market policies, in particular concerning national funded employment schemes.

Bulgaria has achieved limited progress in further strengthening the capacity of the Employment Agency with a view to providing effective counselling for jobseekers. In the updated Employment Strategy,[23] the activation of unemployed people from disadvantaged groups through training and the appointment of case managers and labour psychologists in labour offices is recognised as a priority. Moreover, the primary objectives of employment policy are to improve the quality of the services provided and to strengthen the capacity of the Employment Agency. No tangible impact can be observed yet in that area. The process of

[20] FRA (2014), Education: The situation of Roma in 11 EU Member States. Roma Survey - Data in Focus. Luxembourg: Publications Office of the European Union (forthcoming).
[21] Of the population aged between 25 and 64 years.
[22] According to the National Statistical Institute of Bulgaria
[23] Adopted in October 2013.

scaling up and diversifying active labour market policies to match the profiles of jobseekers needs to be further strengthened. No performance monitoring system is put in place to benchmark effectiveness of the local branches and coverage of services. Outreach towards NEETs (young persons aged 18-24 neither in employment, education or training) and towards the Roma is particularly problematic. Bulgaria is confronted with a share of NEETs well above the EU average 21.6%, as compared to 13% for EU 28. Bulgaria has the highest share of young NEETs who are not in touch with the employment services. At 14.3%, the share of inactive NEETs is more than double the EU 28 average (6.1%)[24]. The youth unemployment as well as the percentage of early school leavers are slightly above EU average. Bulgaria has undertaken first steps to implement the recommendation on establishing a Youth Guarantee (YG). The YG is being gradually implemented from 2014 onwards, with funding foreseen up to 2020. The YG currently has a strong focus on early school leavers.

The capacity for identifying and matching skill needs remains undeveloped. Labour market monitoring is not sufficiently developed to map open vacancies, even though recent sectoral level structures were established to improve skills intelligence. The system for forecasting skill needs is not operational yet. For the short term, the skills needed will be determined based on data derived from surveys of employers. For medium- and long-term forecasts of labour demand and supply, a macroeconomic forecasting model developed by a consortium of researchers will be used. Meanwhile, in-house training has grown in popularity among businesses, notably in the ICT sector. However, current tax legislation does not incentivise in-house corporate training.

Bulgaria has made limited progress in ensuring that the low-skilled are not priced out of the labour market. In 2013, the government carried out an analysis of the impact of minimum insurance thresholds on the dynamics of unemployment in the country. The study concluded that that the significant slowdown in economic activity is the main reason for job losses and that, on aggregate, minimum thresholds have had no significant impact on the employment of low-skilled workers. However, most of the job losses in Bulgaria have occurred in construction and tradable sectors, sectors not properly covered by the study. Further micro-level analysis seems necessary. A second analogous study is under way in 2014, but the government has not yet specified any policy follow-up to these studies. In addition, recent increases in the minimum wage (by about 40% since 2011) have raised the minimum social security thresholds for the unskilled and low-skilled at a higher rate than the average minimum thresholds growth, adding to the risk of pricing these vulnerable groups out of the labour market. The minimum wage is established by government, after consultation with social partners; however, there are no clear guidelines for a transparent minimum wage setting, taking into account the economic and labour market factors. Whereas the aim of a wage floor is to support the incomes of low paid/productivity workers, it also raises the cost of labour for them, reducing their employment opportunities.

Box 3. The delivery of a Youth Guarantee in Bulgaria[25]

The most important challenges to deliver a Youth Guarantee in Bulgaria are:

- insufficient focus on second chance education for the very high number of early school leavers;

- need to strengthen apprenticeship and dual training initiatives, including ensuring that these offers lead to sustainable labour market integration;

- insufficient outreach to NEETS and insufficient mechanisms for encouraging their

[24] In the 2014 update of the NRP it is envisaged that by 2015 the unemployment rate among young people aged 15–24 will increase to 27.2% and the level of NEET will fall to 20.5%.

[25] Bulgaria presented a Youth Guarantee Implementation Plan in December 2013, updated in April 2014.

registration;

- scaling up and diversifying the active labour market policies to match the profiles of jobseekers, develop capacity for identifying and matching skill needs;

- insufficient measures specifically targeted at the very low skilled, including a high share of the Roma population.

Education

The challenge of improving the overall quality and efficiency of the school education system remains. Although there was improvement in the 2012 PISA results as compared to the 2009 outcome, Bulgaria was again the worst performer in reading and maths and the third worst performer in science of the 28 EU Member States.[26] Bulgaria has still not adopted the School Education Act after years of delays and adoption is expected to be further delayed to 2015. [27] The planned legislative changes are expected to provide a framework for the necessary reforms, including modernising curricula and making improvements to teacher training and incentives.

The quality of vocational education and training (VET) remains insufficient. The poor quality of the learning environment, in particular outdated infrastructure and limited work-based learning, result in a high proportion of early school leavers in VET schools.[28] Challenges include fully integrating VET in the general education structure, thus allowing for flexible pathways between subsectors of education, and ensuring consistency with strategies on early school leaving, higher education and lifelong learning. Increasing the availability of traineeship and apprenticeship schemes together with business partners, is critical, in particular for emerging business sectors and lower level specialist professions.

Bulgaria has made no progress in reforming higher education. In particular, aligning education outcomes to labour-market needs and strengthening cooperation between education, research and businesses remain unaddressed. Higher education faces continuing challenges in responding better to labour market needs. Employment among young graduates was only 67.3 % in 2012. The low standard of quality certification contributes to the poor performance of higher education. A strategy on higher education has been developed and is under discussion in the National Assembly. Proposals include restructuring university management by directly involving stakeholders such as businesses and students, consolidating existing universities, and taking a performance-based approach to aligning education output to labour market demand. Investment in universities' research capacity and career development for academic staff are areas in which progress has not been sufficient and assessment of the professions in demand in the labour market are immediate challenges.

Improving access to inclusive education for disadvantaged children, in particular Roma, is a challenge. Bulgaria has made limited progress in improving access to inclusive education for disadvantaged children, in particular Roma.[29] The early school leaving rate remains higher than in other EU-10 countries.[30] A strategy for reducing early school leavers has been adopted by the Council of Ministers in October 2013. A number of initiatives in mainstream education

[26] Programme for International Student Assessment (PISA) study based on 2012 data, OECD, 2013.

[27] According to the 2014 update of the NRP, the revision of the law is ongoing and its approval by the National Assembly is planned for 2015. The elaboration of the corresponding secondary statutory instruments is envisaged for 2016. Hence, the new law could become fully operational from the 2016/2017 school year.

[28] The drop-out rate in VET schools was 4.2% in 2011, more than double the drop-out rate of 1.6% in general schools. In addition, 19% of the students completing VET did not obtain a professional qualification (Source: National Statistical Institute).

[29] On average, the Roma receive four and a half years less education than the non-Roma population in Bulgaria (UNPD/WB/EC Regional Roma Survey, 2011).

[30] 12.5% in Bulgaria 2012, according to Eurostat.

are currently being taken to improve access to inclusive education for disadvantaged children. In particular, two years' compulsory pre-schooling and a broad range of initiatives aimed at reducing early school leaving are key measures in the right direction. It is essential to continue and scale up measures aimed at reducing early school leaving, with more focus on second-chance education, on teacher education and on combating segregation. Gaps identified by the Commission[31] regarding school segregation, higher education, and data collection have still not been convincingly addressed.

Healthcare

Bulgaria needs a comprehensive healthcare reform. It has made limited progress in ensuring effective access to healthcare and improving the pricing of healthcare services by linking hospital financing to outcomes and developing out-patient care. Health status indicators remain weak in comparison with the other EU Member States, pointing to higher needs for healthcare and long-term care and therefore potentially higher costs in the future. Although the 2014-20 National Healthcare Strategy presented by the Bulgarian government in 2013 is a step in the right direction, it lacks mapping of infrastructure investments, a proper monitoring and review system and a clear implementation timeframe. Lines of action have not been fully defined and budgeting lacks elaboration. A strategy for emergency care is under preparation. The main challenges in the Bulgarian healthcare system remain as identified in 2013: the lack of transparency of hospital financing, poor access to health services for some social groups and regions and the disproportionately high level of out-of-pocket payments, with informal payments being a particular problem.[32] The healthcare system is not addressing the issues of equitable access to healthcare and optimisation of the hospital network. A lack of administrative capacity in the healthcare sector affects its ability to draft appropriate strategies, implement programmes and deliver high-quality projects and thus the ability to absorb EU funds.

Social policies

Bulgaria faces a considerable challenge with regard to poverty and social exclusion. Bulgarian citizens have the highest risk of poverty or social exclusion in the EU (49.3 % in 2012, almost twice the EU average). Particularly worrying are the high at-risk-of-poverty rate among Roma,[33] and the high rates of poverty and social exclusion for children[34] (52.3 % in 2012) and for those over 65 years old (59.1 % in 2012). High and increasing levels of child deprivation can be linked to very low use of early childhood education services, especially among the poorest, a high rate of involuntary part-time work in particular among women, and work disincentives in the tax-benefit system for lone parents and second earners on low income. Employment income appears to be the key to reducing the risk of poverty; the unemployed face the greatest risk of poverty.

Overall, the coverage and efficiency of both unemployment benefits and social assistance is limited. Significant shares of unemployed are not covered by standard safety nets (unemployment benefits and social assistance) in Bulgaria[35] and tend to rely on family

[31] In 2012, the Commission assessed the national Roma integration strategies of all Member States and identified gaps — SWD (212)133.

[32] According to the 2013 Special Eurobarometer on corruption, the incidence of bribery/informal payments in Bulgaria is higher than the EU average. Given that the cost of healthcare is a greater barrier to equitable access to healthcare in Bulgaria than in the EU generally, this jeopardises access for the most disadvantaged groups of the population.

[33] Source: FRA Roma Pilot survey 2011, Data in focus reports (forthcoming April 2014).

[34] Defined as under 18 years of age.

[35] Coverage of unemployment benefits is among the lowest in the EU (9.4% vs. 30% in the EU according to Labour Force Survey, while net replacement rates are very low after 12 months (13% vs. 38% in the EU). Non-coverage rate of jobless poor is the 3rd highest at 44.7%.

solidarity or informal work. The rather strict and tightened eligibility criteria contribute to the low coverage, with those not receiving any benefits being also not easily reached by activation measures. There is a fragmentation of agencies which provide benefits/social assistance and labour market integration services to the unemployed and inactive population. The appropriate institutional coordination and integration between various offices is missing, and the high and increasing caseload per staff hampers the support to jobseekers. [36] The benefit level of the General Minimum Income is very low and has not increased in line with the poverty threshold. [37]

An integrated approach to more effective social protection is still needed. Bulgaria has made some progress in ensuring concrete delivery of the National Strategies on Poverty. Limited progress has been observed in improving the accessibility and efficiency of social transfers and services, in particular for children and older people. In 2013, the government took some steps in this direction: the adoption of a National Strategy for Long-term Care by the Council of Ministers on 7 January 2014;[38] the continuing implementation of the process of deinstitutionalisation of children in care, widely supported by the European Structural Funds; the expansion of the monthly family allowance for children and its linking with regular school attendance (including compulsory pre-school education) and with certification of standard vaccinations; expansion of the scope of the programme of targeted benefits for heating covering specific risk groups. However, much remains to be done, including the prevention of child abandonment and the promotion of good-quality alternative community-based care services (i.e. with qualified staff).

The implementation of the 2013 National Roma Integration Strategy (NRIS) lacks ambition and a commitment to clear targets. Bulgaria has made no progress in ensuring concrete delivery of the Strategy. While some of the measures planned in the fields of education and employment are currently being implemented, small-scale local and civil actions still need to be scaled up and integrated into a comprehensive and systematic approach to the inclusion of Roma children into quality mainstream education and the integration of Roma into the labour market. Re-establishing constructive dialogue with civil society and ensuring continuity of the work of the ministerial working group on the use of EU funds for Roma inclusion are important preconditions for successful implementation of the strategy.

Box 4. Conclusions from the March 2014 in-depth review on Bulgaria

The third in-depth review (IDR) for Bulgaria under the Macroeconomic Imbalances Procedure was published on 5 March 2014.[39] Bulgaria keeps experiencing macroeconomic imbalances, which deserve monitoring and policy action. The review has focused on analysing in detail the recent developments and expected future prospects of the identified imbalances. The main observations are:

- **A sustained current account adjustment has helped reduce the country's external financing needs, but the stock of liabilities remains high.** The adjustment appears to be mostly non-cyclical: it has been driven by a decrease in imports brought about by the crisis

[36] Public employment service (PES) staff has been cut by 12 percent over 2004-13. In conjunction with the increasing number of unemployed, this has led to an almost 84 percent increase in caseload per employment service staff over 2008-12. The staff of the Social Assistance Agency has also been reduced by almost 18 percent over 2003-13.

[37] The General Minimum Income for a single person has increased from 55 BGN in 2008 to 65 BGN in 2012, while the official poverty line has increased from 152 to 241 BGN. Net income for people on social assistance is the 2nd lowest in the EU at 20.7% of the median income.

[38] The elaboration of this strategy was set out as a measure in the 2020 National Strategy for Reducing Poverty and Promoting Social Inclusion.

[39] http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm.

but also by a strong export performance, as reflected in Bulgaria's steady gains in world market share. However, the stock of liabilities remains high. Further unwinding of this vulnerability will depend on strengthening further external competitiveness and a strong export performance.

- **Corporate indebtedness remains high and deleveraging pressures could limit growth in some sectors, but immediate risks to the economy appear to have been contained.** The debt stock of non-financial corporations has been decreasing since 2010 but remains high as a share of GDP. As a response to deleveraging pressures, companies have increased profitability and saving, mostly through cost-cutting, including labour shedding. However, since most of the debt of non-financial corporations is in the form of intra-company loans, potential spillovers to the financial and public sectors appear to be limited, as already underlined in the second IDR for Bulgaria.
- **An underperforming labour market limits the adjustment capacity of the economy and holds back its growth potential.** During the crisis, the contraction of employment has been more pronounced than the contraction in GDP. Since 2008, unemployment has more than doubled, to 13% in 2013, and the number of young and long-term unemployed has increased drastically.
- **Active labour market policies have not been effective in facilitating adjustment, while weaknesses in the educational system hamper broad-based accumulation of human capital and wage floors risk pricing vulnerable groups out of the labour market.** Two groups, the low-skilled and young workers, have been hardest hit by labour shedding. So far, active labour market policies, including training, have not succeeded in reintegrating even the more experienced workers, thus contributing to skills mismatches and a high level of structural unemployment. Also, wage floors, in particular in the form of minimum thresholds for social security contributions and minimum wages, have increased substantially in recent years, especially for low-skilled workers, endangering their employment prospects.

The in-depth review also discusses possible policy avenues to addressing the challenges identified in the analysis: (i) improving the business environment would help to attract foreign capital and encourage the innovation capacity of productive sectors, which in turn would help to maintain competitiveness and safeguard Bulgaria's strong export performance; (ii) ensuring effective and increased EU funds absorption would help potential growth; (iii) improving the effectiveness and increasing the efficiency of active labour market policies seems warranted; (iv) ensuring that increased wage floors do not price the low skilled out of work would facilitate labour market adjustment; and (v) addressing the challenge of reducing skills mismatches through advances in training and education could be beneficial for growth in the medium and long term.

3.4. Structural measures promoting sustainable growth and competitiveness

Economic recovery remains slow as a result of deleveraging pressure and a protracted labour market adjustment. Labour cost and unit labour cost (ULC) growth has slowed down; nevertheless, nominal wage growth remains somewhat higher than gains in productivity. In addition, companies face high business costs relating to administrative compliance and low energy efficiency. At the same time, saving rates and the profitability of the corporate sector have increased, reflecting the deleveraging needs. As a small, open economy, the country continues to depend on foreign financing to fuel its output growth. Hence, improving the business environment and infrastructure, particularly as regards energy and transport, and using available EU funds effectively are essential to further enhancing Bulgaria's growth potential.

In 2013, Bulgaria received CSRs concerning a business-friendly environment, enhanced public administrative capacity and well-functioning energy markets.

Business environment

Weak institutions and lengthy administrative procedures prevent the improvement of the business environment. Shortcomings in the overall institutional framework within which businesses operate, including public administration and the judiciary, are discussed in more detail in section 3.5. In addition, the poor functioning and weak corporate governance of public service providers and regulators, including those in the energy, transportation as well as water and waste management sectors, increases uncertainty and complicates business operations. Bulgaria's score for ease of doing business[40] fell slightly in the last year. Key challenges include obtaining access to electricity and construction permits, as well as the lengthy procedures for registering a business. Handling insolvencies takes over three years and the recovery rate of claims is under one third of the sum due. Improvements have been made in foreign trade procedures and making it easier to pay taxes. However, issues remain with customs efficiency and the time taken to process imports and exports [41].

The development of e-government has stalled and limits efforts to increase transparency and reduce the administrative burden. A fully functioning Point of Single Contact (PSC) is still not in place. The introduction of e-services has been fragmented in the lack of coordination across different projects to ensure interoperability of the different systems. The government drafted a new, updated e-government strategy and an annual action plan in 2013. The two new documents have yet to be adopted. Recent improvements made to the Bulgarian PSC for the services sector still fall short of the requirements of the Services Directive. Only a small number of procedures can be completed online, and there is no provision for cross-border completion. Coordination between the different authorities offering services through the portal is insufficient and there are delays in updating the information. So far, this issue has not been properly addressed and is slowing down the setting up of a fully functioning PSC.

Energy, environment and climate change

Competition in the electricity and gas sectors remains limited as markets are underdeveloped. Areas of particular concern for improving the functioning of the energy markets remain the lack of electricity and gas exchanges and the lack of a transparent wholesale market. The 'free market' in electricity (around 15 % of total, the rest being regulated) is dominated by a sole supplier and the small size of the free market means that competition cannot fulfil its function of ensuring cost efficiency. The costly support schemes in the power sector are an additional burden affecting the financial situation of state-owned enterprises and private companies in the sector. Currently, the power sector is not financially viable and depends on funding from the Bulgarian Energy Holding, which in turn has to borrow from markets.[42] The independence and effectiveness of the national regulator remains problematic. The regulator's budget has increased slightly but administrative capacity remains modest compared to the tasks and responsibilities of the regulator. In addition, the lack of transparency in selection procedures, combined with constant management changes, has failed to ensure stability.

[40] Bulgaria ranked 58th in the 2014 World Bank Doing Business report, down from the 57th the previous year.

[41] World Bank (2013). Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises. Washington, DC: World Bank Group.

[42] The financial situation of the National Electricity Company is also challenging as it is obliged to buy electricity from old and inefficient thermal plants at regulated tariffs well above market prices while the regulator has reduced the tariffs for residential consumers by over 15% since 2013.

The energy sector has drawn attention in the past year and some action has been taken, with future steps under discussion. Measures taken in 2013 include transposing the missing elements of the 'Third Package' electricity and gas directives and unbundling the system operator from the National Electricity Company.[43] Also, exports were facilitated by removing some end-user surcharges.

Dependency on imports from a few suppliers and a lack of infrastructure development pose a risk of supply shocks. Bulgaria has one of the highest energy trade deficits in the EU (as share of GDP) and depends predominantly on imports for the supply of crude oil, natural gas and hard coal. Moreover, it depends on only a few sources and supply routes for these products – in some cases just one. Its underdeveloped infrastructure prevents it from diversifying supplies. A number of electricity and natural gas infrastructure projects have been identified as projects of common interest and eligible for financial support from the Connecting Europe Facility, but the concrete infrastructure development remains limited. A small-capacity reverse-flow project on the border with Romania has been implemented, slightly improving Bulgaria's capacity to cope with disruptions. However, the project has yet to be connected to the transit and transmission system on the Bulgarian side.

Energy efficiency remains low and the steps taken appear insufficient. Energy intensity remains the highest in the EU. Improving efficiency is recognised by the authorities as part of the long-term solution to the problem of high energy bills for end users, which adversely affects competitiveness. It is of particular concern for the residential and transport sectors. Complete and timely transposition and effective implementation of the Energy Efficiency Directive (due to be transposed in June 2014) would provide additional tools to promote energy efficiency. The success of the 2011 National Energy Efficiency Action Plan depends on proper control, monitoring and effective penalties for non-compliance.

In 2013, Bulgaria met its Europe 2020 target for the share of renewables in final consumption. Reaching the target could allow the country to share its output with other Member States through cooperation mechanisms. The short period in which the goal was met could mean that support schemes were too attractive to investors. Whilst windfall profits by public and private investors should be avoided to keep energy bills in check, it is also important not to undermine the investment climate in Bulgaria with measures which are, or may be perceived as, arbitrary or improvised. In an effort to mitigate the effects on system stability of the output fluctuations inherent in wind and solar energy, the authorities have introduced a number of measures, which are currently being contested by renewable energy producers.

Environmental protection policies are insufficient, which adversely affects the economy and Bulgarians' quality of life. Poor outcomes in the waste and water management sectors have an adverse effect on resource efficiency. The main problems in water management, namely the inadequate governance of the sector, insufficient cost recovery for water services and the limited administrative capacity of stakeholders have persisted. A positive step was the change in the calculation of waste collection fees by municipalities introduced in 2013. However, the legislative amendment does not specify the method for calculating waste, which leaves loopholes in its implementation. According to a recent report,[44] Bulgaria has the highest concentrations of PM2, CO and SO_2 in the air, leading to external costs including healthcare and working days lost.

[43] The decision on certification by the Regulator and the European Commission's approval are still pending.

[44] Air Quality in Europe — 2013 Report, European Environment Agency, http://www.eea.europa.eu/publications/air-quality-in-europe-2013.

Transport and broadband infrastructure

The state-owned railway operator continues to face financial and restructuring difficulties. Plans for the privatisation of the cargo unit of the railway operator were scrapped in 2013, even though the procedure was under way. At the same time, creditors and suppliers of the company have taken action to recover sums due and negotiations on the restructuring of loans are still ongoing. There is still no clear view of the future of either the cargo or the passenger units. However, the need to optimise the company’s structure is recognised. Competition in the cargo sector has opened up and its share of overall land transport is above the EU average.

Broadband penetration in the country is low, despite high data speeds. Broadband availability is below the EU average and is especially low in rural areas, pointing to gaps in infrastructure. Deployment of the Long-Term Evolution wireless standard has been slow, one of the obstacles being that the majority of the 800 MHz frequencies are still used by the Ministry of Defence. The ICT skills of Bulgaria’s overall population are particularly low, with 80 % of the Bulgarian population and 92 % of disadvantaged people having no or low IT skills, and the share of the workforce with low or no skills is at 77 % well above the EU average. E-commerce is still at an early phase, with enterprises’ total turnover from e-commerce only at 3% of their turnover (the second lowest percentage in the EU)[45]. The situation has not improved over the past year and broadband is still hampered by a lack of technical capacity for planning and implementing ICT investment and by administrative obstacles to investment.

Research and innovation

Timely development and implementation of coherent research and innovation strategies based on smart specialisation is essential to boost competitiveness and productivity in the medium and long term. The key issues for Bulgaria at this stage are inefficiencies in public support for research and innovation, together with low and decreasing public R&D intensity (the lowest among EU Member States, at 0.24 % of GDP in 2012). Research and innovation priorities are not well-targeted and aligned in Bulgaria. The Law on Innovation announced in the 2013 NRP has not been adopted and the previously envisaged National Innovation Board has not been established. Furthermore, the National Science Fund did not distribute any funds in 2013 as an investigation of possible irregularities in the allocation procedure was launched. All those factors impede any build-up of research and innovation capacities. In February 2014, the government launched a public consultation to update the current national strategy for the development of research to 2020 and the rules of procedure of the National Science Fund. It has also announced its intention to put in place a system of evaluation of scientific activity, to improve the research infrastructure, to enhance knowledge transfer and to promote innovation in enterprises.

Box 5: Potential impact of structural reforms on growth – a benchmarking exercise

Structural reforms are crucial for boosting growth. It is therefore important to know the potential benefits of these reforms. Benefits of structural reforms can be assessed with the help of economic models. The Commission uses its QUEST model to determine how structural reforms in a given Member State would affect growth if the Member State narrowed its gap vis-à-vis the average of the three best EU performers on key indicators such as the degree of competition in the economy or labour market participation. Improvements on these indicators could raise Bulgaria's GDP by about 6% in a 10-year period. Some reforms could have an effect even within a relatively short time horizon. The model simulations

[45] Eurostat Community Survey on ICT usage by enterprises, [isoc_ec_evaln2], 2013.

corroborate the analysis of Section 3.3, according to which the largest gains would likely stem from enhancing competition in product markets and from increasing participation rates among women and the elderly. In addition, the simulations support the priority placed by the authorities on reforming active labour market policies.

Table: Structural indicators, targets, and potential GDP effects[46]

Reform areas		BG	Average 3 best EU performers	GDP % relative to baseline	
				5 years	10 years
Market competition	Final goods sector markups (price-cost margin)	0.22	0.13	2.2	3.0
Market regulation	Entry costs	1.50	0.13	0.0	0.0
Tax reform	Implicit consumption tax rate	22.4	28.6	0.2	0.3
Skill enhancing reforms*	Share of high-skilled	6.6	10.7	0.1	0.1
	Share of low-skilled	19.0	7.5	0.0	0.1
Labour market reforms	Female non-participation rate (25-54ys):			0.5	0.9
	- low-skilled	48.6	26.4		
	- medium-skilled	18.1	10.5		
	- high-skilled	8.4	4.3		
	Low-skilled male non-participation rate (25-54ys)	35.0	7.7	0.0	0.1
	Elderly non-participation rate (55-64ys):			0.4	1.0
	- low-skilled	21.2	13.4		
	- medium-skilled	11.6	4.8		
	- high-skilled	7.6	3.3		
	ALMP (% of GDP over unemployment share)	2.6	37.4	0.4	0.4
	Benefit replacement rate**	37.8	52.6	0.0	0.0
Total				3.9	6.1

Source: Commission services. Note: Simulations assume that all Member States undertake reforms which close their structural gaps by half. The table shows the contribution of each reform to total GDP after five and ten years. If the country is above the benchmark for a given indicator, we do not simulate the impact of reform measures in that area; however, the Member State in question can still benefit from measures taken by other Member States.[47] * The long-run effect of increasing the share of high-skilled population would be 2.0% of GDP and of decreasing the share of low-skilled would be 2.7%. ** EU average is set as the benchmark.

3.5. Modernisation of public administration

Efforts to modernise public institutions have continued but due to fragmentation, lack of commitment to in-depth reforms and lack of strong policy steer, their impact remains limited. Some measures have been taken to reduce the administrative burden and towards smart regulation. Strategies for the development of public administration and e-government have been adopted by the government. However, the updated strategy for e-government is unlikely to bring it forward due to the vague objectives, lack of prioritisation and integrated approach, no operational and financial plan and unclear responsibility for implementation. Despite significant investments (through European Social Fund) in e-government there are no results yet. The update of the e-government portal which had to start delivering real time e-services has not been finalised. Institutional shortcomings and deficiencies in administrative capacity have persisted and affect key sectors of the economy.[48] Reforms in the energy and transportation sectors would help ensure improved access to the EU single market, enhance

[46] Final goods sector mark-ups is the difference between the selling price of a good/service and its cost. Entry cost refers to the cost of starting a business in the intermediate sector. The implicit consumption tax rate is a proxy for shifting taxation away from labour to indirect taxes. The benefit replacement rate is the % of a worker's pre-unemployment income that is paid out by the unemployment scheme. For a detailed explanation of indicators see Annex.

[47] For a detailed explanation of the transmission mechanisms of the reform scenarios see: European Commission (2013), "The growth impact of structural reforms", Chapter 2 in QREA No. 4. December 2013. Brussels; http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf

[48] Key institutional impediments to competitiveness continue to be policy instability and inefficient government, according to "The global competitiveness report 2013-2014", World Economic Forum, pp.138-139.

growth and competitiveness and attract foreign investment. Insufficient administrative capacity remains an important issue with a view to improving both public procurement procedures and regulatory supervision. In addition, institutional failings in the judicial system and in health and education have been highlighted in the past year. No progress has been made in strengthening the role of the administration and efficiency at local level. No steps have been taken to improve professionalism and merit-based career development of civil servants. The performance-based remuneration for civil servants introduced a year ago fails to yield results. On the contrary, it seems to justify political interference and fuel even further the inconsistencies in human resources management. Corruption perceptions remain high and may have a negative impact on investment and the overall business climate.

In 2013, Bulgaria received CSRs concerning public procurement, absorption of EU funds and judicial reform. The authorities were urged to enhance the functioning of the public procurement system and improve the absorption of EU funds. In addition, they were invited to improve the quality and independence of the judicial system and to fight corruption more effectively. Overall, Bulgaria has made only limited progress in these areas.

Public procurement and use of EU structural funds

Bulgarian public procurement legislation and its implementation give rise to concerns. A simple, codified legal framework is still lacking, while the complicated legal and regulatory landscape continue to create uncertainty. The amendments to the Public Procurement Law tabled by the Government in August 2013 were not an adequate response to the 2013 CSR. Furthermore, there are incompatibilities between national legislation and the EU legal framework for public procurement. Implementation is hindered by the complexity and lack of stability of the legal framework, lack of legal knowledge in the contracting authorities, limited and non-exhaustive ex-ante and ex-post controls of procurement procedures, as well as lack of an efficient review system and of a comprehensive e-procurement system. These serious shortcomings in the public procurement have created persistent difficulties and have been a major factor in delays in the implementation of 2007-13 Structural Funds projects. In the absence of a sound national plan for mandatory e-procurement, Bulgaria is missing out on the substantial transparency benefits that it can bring. At the end of 2013, a contract was concluded with the EBRD on consultancy services for the introduction of electronic public procurement in Bulgaria.

A well-functioning public procurement system is crucial, as public contracts amount to 17 % of GDP.[49] The need for broader, more consistent and efficient *ex-ante* control by the Public Procurement Agency has not been addressed adequately by the amendments to the Public Procurement Act drafted by the authorities in the second half of 2013. Although the Agency's *ex-ante* control powers would be extended to new categories of contracts, the scope of control performed on individual contracts would remain unchanged. A legislative amendment aimed to introduce electronic instruments in public procurement is under discussion in the Parliament.

The use of EU funds has increased, but further efforts to produce results and improve effectiveness are needed. Certified payments for cohesion policy funds (the ERDF, CF and ESF) rose from 26.7 % in 2012 to 45.5 % at the end of 2013. Despite their significant rise, this still leaves 54.5 % (EUR 3.63 billion) to be used in 2014-15. Successful performance of investments in the next programming period requires progress in implementing reforms that increase the efficiency of public administrations and public services. Effective implementation of the national strategy on the reform of the public procurement sector, which is currently under preparation, is key to achieving this.

[49] Source: Eurostat.

Justice

Judicial reform has started but appears to be insufficient and incomplete. An action plan for the reform of the prosecution offices has been launched, covering an 18-month period from September 2013 to March 2015. It includes internal restructuring of the central prosecutors' offices and the administration of the Prosecutor General, and streamlining of the structure of local prosecutors' offices. Currently, the strategy for the judiciary is being updated. The availability of ICT tools for the registration and management of cases has increased. However, Bulgaria does not regularly evaluate court activities nor has it set quality standards. Regarding the efficiency of the justice system, the 2014 EU Justice Scoreboard shows that the time taken to deal with insolvency cases is especially high in Bulgaria (over 3 years).[50] This increases uncertainty among market participants and reduces the country's overall attractiveness to investors.

The independence of the judiciary remains a key concern for the predictability, fairness and stability of the legal system in which businesses operate. Full implementation of the system of random allocation of cases is important to safeguard the independence of the judiciary. It is too early to assess whether the measures that have been or are currently carried out regarding promotions, appraisal and recruitment of judges would have a positive effect. The perceived independence of the judiciary in Bulgaria has fallen further and Bulgaria had the second worst rating in the EU for 2012-13.[51] The institutional deficiencies leading to corruption allegations were detailed in the latest report under the Cooperation and Verification Mechanism and in the 2014 EU Anti-Corruption Report.[52] Both reports acknowledged a few steps forward but noted that overall progress had not yet been sufficient, and was fragile. Consistent checks and dissuasive sanctions for conflicts of interest are needed. Anti-corruption institutions need to be coordinated and shielded from political influence, especially in managerial appointments.

[50] Source: *The 2014 EU Justice Scoreboard — Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions*, COM(2014) 155 final, available at: http://ec.europa.eu/justice/effective-justice/scoreboard/index_en.htm.

[51] World Economic Forum, *The Global Competitiveness Report; 2013-2014*, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf.

[52] *CVM report 2014, EU Anti-Corruption Report*, COM(2014) 38 final, 3 February 2014, http://ec.europa.eu/anti-corruption-report.

4. CONCLUSIONS

Despite the positive developments in terms of fiscal and financial sector stability, Bulgaria has not been able to benefit from the global rebound after the crisis. Low employment rates and high unemployment among the low-skilled and young people reflect persistent skill and regional mismatches as well as the low quality and low relevance to labour market needs of the education and training systems. A persistent and significant proportion of the population is thus vulnerable to poverty and social exclusion. As a small, open economy, Bulgaria relies on foreign financing to fuel its output growth. Therefore, improving the business environment, public administration and infrastructure are essential to further enhancing Bulgaria's growth potential.

The analysis in this staff working document leads to the conclusion that Bulgaria has made limited progress in addressing the 2013 country-specific recommendations. On the positive side, the government has achieved its medium-term objective for public finances, despite the slow economic recovery. The authorities also took some steps towards improving tax collection and the business environment. However, the current pace of reform is insufficient to address the challenges and the implementation of past reforms is lagging behind in a number of areas. Only limited progress has been made in implementing the 2013 recommendations on the labour market, education, healthcare, poverty and social exclusion, as no substantial measures have been adopted in these areas despite protracted delays. There is also a need for real and tangible progress in public administration and judicial reforms, with results so far remaining very limited. Moreover, the government initially moved in the wrong direction on pension reform and sent conflicting signals in the areas of energy, taxation and public procurement.

The policy plans submitted by Bulgaria are relevant and specific but implementation of the measures needs to be monitored to ensure it is effective. Bulgaria confirms its existing strategies, which focus on sound public finances, increasing investment in infrastructure and the absorption of EU funds across sectors, and improving the business environment. However, reforms, particularly in the public administration, labour market, education and the energy sector lack the ambition and forward-looking vision needed to address the challenges in a comprehensive way. The effectiveness of the national reform programme will depend on the proper design of the measures outlined and their fully and swift implementation in respect of the timetable set in the programme.

OVERVIEW TABLE

2013 commitments	Summary assessment[53]
Country-specific recommendations (CSRs)	
CSR 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.	Bulgaria has made **some progress** in addressing the CSR 1: • Some progress in ensuring compliance with the MTO. Measured against the recalculated structural balance and also taking into account the so called "investment clause", Bulgaria was compliant with the Pact in 2013. However, there is a risk of deviation from the MTO in 2014-15. • Limited progress on legislation to improve tax collection and reducing tax compliance costs. The measures taken to fight tax evasion do not address the issues in a comprehensive way. • Some progress in establishing a fiscal council. In the second half of 2013 the government submitted a proposal to the Parliament on the establishment of an independent body whose mandate includes monitoring the national numerical fiscal rules set out in the Public Finance Act.
CSR 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.	Bulgaria has made **no progress** in addressing the CSR 2: • Some measures are reversing the reform: freezing of the increase in pensionable age and reintroducing early retirement options. • No commitment to equalise the statutory retirement age for men and women. • No underpinning with active labour market measures that promote the employability of older workers. • No effective changes in eligibility criteria and checks on the allocation of invalidity pensions. • Re-introduction of a partial wage indexation rule ('the Swiss rule') for pensions.
CSR 3: Accelerate the national Youth Employment Initiative, for example through a Youth Guarantee.	Bulgaria has made **limited progress** in addressing

53 The following categories are used to assess progress in implementing the 2013 country specific recommendations.
No progress: The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures.
Limited progress: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk.
Some progress: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases.
Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the CSR.
Fully addressed: The Member State has adopted and implemented measures that address the CSR appropriately.

Further strengthen the capacity of the Employment Agency with a view to providing effective counselling to jobseekers and develop capacity for identifying 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.	the CSR 3: • Limited progress in implementing a functioning Youth Guarantee. The monitoring and evaluation mechanisms of the YG remain weak. • Limited progress concerning strengthening of the capacity of the Employment Agency and developing capacity to identify and match skill needs. The system for forecasting skill needs is not operational yet. • Limited progress in enhancing active labour-market policies, as policies are not well targeted and impact assessment is missing. • Some action taken to analyse the impact of increases in minimum thresholds, but with no clear conclusions and policy follow-up. • Some progress in delivering the National Strategy on Poverty, with the adoption of a National Strategy for Long-term Care and continuation of the process of deinstitutionalisation of children. Progress is limited on improving the accessibility and effectiveness of social transfers and services, in particular for children and older people. • No progress related to concrete delivery of the National Roma Integration Strategy. Measures still need to be scaled up and integrated into a comprehensive approach towards the inclusion of Roma children.
CSR 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.	Bulgaria has made **no progress** in addressing the CSR 4: • No progress on the School Education Act as its approval has been postponed again. • Limited progress in pursuing reform of higher education, a strategy in this area is currently drafted. • No progress in improving access to inclusive education for disadvantaged children, in particular Roma. • Limited progress in ensuring effective access to healthcare and improving the pricing of healthcare services. The National Healthcare Strategy 2014-20 has been approved but it lacks a clear implementation timeframe.
CSR 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.	Bulgaria has made **limited progress** in addressing the CSR 5: • Some progress in reducing the administrative burden with a few measures implemented and many more in the pipeline. Foreign trade procedures and the ease of paying taxes show some improvements. • No progress has been made in the introduction of e-government. A new strategy is being drafted. • Some progress on the late payments directive — it has been transposed into national law. Its

	impact on business operation remains to be seen. • Limited progress in improving the quality and independence of judiciary, as also confirmed by the 2014 CVM report. The strategy for the judiciary is being updated. • Limited progress in improving access to finance for SMEs and start-ups. JEREMIE-funded seed and venture capital funds have been successful, but SMEs still face difficulties in bank financing.
CSR 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.	Bulgaria has made **limited progress** in addressing the CSR 6: • Some progress in accelerating absorption (almost doubled in 2013). The effectiveness of investments remains to be assessed. • Limited progress in the extension of ex ante control by the Public Procurement Agency. Proposed legislative amendments aim at including new types of contracts for ex ante control but have not broadened the scope of supervision of individual contracts.
CSR 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.	Bulgaria has made **limited progress** in addressing the CSR 7: • No progress in strengthening the independence and effectiveness of regulation. Administrative capacity is insufficient and staff turnover is high. No progress in strengthening the capacity of the regulator to perform its responsibilities in the water sector. Some progress in waste management through changing the local taxes law. The reform of the Road Infrastructure Agency has not started yet. • Limited progress in setting up transparent wholesale markets. Bulgaria transposed the missing elements of the 'Third Package' electricity and gas directives and unbundled the system operator in the power sector. • Limited progress in accelerating electricity and gas interconnector projects, with only one small project completed. • Limited progress in energy efficiency, shown through the early delivery of obligation schemes and technical preparation of the calculation methods.
Europe 2020 (national targets and progress)	
Policy field target	**Progress achieved**
Early school leaving target: 11 %	The early school leaving rate was 13.9% in 2010, 11.8% in 2011 and 12.5% in both 2012 and 2013. No progress towards meeting the target. A strategy on early school leaving has been finalised.
Tertiary education target: 36 %	The tertiary attainment rate was 27.7% in 2010,

	27.3% in 2011, 26.9% in 2012 and 29.4% in 2013. Some progress towards meeting the target. A strategy on higher education has been prepared and is under discussion in the National Assembly.
Employment rate target (in %): 76 %	The employment rate increased marginally to 63.5% in 2013 (62.9% in 2011 and 63% in 2012).
Target on the reduction of population at risk of poverty in number of persons: Decrease by 260 000 (baseline (2008): 1 632 000).	People at risk of poverty (2012): 1 559 000. Some progress has been achieved towards the target.
R&D target: 1.5 % of GDP	R&D intensity in 2012 was 0.64% of GDP. It increased from 0.57% in 2011 to 0.64% in 2012, but this was due only to an increase in business R&D intensity, while public R&D intensity continued to decline.
Energy Efficiency target: 25 % in primary energy savings and 50 % energy intensity reduction by 2020 By 2020: level of 15.8 Mtoe primary consumption and 9.16 Mtoe final energy consumption	During the period 2000–2009 the primary and the final energy intensity decreased at an average annual rate of about 5%. In 2010 and 2011 the primary energy intensity increased by 1.6% and 5.4%, and the final energy intensity by 2.1% and 2.5% respectively.[54]
2020 Renewable energy target: 16 %	With a RES share of 16.3% in 2012, Bulgaria had already reached its 2020 RES target.
Greenhouse gas (GHG) emissions target: +20 % (compared to 2005 emissions, ETS emissions are not covered by this national target)	Change in non-ETS greenhouse gas emissions between 2005 and 2012: +8%. According to the latest national projections submitted to the Commission and taking into account existing measures, it is expected that the target will be missed: +23% in 2020 as compared with 2005.

[54] Based on the 2014 update of the NRP. Commission services have not received the new National Action Plan on Energy Efficiency by 15 May 2014.

ANNEX

Standard Tables

Table I. Macroeconomic indicators

	1996-2000	2001-2005	2006-2010	2011	2012	2013	2014	2015
Core indicators								
GDP growth rate	0.4	5.5	2.8	1.8	0.6	0.9	1.7	2.0
Output gap [1]	n.a	2.5	1.8	-0.7	-0.6	-1.2	-1.4	-1.7
HICP (annual % change)	10.5	5.5	6.5	3.4	2.4	0.4	-0.8	1.2
Domestic demand (annual % change) [2]	2.5	7.8	1.7	0.0	3.1	-1.1	2.2	1.9
Unemployment rate (% of labour force) [3]	14.2	14.7	7.7	11.3	12.3	13.0	12.8	12.5
Gross fixed capital formation (% of GDP)	14.1	20.3	28.3	21.5	21.4	20.7	21.6	21.8
Gross national saving (% of GDP)	13.9	16.0	16.1	22.0	20.9	22.8	22.8	22.2
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.9**	**0.5**	**-0.5**	**-2.0**	**-0.8**	**-1.5**	**-1.9**	**-1.8**
Gross debt	**84.0**	**45.4**	**16.7**	**16.3**	**18.4**	**18.9**	**23.1**	**22.7**
Net financial assets	**14.4**	**5.3**	**6.8**	**1.3**	**0.4**	**n.a**	**n.a**	**n.a**
Total revenue	38.6	39.5	37.6	33.6	35.0	37.2	37.5	37.7
Total expenditure	40.5	39.0	38.2	35.6	35.8	38.7	39.4	39.5
of which: Interest	8.2	2.5	1.0	0.7	0.9	0.8	0.8	0.8
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**6.1**	**1.7**	**-5.9**	**6.8**	**5.5**	**n.a**	**n.a**	**n.a**
Net financial assets; non-financial corporations	**-67.3**	**-77.2**	**-173.6**	**-187.0**	**-160.9**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**0.1**	**-2.6**	**-14.4**	**10.9**	**-0.2**	**n.a**	**n.a**	**n.a**
Gross capital formation	10.3	18.1	24.6	16.7	18.7	n.a	n.a	n.a
Gross operating surplus	25.7	27.7	29.1	31.3	30.2	n.a	n.a	n.a
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**-8.0**	**-7.8**	**-8.0**	**-3.6**	**-5.0**	**n.a**	**n.a**	**n.a**
Net financial assets	**45.9**	**50.4**	**65.2**	**74.7**	**79.4**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	26.7	31.1	31.7	33.1	32.2	n.a	n.a	n.a
Net property income	4.3	0.4	0.4	-0.1	0.1	n.a	n.a	n.a
Current transfers received	13.0	15.6	13.7	15.4	15.4	n.a	n.a	n.a
Gross saving	-6.7	-7.2	-5.9	-1.8	-3.5	n.a	n.a	n.a
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.8**	**-5.9**	**-14.7**	**1.3**	**0.4**	**3.2**	**2.4**	**1.6**
Net financial assets	**10.2**	**26.5**	**119.4**	**106.0**	**87.2**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-0.2	-10.9	-13.7	0.0	-3.1	-0.9	-1.2	-1.2
Net primary income from the rest of the world	-2.7	1.1	-3.7	-3.4	-1.8	-2.0	-2.8	-3.1
Net capital transactions	n.a	n.a	n.a	n.a	n.a	n.a	1.4	1.3
Tradable sector	54.3	51.2	46.7	48.2	48.9	47.3	n.a	n.a
Non tradable sector	34.3	35.5	38.0	38.4	37.0	38.6	n.a	n.a
of which: Building and construction sector	4.0	4.5	6.9	5.6	5.3	4.8	n.a	n.a
Real effective exchange rate (index, 2000=100)	77.5	95.8	119.9	141.5	143.2	151.1	155.6	155.6
Terms of trade goods and services (index, 2000=100)	91.9	99.1	105.3	108.2	107.3	107.4	107.8	107.7
Market performance of exports (index, 2000=100)	132.0	117.3	140.7	161.0	164.5	178.0	181.1	183.6

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:

Commission 2014 spring forecast (COM); Convergence programme (CP).

Table II. Comparison of macroeconomic developments and forecasts

	2013		2014		2015		2016	2017
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	0.9	0.9	1.7	2.1	2.0	2.6	3.4	3.4
Private consumption (% change)	-2.3	-2.3	1.3	1.3	1.7	3.0	4.3	4.4
Gross fixed capital formation (% change)	-0.3	-0.3	5.5	2.1	2.5	4.3	5.4	6.0
Exports of goods and services (% change)	8.9	8.9	4.9	6.9	6.5	5.9	6.1	6.2
Imports of goods and services (% change)	5.7	5.7	5.5	6.3	6.4	6.6	7.1	7.4
Contributions to real GDP growth:								
- Final domestic demand	-1.2	-1.2	2.2	1.7	2.0	3.2	4.3	4.5
- Change in inventories	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0
- Net exports	2.0	2.0	-0.5	0.3	0.0	-0.6	-0.9	-1.1
Output gap[1]	-1.2	-1.5	-1.4	-1.5	-1.7	-1.4	-0.7	-0.1
Employment (% change)	-0.3	-0.4	0.3	0.1	0.4	0.5	0.9	0.7
Unemployment rate (%)	13.0	12.9	12.8	12.9	12.5	12.8	12.7	12.6
Labour productivity (% change)	1.1	1.3	1.4	2.0	1.6	2.1	2.5	2.7
HICP inflation (%)	0.4	0.4	-0.8	-0.2	1.2	2.4	1.7	1.8
GDP deflator (% change)	-0.8	-0.8	0.9	1.1	1.6	1.8	1.7	1.8
Comp. of employees (per head, % change)	6.0	6.6	3.6	3.5	3.3	4.4	5.1	4.7
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	3.2	3.0	2.4	2.1	1.6	1.3	0.6	-0.2

Note:

[1] In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Commission 2014 spring forecast (COM); Convergence programme (CP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2013	2014		2015		2016	2017	Change: 2013-2017
	COM	COM	CP	COM[1]	CP	CP	CP	CP
Revenue	**37.2**	**37.5**	**38.0**	**37.7**	**37.1**	**35.7**	**35.3**	**-1.9**
of which:								
- Taxes on production and imports	15.1	15.0	16.4	15.1	16.7	16.8	17.0	1.9
- Current taxes on income, wealth, etc.	5.2	5.2	5.5	5.3	5.5	5.5	5.5	0.3
- Social contributions	7.8	7.8	7.8	7.9	7.5	7.4	7.2	-0.6
- Other (residual)	9.2	9.4	8.3	9.3	7.4	6.0	5.6	-3.6
Expenditure	**38.7**	**39.4**	**39.9**	**39.5**	**38.6**	**36.9**	**36.2**	**-2.5**
of which:								
- Primary expenditure	37.9	38.6	39.1	38.6	37.7	36.0	35.2	-2.7
of which:								
Compensation of employees	9.9	9.9	9.6	9.9	9.3	9.0	8.7	-1.2
Intermediate consumption	5.9	5.9	5.7	6.0	5.7	5.5	5.4	-0.5
Social payments	14.4	14.8	14.7	14.7	14.4	14.1	13.7	-0.7
Subsidies	1.2	1.1	1.0	1.1	0.9	0.9	0.9	-0.3
Gross fixed capital formation	4.1	4.4	5.7	4.4	5.1	4.4	4.3	0.2
Other (residual)	2.3	2.5	2.5	2.6	2.1	2.1	2.2	-0.1
- Interest expenditure	0.8	0.8	0.8	0.8	0.9	0.9	1.0	0.2
General government balance (GGB)	**-1.5**	**-1.9**	**-1.8**	**-1.8**	**-1.5**	**-1.1**	**-0.9**	**0.6**
Primary balance	**-0.7**	**-1.1**	**-1.1**	**-1.0**	**-0.6**	**-0.2**	**0.1**	**0.8**
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	**-1.5**	**-1.9**	**-1.8**	**-1.8**	**-1.5**	**-1.1**	**-0.9**	**0.6**
Output gap[2]	-1.2	-1.4	-1.5	-1.7	-1.4	-0.7	-0.1	1.1
Cyclically-adjusted balance[2]	-1.1	-1.5	-1.3	-1.2	-1.0	-0.9	-0.9	0.3
Structural balance (SB)[3]	**-1.1**	**-1.5**	**-1.3**	**-1.2**	**-1.0**	**-0.9**	**-0.9**	**0.1**
Change in SB	*-0.6*	*-0.4*	*-0.3*	*0.2*	*0.3*	*0.2*	*0.0*	-
Two year average change in SB	*0.3*	*-0.5*	*-0.4*	*-0.1*	*0.0*	*0.2*	*0.1*	-
Structural primary balance[3]	-0.3	-0.7	-0.5	-0.4	-0.1	0.0	0.1	0.4
Change in structural primary balance		*-0.3*	*-0.3*	*0.2*	*0.4*	*0.2*	*0.1*	-
Expenditure benchmark								
Applicable reference rate[4]	n.a.	2.1	2.1	1.8	1.8	n.a.	n.a.	n.a.
Deviation[5] (% GDP)	n.a.	0.0	2.0	-0.4	0.5	n.a.	n.a.	n.a.
Two-year average deviation (% GDP)	n.a.	0.0	1.0	-0.2	1.3	n.a.	n.a.	n.a.

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Convergence programme (CP); Commission 2014 spring forecast (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2008-2012	2013	2014		2015		2016	2017
			COM	CP	COM	CP	CP	CP
Gross debt ratio[1]	**15.9**	**18.9**	**23.1**	**22.8**	**22.7**	**22.2**	**23.3**	**20.6**
Change in the ratio	0.2	0.4	4.2	3.9	-0.3	-0.6	1.1	-2.7
Contributions [2] :								
1. Primary balance	**0.9**	**0.7**	**1.1**	**1.1**	**1.0**	**0.6**	**0.2**	**-0.1**
2. "Snow-ball" effect	**0.0**	**0.8**	**0.3**	**0.1**	**0.0**	**-0.1**	**-0.2**	**-0.1**
Of which:								
Interest expenditure	0.8	0.8	0.8	0.7	0.8	0.9	0.9	1.0
Growth effect	-0.1	-0.2	-0.3	-0.4	-0.4	-0.6	-0.7	-0.8
Inflation effect	-0.7	0.2	-0.2	-0.2	-0.4	-0.4	-0.4	-0.4
3. Stock-flow adjustment	**-0.6**	**-1.1**	**2.7**	**2.7**	**-1.3**	**-1.1**	**1.1**	**-2.4**
Of which:								
Cash/accruals diff.				0.0		0.0	0.0	0.0
Acc. financial assets				0.0		0.0	0.0	0.0
Privatisation				0.2		0.1	0.0	0.0
Val. effect & residual				0.1		0.1	0.1	0.1

	2013	2014		2015		2016	2017
		COM	CP	COM	CP	CP	CP
Gap to the debt benchmark[3,4]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Structural adjustment[5]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
To be compared to:							
Required adjustment[6]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[4]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[5]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[6]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP/CP) budgetary projections for the previous years are achieved.

Source :

Convergence programme (CP); Commission 2014 spring forecast (COM); Commission calculations.

Table V. Sustainability indicators

	Bulgaria			European Union		
	2013 scenario	**No-policy-change scenario**	**Convergence programme scenario**	**2013 scenario**	**No-policy-change scenario**	**Convergence programme scenario**
S2*	3.0	3.4	2.9	2.4	2.4	0.7
of which:						
Initial budgetary position (IBP)	0.7	0.8	0.7	0.5	0.4	-1.3
Long-term cost of ageing (CoA)	2.3	2.6	2.2	1.9	2.0	2.0
of which:						
pensions	1.5	1.8	1.5	0.7	0.8	0.9
healthcare	0.4	0.4	0.3	0.9	0.9	0.8
long-term care	0.2	0.2	0.2	0.6	0.6	0.6
others	0.2	0.2	0.1	-0.4	-0.4	-0.3
S1**	-1.5	-1.2	-3.3	1.5	1.7	-0.2
of which:						
Initial budgetary position (IBP)	0.2	0.2	-0.6	-0.2	-0.4	-2.0
Debt requirement (DR)	-2.4	-2.5	-3.3	1.5	1.8	1.5
Long-term cost of ageing (CoA)	0.7	1.0	0.7	0.2	0.3	0.3
S0 (risk for fiscal stress)***	0.26	:		:		
Debt as % of GDP (2013)	18.9			88.9		
Age-related expenditure as % of GDP (2013)	17.4			25.8		

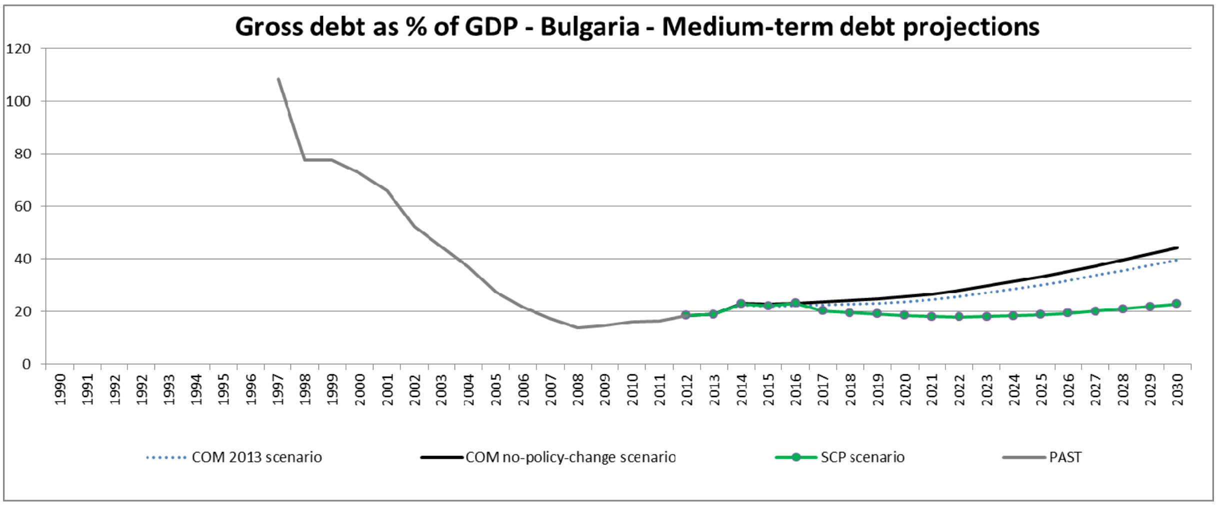
Source *: Commission; 2014 convergence programme.*

Note : The 2013 scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2013 in line with the Commission's 2014 spring forecast. The 'no-policy-change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2015 in line with the Commission's 2014 spring forecast. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented. Age-related expenditure as given in the 2012 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position (IBP), which gives the gap vis-à-vis the debt-stabilising primary balance and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that, in an infinite horizon, the growth in the debt ratio is bound by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60 % debt threshold. The following thresholds were used for the S2 indicator: (i) if the value of S2 is lower than 2, the country is classed as low risk; (ii) if it is between 2 and 6, it is classed as medium risk; and (iii) if it is greater than 6, it is classed as high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance in the period to 2020 and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure by the target date, arising from population ageing. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is classed as low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp of GDP per year until 2020 after the last year covered by the 2014 spring forecast (2015) is required (indicating a cumulated adjustment of 2.5 pp), it is classed as medium risk; and (iii) if the S1 value is greater than 2.5 (i.e. a structural adjustment of more than 0.5 pp of GDP per year is necessary), it is classed as high risk.

*** The S0 indicator reflects up-to-date evidence on the role played by fiscal and financial competitiveness variables in creating potential fiscal risks. The methodology for the S0 indicator differs fundamentally from that for the S1 and S2 indicators. Unlike S1 and S2, S0 is not a quantification of the required fiscal adjustment effort, but a composite indicator which estimates the extent to which there might be a risk of fiscal stress in the short term. The critical threshold for the S0 indicator is 0.43.


Gross debt as % of GDP - Bulgaria - Medium-term debt projections
120
100
80
60
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2030
COM 2013 scenario
COM no-policy-change scenario
SCP scenario
PAST

Table VI. Taxation indicators

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	28.5	30.7	32.3	27.5	27.3	27.9
Breakdown by economic function (% of GDP)[1]						
Consumption	11.9	16.6	17.2	14.4	14.2	14.9
of which:						
- VAT	7.3	10.7	10.9	9.2	8.7	9.4
- excise duties on tobacco and alcohol	1.6	2.2	2.8	2.5	2.6	2.6
- energy	2.1	2.5	3.0	2.6	2.6	2.5
- other (residual)	0.9	1.1	0.4	0.2	0.3	0.3
Labour employed	11.9	10.0	9.7	9.0	9.2	9.1
Labour non-employed	0.0	0.1	0.1	0.1	0.1	0.1
Capital and business income	4.2	3.2	4.3	3.2	3.1	3.1
Stocks of capital/wealth	0.5	0.8	1.0	0.8	0.8	0.8
p.m. Environmental taxes[2]	2.3	2.9	3.4	2.9	2.9	2.8
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	45.1	71.6	75.6	65.5	62.9	65.1

Note:

1. Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2014), Taxation trends in the European Union, for a more detailed explanation.

2. This category comprises taxes on energy, transport and pollution, and resources included in taxes on consumption and capital.

3. The VAT efficiency is measured via the VAT revenue ratio. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). It should be noted that the relative size of cross-border shopping compared to domestic consumption also influences the value of the ratio, notably for smaller economies. See European Commission (2012), Tax Reforms in EU Member States and OECD (2012), Consumption tax trends for a more detailed discussion.

Source: Commission

Table VII. Financial market indicators

	2009	2010	2011	2012	2013
Total assets of the banking sector (% of GDP)	108.6	111.2	109.5	113.7	118.7
Share of assets of the five largest banks (% of total assets)	58.3	55.2	52.6	50.4	-
Foreign ownership of banking system (% of total assets)	83.7	80.5	75.0	73.0	-
Financial soundness indicators:					
- non-performing loans (% of total loans)[1),2)]	6.4	11.9	15.0	16.6	-
- capital adequacy ratio (%) [1)]	17.0	17.4	17.6	16.6	-
- return on equity (%) [1), 3)]	9.8	7.8	5.7	6.3	-
Bank loans to the private sector (year-on-year % change)	4.1	1.6	3.8	3.5	1.1
Lending for house purchase (year-on-year % change)	8.6	3.7	1.3	1.0	-0.8
Loan to deposit ratio	126.4	117.4	107.6	102.4	94.1
CB liquidity as % of liabilities	0.0	0.0	0.0	0.0	0.0
Banks' exposure to countries receiving official financial assistance (% of GDP)	-	-	-	-	-
Private debt (% of GDP)	142.9	140.6	133.4	130.9	-
Gross external debt (% of GDP)					
- Public	8.1	7.9	7.2	8.7	8.3
- Private	76.6	75.4	71.0	69.5	70.8
Long term interest rates spread versus Bund (basis points)*	399.3	326.2	274.8	300.3	190.3
Credit default swap spreads for sovereign securities (5-year)*	351.5	254.2	248.6	227.7	102.1

Notes:

[1)] Latest data December 2012.

[2)] Excludes loans to credit institutions.

[3)] After extraordinary items and taxes. Tier 1 capital.

* Measured in basis points.

Source:

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2008	2009	2010	2011	2012	2013
Employment rate (% of population aged 20-64)	70.7	68.8	65.4	62.9	63.0	63.5
Employment growth (% change from previous year)	2.4	-1.7	-3.9	-2.2	-2.5	-0.4
Employment rate of women (% of female population aged 20-64)	65.4	64.0	61.7	59.8	60.2	60.7
Employment rate of men (% of male population aged 20-64)	76.1	73.8	69.1	66.0	65.8	66.4
Employment rate of older workers (% of population aged 55-64)	46.0	46.1	43.5	44.6	45.7	47.4
Part-time employment (% of total employment, 15 years and more)	2.3	2.3	2.4	2.4	2.4	2.7
Part-time employment of women (% of women employment, 15 years and more)	2.7	2.7	2.6	2.6	2.7	3.2
Part-time employment of men (% of men employment, 15 years and more)	2.0	2.0	2.2	2.1	2.2	2.2
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	5.0	4.7	4.5	4.1	4.5	5.7
Transitions from temporary to permanent employment	49.7	46.7	36.7	38.6	40.9	:
Unemployment rate[1] (% of labour force, age group 15-74)	5.6	6.8	10.3	11.3	12.3	13.0
Long-term unemployment rate[2] (% of labour force)	2.9	3.0	4.8	6.3	6.8	7.4
Youth unemployment rate (% of youth labour force aged 15-24)	11.9	15.1	21.8	25.0	28.1	28.4
Youth NEET rate (% of population aged 15-24)	17.4	19.5	21.8	21.8	21.5	21.6
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	14.8	14.7	13.9	11.8	12.5	12.5
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	27.1	27.9	27.7	27.3	26.9	29.4
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	2.0	1.0	1.0	0.0	0.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	9.0	7.0	6.0	7.0	8.0	:
Labour productivity per person employed (annual % change)	3.7	-3.8	4.4	4.1	3.2	1.3
Hours worked per person employed (annual % change)	2.4	-2.8	-0.1	-0.1	0.1	0.1
Labour productivity per hour worked (annual % change; constant prices)	1.3	-1.1	4.5	4.2	3.1	1.1
Compensation per employee (annual % change; constant prices)	7.7	3.6	6.9	1.8	4.5	7.4
Nominal unit labour cost growth (annual % change)	12.6	12.4	5.2	2.5	4.4	:
Real unit labour cost growth (annual % change)	3.8	7.7	2.4	-2.2	1.3	:

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2007	2008	2009	2010	2011
Sickness/Health care	3.7	4.4	3.9	4.2	4.5
Invalidity	1.1	1.2	1.4	1.4	1.4
Old age and survivors	7.0	7.4	8.6	9.0	8.6
Family/Children	1.2	1.3	2.0	2.0	1.9
Unemployment	0.3	0.3	0.5	0.6	0.6
Housing and Social exclusion n.e.c.	0.0	0.0	0.0	0.0	0.0
Total	13.7	15.0	16.7	17.6	17.2
of which: means tested benefits	0.7	0.7	0.7	0.8	0.7

Social inclusion indicators	2008	2009	2010	2011	2012
At-risk-of-poverty or social exclusion[1] (% of total population)	44.8	46.2	49.2	49.1	49.3
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	44.2	47.3	49.8	51.8	52.3
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	65.5	66.0	63.9	61.1	59.1
At-Risk-of-Poverty rate[2] (% of total population)	21.4	21.8	20.7	22.2	21.2
Severe Material Deprivation[3] (% of total population)	41.2	41.9	45.7	43.6	44.1
Share of people living in low work intensity households[4] (% of people aged 0-59)	8.1	6.9	8.0	11.0	12.5
In-work at-risk-of poverty rate (% of persons employed)	7.5	7.4	7.7	8.2	7.4
Impact of social transfers (excluding pensions) on reducing poverty	21.0	17.4	23.6	19.0	18.1
Poverty thresholds, expressed in national currency at constant prices[5]	2 369	2 755	2 869	2 690	2 553
Gross disponsable income (households)	41 859	41 174	41 802	44 879	46 416
Relative median poverty risk gap (60% of median equivalised income, age: total)	27.0	27.4	29.6	29.4	31.4

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Labour productivity[1] total economy (annual growth in %)	3.3	-1.6	4.6	4.4	2.6	n.a.
Labour productivity[1] in manufacturing (annual growth in %)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	1.2	1.3	8.5	4.1	-7.3	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	-4.7	7.0	1.1	10.9	4.8	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	5.8	4.4	3.4	3.4	n.a.	n.a.
Policy indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Enforcing contracts[3] (days)	564.0	564	564	564	564	564
Time to start a business[3] (days)	35.4	18	18	18	18	18
R&D expenditure (% of GDP)	0.5	0.5	0.6	0.6	0.6	n.a.
Tertiary educational attainment (% of 30-34 years old population)	25.7	27.9	27.7	27.3	26.9	29.4
Total public expenditure on education (% of GDP)	4.2	4.6	4.1	3.8	n.a.	n.a.
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	1.6
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	0.2
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	2.5

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html.

[5] Aggregate ETCR.

Source :

Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green growth

		2003-2007	2008	2009	2010	2011	2012
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	1.08	0.90	0.84	0.85	0.90	0.85
Carbon intensity	kg / €	3.55	3.03	2.77	2.88	3.10	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	7.01	6.96	5.89	5.78	6.29	n.a.
Waste intensity	kg / €	n.a.	7.60	n.a.	8.00	n.a.	n.a.
Energy balance of trade	% GDP	-0.7%	-8.4%	-5.3%	-6.1%	-6.7%	-7%
Energy weight in HICP	%	15	14	13	14	12	14
Difference between change energy price and inflation	%	1.78	-1.3	3.2	-3.7	-0.4	6.5
Environmental taxes over labour taxes	ratio	27.2%	35.4%	31.1%	32.0%	31.2%	n.a.
Environmental taxes over total taxes	ratio	9.7%	10.7%	10.5%	10.6%	10.6%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.87	0.65	0.47	0.48	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.06	0.06	0.06	0.06	0.07
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.02	0.03	0.03	0.03	0.04
Public R&D for energy	% GDP	n.a.	0.03%	0.01%	0.00%	0.00%	0.00%
Public R&D for the environment	% GDP	n.a.	0.00%	0.00%	0.01%	0.01%	0.01%
Recycling rate of municipal waste	ratio	18.3%	19.4%	19.9%	24.5%	26.2%	25.0%
Share of GHG emissions covered by ETS*	%	n.a.	57.3%	55.5%	55.6%	60.6%	57.4%
Transport energy intensity	kgoe / €	1.16	1.25	1.18	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	3.17	3.42	3.28	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	47.5%	51.7%	45.1%	39.6%	36.0%	36.1%
Diversification of oil import sources	HHI	n.a.	0.41	0.39	0.58	0.58	n.a.
Diversification of energy mix	HHI	0.27	0.27	0.26	0.27	0.29	0.27
Share renewable energy in energy mix	%	5.2%	5.3%	6.3%	8.2%	7.1%	8.9%

Country-specific notes:
The year 2012 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)
Waste intensity: waste (in kg) divided by GDP (in EUR)
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)
Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)
Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector
Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels
Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents
* Commission and EEA.
** For 2007 average of S1 & S2 for DE, HR, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for HR, IT, NL, FI, SE & UK. Other countries only have S2.

Indicators used in box 5 on potential impact on growth of structural reforms

Final goods sector mark-ups: price cost margin, i.e. the difference between the selling price of a good or service and its cost. Final goods mark-ups are proxied by the mark-ups in selected services sectors (transport and storage, post and telecommunications, electricity, gas and water supply, hotels and restaurants and financial intermediation but excluding real estate and renting of machinery and equipment and other business activities[55]). Source: Commission services estimation using the methodology of Roeger (1995) based on EUKLEMS 1996-2007 data.

Entry costs: cost of starting a business in the intermediate sector. The intermediate sector is proxied by the manufacturing sector in the model.
Source: starting business costs in % of income per capita, 2012 data. Doing Business Database. www.doingbusiness.org

Implicit consumption tax rate: defined as total taxes on consumption over the value of private consumption. In the simulations it is used as a proxy for shifting taxation away from labour to indirect taxes; the implicit consumption tax-rates are increased (halving the gap vis-à-vis the best performers) while labour tax-rates are reduced, so that the combined impact is ex-ante budgetary neutral.
Source: European Commission, Taxation trends in the European Union, 2013 edition, Luxembourg, 2013, 2011 data.

Shares of high-skilled and low-skilled: share of high skilled workers are increased, share of low-skilled workers are reduced (halving the gap vis-à-vis the best performers). Skill definitions: Low-skilled correspond to ISCED 0-2 categories, high-skilled correspond to scientists (in mathematics and computing, engineering, manufacturing and construction). The remainder is medium-skilled.
Source: 2012 data or latest available, EUROSTAT.

Female non-participation rate: percentage of female that do not work/search for a job (non-active female population/female of a working age)
Source: 2012 data or latest available, EUROSTAT.

Low-skilled male non-participation rates: percentage of low-skilled male that do not work/search for a job (non-active low-skilled male population/ male of a working age)
Source: 2012 data or latest available, EUROSTAT.

Elderly non-participation rates (55-64y): it is the percentage of the elderly population (55-64ys) that do not work/search for a job (non-active elderly population/55-64y population)
Source: 2012 data or latest available, EUROSTAT.

[55] The real estate sector is excluded because of statistical difficulties of estimating a mark-up in this sector. The sector renting of machinery and equipment and other business activities is conceptually part of intermediate goods sector.

ALMP: Active Labour Market Policy expenditures in % GDP over the share of unemployed in the population.
Source: 2011 or latest available data. EUROSTAT

Benefit replacement rate: % of a worker's pre-unemployment income that is paid out by the unemployment scheme.
Source: average of net replacement rates over 60 months of unemployment, 2012 data, OECD, Benefits and Wages Statistics. www.oecd.org/els/benefitsandwagesstatistics.htm.