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Recommendation for a

COUNCIL RECOMMENDATION

**on the 2020 National Reform Programme of Bulgaria and delivering a Council opinion
on the 2020 Convergence Programme of Bulgaria**

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹, and in particular Article 9(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances², and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) On 17 December 2019, the Commission adopted the Annual Sustainable Growth Strategy, marking the start of the 2020 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. On 17 December 2019, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified Bulgaria as one of the Member States for which an in-depth review would be carried out.
- (2) The 2020 country report for Bulgaria³ was published on 26 February 2020. It assessed Bulgaria's progress in addressing the country-specific recommendations adopted by the Council on 9 July 2019⁴, the follow-up given to the recommendations adopted in previous years and Bulgaria's progress towards its national Europe 2020 targets. It also

¹ OJ L 209, 2.8.1997, p. 1.

² OJ L 306, 23.11.2011, p. 25.

³ SWD(2020) 501 final.

⁴ OJ C 301, 5.9.2019, p. 117–122.

included an in-depth review under Article 5 of Regulation (EU) No 1176/2011, the results of which were also published on 26 February 2020. The Commission's analysis led it to conclude that Bulgaria is not experiencing macroeconomic imbalances anymore. In the past years, vulnerabilities in the financial sector were coupled with high indebtedness and non-performing loans in the corporate sector. Imbalances are no longer identified because consistent policy action and a favourable macroeconomic environment have reduced risk and vulnerabilities further.

- (3) On 11 March 2020, the World Health Organization officially declared the COVID-19 outbreak a global pandemic. It is a severe public health emergency for citizens, societies and economies. It is putting national health systems under severe strain, disrupting global supply chains, causing volatility in financial markets, triggering consumer demand shocks and having negative effects across various sectors. It is threatening people's jobs, their incomes and companies' business. It has delivered a major economic shock that is already having serious repercussions in the European Union. On 13 March 2020, the Commission adopted a Communication⁵ calling for a coordinated economic response to the crisis, involving all actors at national and Union level.
- (4) Several Member States have declared a state of emergency or introduced emergency measures. Any emergency measures should be strictly proportionate, necessary, limited in time, and in line with European and international standards. They should be subject to democratic oversight and independent judicial review.
- (5) On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact⁶. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.
- (6) Continued action is required to limit and control the spread of the pandemic, strengthen the resilience of the national health systems, mitigate the socio-economic consequences through supportive measures for business and households and to ensure adequate health and safety conditions at the workplace with a view to resuming economic activity. The Union should fully use the various tools at its disposal to support Member States' efforts in those areas. In parallel, Member States and the Union should work together to prepare the measures necessary to get back to a normal functioning of our societies and economies and to sustainable growth, integrating inter

⁵ COM(2020) 112 final.

⁶ COM(2020) 123 final.

alia the green transition and the digital transformation, and drawing all lessons from the crisis.

- (7) The COVID-19 crisis has highlighted the flexibility that the single market offers to adapt to extraordinary situations. However, in order to ensure a swift and smooth transition to the recovery phase and the free movement of goods, services and workers, exceptional measures that prevent the single market from functioning normally must be removed as soon as they are no longer indispensable. The current crisis has shown the need for crisis preparedness in the health system, which include in particular improved purchasing strategies, diversified supply chains and strategic reserves of essential supplies. They are key elements for developing broader crisis preparedness plans.
- (8) The Union legislator has already amended the relevant legislative frameworks⁷ to allow Member States to mobilise all unused resources from the European Structural and Investment Funds so they can address the exceptional effects of the COVID-19 pandemic. Those amendments will provide additional flexibility, as well as simplified and streamlined procedures. To alleviate cash flow pressures, Member States can also benefit from a 100% co-financing rate from the Union budget in the 2020-2021 accounting year. Bulgaria is encouraged to make full use of those possibilities to help the individuals and sectors most affected by the challenges.
- (9) The socio-economic impacts of the pandemic are likely to be unevenly distributed across Bulgarian regions due to different specialisation patterns, in particular in regions markedly relying on face-to-face business to consumers. This entails a substantial risk of widening regional disparities within Bulgaria, aggravating the already observed trend of widening disparities between the capital and the rest of the country and between urban and rural areas. Combined with the risk of a temporary unravelling of the convergence process between Member States, the current situation calls for targeted policy responses.
- (10) On 30 April 2020, Bulgaria submitted its 2020 National Reform Programme and its 2020 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.
- (11) Bulgaria is currently in the preventive arm of the Stability and Growth Pact.
- (12) In its 2020 Convergence Programme, the government plans the headline balance to deteriorate from a surplus of 2,1% GDP in 2019 to a deficit of 3,1% of GDP in 2020. After decreasing to 20,4 % of GDP in 2019, the general government debt-to-GDP ratio is expected to increase to 25,8% in 2020 according to the 2020 Convergence Programme. The macroeconomic and fiscal outlook is affected by high uncertainty due to the COVID-19 pandemic.

⁷ Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020 amending Regulations (EU) No 1301/2013, (EU) No 1303/2013 and (EU) No 508/2014 as regards specific measures to mobilise investments in the healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak (Coronavirus Response Investment Initiative) (OJ L 99, 31.3.2020, p. 5) and Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investments Funds in response to the COVID-19 outbreak (OJ L 130, 24.4.2020, p. 1).

- (13) In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Bulgaria has adopted budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the 2020 Convergence Programme, those budgetary measures amounted to 1,3% of GDP. The measures include higher spending on health care and security services and employment support scheme for distressed sectors. In addition, Bulgaria has announced measures that, while not having a direct budgetary impact, will contribute to support liquidity to businesses, which the 2020 Convergence Programme estimates at 0,6% of GDP. Those measures include guarantees by the State-owned Bulgarian Development Bank and tax deferrals for corporate income taxes. Overall, the measures taken by Bulgaria are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium-term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term.
- (14) Based on the Commission 2020 spring forecast under unchanged policies, Bulgaria's general government deficit is forecast at 2,8% of GDP in 2020 and 1,8% in 2021. The general government debt ratio is projected to remain below 60% of GDP in 2020 and 2021.
- (15) On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty due to Bulgaria's planned breach of the 3% of GDP deficit threshold in 2020. The report concluded, following an assessment of all the relevant factors, that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is fulfilled.
- (16) On 13 March 2020, Bulgaria declared a state of emergency from 13 March 2020 to 13 April 2020; this was subsequently extended to 13 May 2020 and then to 14 June 2020. On 6 April 2020, the Parliament adopted a proposal for amendment of the 2020 state budget, presented by the government. The new budget foresees a deficit of BGN 3,5 billion (2,9% of GDP), due to the increased spending for crisis-related measures and the expected reduction in revenues of 2.4 billion. A fivefold increase of the ceiling of new debt the government can issue is foreseen, from BGN 2.2 billion to BGN 10 billion. Overall, Bulgaria mobilised a financial package of over BGN 870 million under several operational programmes financed by the European Structural and Investment Funds for the period 2014-2020 to support the health system and address the socio-economic consequences of the pandemic.
- (17) In response to the crisis, Bulgaria introduced an employment support measure by which the state commits to pay 60% of the workers' income and of the associated social security contribution for a period up to three months, provided that the employer pays the difference and commits to keep the workers in employment. Eligible companies include those directly affected by restrictions imposed due to the state of emergency. Companies from other sectors, which manage to prove a 20% decline in revenue in March 2020 compared to March 2019, are also eligible.
- (18) The capital of the Bulgarian Development Bank was increased to support the liquidity in the economy. BGN 500 million were allocated for portfolio guarantees to banks to provide more flexible business loan conditions to businesses, while BGN 200 million were for guarantees for interest-free loans up to BGN 4,500 for people placed on unpaid leave by their companies or self-employed. The Bulgarian Development Bank

will also implement a EUR 100 million guarantee scheme for loans to SMEs financed by Operation Programme “Innovation and Competitiveness” under the European Regional Development Fund. The Fund Manager of Financial Instruments in Bulgaria re-examined its portfolio and is tailoring its enterprise support instruments to the current economic reality. The Bulgarian National Bank introduced a package of measures of BGN 9,3 billion, which aim at maintaining the resilience of the banking system and enhancing its flexibility, to reduce the negative effects of the constraints on citizens and businesses.

- (19) Bulgaria’s economy was hit hard by the crisis, which affected both services and manufacturing sectors. The negative impact was aggravated by declining demand and supply, and disruptions in the global value chains. The measures taken by the government to face the emergency can help mitigate the consequences of the crisis, but their prompt and effective implementation will be key for preserving employment and improving the liquidity of companies, especially SMEs, and of independent workers. In the process of designing and implementing these measures the resilience of the banking sector needs to be taken into account. In line with the Commission Guidelines, Bulgaria lifted export bans on personal protective equipment and set-up “green lanes” for fast checks at border crossings.
- (20) COVID-19 put an additional burden on the Bulgarian health system, already characterised by limited accessibility stemming from low public financing, limited health insurance coverage, a low number of nurses, and an uneven geographical distribution of health workers. There is therefore scope for strengthening the overall resilience, accessibility and capacity of the Bulgarian health system . Providing more care (general and specialist) in ambulatory settings, also with use of teleconsultations, would release hospitals, while testing and treatment should be available for all, independently of health insurance status. Proper access to health workers and their services should be ensured over the whole territory. Integration of primary, long-term and community care is crucial for the elderly and the most vulnerable groups.
- (21) According to the Commission forecast, unemployment is expected to rise to 7,0% in 2020 and decrease to 5,8% in 2021. Since the beginning of the state of emergency, unemployment has rapidly increased in the hospitality industry, in large cities and among people with up to secondary education. The government has taken measures to protect employment, notably short-time work schemes, which should be swiftly implemented and further enhanced. In cooperation with social partners, the current context warrants extensive support to employers and workers, including the self-employed, to prevent further job losses. The capacity and the measures implemented by the National Employment Agency will need to be reinforced, to respond to the adverse labour market effects. Further efforts in activation, up-skilling and re-skilling will be instrumental to bring people back to work, while preparing the labour force for the challenges and opportunities resulting from digitisation. The crisis might also have a significant impact on workers in informal employment, with limited access to health services and social protection. Targeted policy measures could prevent unprotected workers and the most vulnerable groups falling deeper into poverty and improve their livelihoods during the recovery.
- (22) The COVID-19 crisis disproportionately affects vulnerable groups and exacerbates existing social challenges. The share of people at risk of poverty or social exclusion was already high before the crisis, especially among children, the elderly, people with disabilities and Roma, while social transfers managed to reduce poverty only to a limited extent. Income inequality was one of the highest in the EU and the tax and

benefit systems showed one of the weakest impacts on reducing it. The crisis requires measures to fix the gaps already identified in previous years, and in particular in the minimum income scheme, which is one of the least adequate in the EU for lifting recipients out of poverty. Issues such as ensuring social protection for all, including non-standard workers, self-employed and low-income households, ensuring income support, food and adequate social services, as well as providing emergency housing and support for homeless persons, remain relevant. The reform of social services would help stabilising the system, while a stronger cooperation between health and social services would allow reaching out further to those unable to take care of themselves and people with disabilities. Many Roma households, already in deep poverty prior to the crisis, are in need of mediation services and essential services and support.

- (23) Enhanced provision of education and training services and a better skilled workforce would also strongly underpin the recovery and promote inclusive and sustainable growth in the medium term. There is still scope for improving the quality, labour market relevance and inclusiveness of education and training in Bulgaria. Bulgaria is among the Member States in which socio-economic background has the strongest influence on learning outcomes. Roma inclusion in education remains a challenge, with early school leaving being particularly high among Roma and in rural areas. The overall level of digital skills is low among the population (aged 16-74), including also for the young people (aged 16-19). Improving digital skills, for example through more digitally aligned degrees and curricula, could help to adapt to labour market changes produced by digitalisation and to the need for digital remote work. At the same time, there are still 11% of students who do not have computers and/or internet access and 2000 teachers without computers. The current remote learning situation risks therefore to worsen the already high inequalities in education and training: improving the digital knowledge of all students and their access to adequate technical infrastructure would have a positive long-lasting impact on their access to education, in particular for vulnerable groups, including Roma, thus helping to reduce their high drop-out rates.
- (24) The crisis highlighted the strategic importance of an efficient public administration and of a well-functioning digital government, including e-health and e-procurement. Reforms in this field have been supported by the EU, but their implementation is progressing too slowly and this negatively affected the effectiveness of the public sector during the lockdown period. Bulgaria is therefore lagging behind in the provision of e-services, and their uptake by citizens and businesses should be encouraged. Issues related to cybersecurity and security of critical infrastructure will also need to be fully addressed. Looking forward, an effective public administration will be key for ensuring the timely and effective implementation of the recovery measures. Cooperation and coordination at all levels of government, including on public contracts and concessions, as well as on market surveillance, remain particularly important. A stronger regulatory predictability and stability, effective control over policy implementation, and a reduction of the administrative burden, would improve the business environment and promote investment, positively affecting the speed of the recovery.
- (25) To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms. The crisis brought further up the importance of digitalisation and innovation, where Bulgaria, and in particular its small and medium-sized enterprises (SMEs), is performing well below the EU average. One significant instance of this issue is the

spectrum planned to be allocated in the 5G pioneer bands, which falls short of what is required to enable timely and effective provision of 5G services. The known issues in the research and higher education system, such as fragmentation, low funding and limited knowledge and technology transfer, still need to be tackled. At the same time, Bulgaria is the most resource, energy, and greenhouse gas emission-intensive economy in the EU, with important investment needs in the fields of energy and decarbonisation to facilitate the transition to climate neutrality, as described in Bulgaria's National Energy and Climate Plan.

- (26) Transformation efforts for tackling Bulgaria's high energy intensity, overreliance on fossil fuels, and inefficient use of energy and resources are at a very initial stage. The National Energy and Climate Plan stresses Bulgaria's commitment to decarbonise its economy by 2050 in the context of the European Green Deal, but also states the intention to keep Bulgaria's reliance on domestic lignite sources for 2050 and beyond. The coverage and quality of transport infrastructure in Bulgaria remains below the EU average and the Trans-European Transport Network is still incomplete. The multimodal platforms network, some rail and road sections, and the European rail traffic management systems and intelligent transport systems remain underdeveloped. Significant environmental issues need to be tackled, as they affect sustainable growth and created additional health risks during the COVID-19 crisis. Bulgaria is among the Member States with the largest incidence of pollution-related deaths, and waste management and compliance with urban wastewater collection and treatment obligations continue to be a challenge. The programming of the Just Transition Fund for the period 2021-2027 could help Bulgaria to address some of the challenges posed by the transition to a climate neutral economy, in particular in the territories covered by Annex D to the country report⁸. This would allow Bulgaria to make the best use of that fund.
- (27) Having a properly functioning insolvency framework will be important for the recovery of the real economy in the aftermath of the COVID-19 crisis, which might bring a significant increase of bankruptcies. Such framework would also facilitate a more rapid resolution of non-performing loans, thus limiting their further accumulation. At the same time, the ineffectiveness of the insolvency framework results in slow and costly insolvency proceedings. In June 2019, the insolvency framework roadmap was adopted and identified relevant gaps. Bulgaria has started its implementation and is preparing follow up steps, including legislative changes and capacity building activities.
- (28) Bulgaria adopted several laws in 2019 aiming at transposing the fourth and the fifth Anti-Money Laundering Directives whose implementation is pending. The recently completed National Risk Assessment shows weaknesses that need urgent mitigation to prevent money laundering and terrorist financing. The risks linked to citizenship by investment scheme programs and by virtual assets have not been properly assessed yet. Actions need to be designed and implemented to deliver an effective application of the anti-money laundering framework by obliged entities. The effectiveness of implementation and enforcement of the anti-money laundering framework have been limited and the use of financial intelligence has been insufficient.
- (29) While the present recommendations focus on tackling the socio-economic impacts of the pandemic and facilitating the economic recovery, the 2019 country-specific recommendations adopted by the Council on 9 July 2019 also covered reforms that are

⁸ SWD(2020) 501 final.

essential to address medium- to long-term structural challenges. Those recommendations remain pertinent and will continue to be monitored throughout next year's European Semester annual cycle. That also applies to recommendations regarding investment-related economic policies. The latter recommendations should be taken into account for the strategic programming of cohesion policy funding post-2020, including for mitigating measures and exit strategies with regard to the current crisis.

- (30) Bulgarian banks are overall profitable and well-capitalised. Despite some declines in recent years, the ratio of non-performing loans (NPLs) remains at 7.2% in the third quarter of 2019 among the highest in the EU, notably by non-financial corporations and for domestically-owned banks, whereby further efforts to promote a functioning secondary NPL market remain important. NPL provisioning has been on a downward path since late 2018, accompanied sometimes by under-provisioning of the existing NPLs with long overdue. The comprehensive assessment conducted by the European Central Bank revealed the need to increase capital in two banks. The re-capitalization is being finalised. Increased provision of liquidity by banks to mitigate the impact COVID-19 crisis and relaunch the economic growth should be coupled with banks' application of credit risk assessment and prudent credit standards, sound valuation practices and accurate reporting of any deterioration in asset quality.
- (31) The Commission monitors Bulgaria's progress in the fields of judicial reform and the fight against corruption in the context of the cooperation and verification mechanism (CVM). The latest CVM report of October 2019 noted that progress made by Bulgaria is sufficient to meet Bulgaria's commitments made at the time of its accession to the EU. Bulgaria carried out an extensive reform of its anti-corruption legal framework, however, a solid track record of final convictions in high-level corruption cases is needed to build public trust. Furthermore, a number of challenges persist, in particular ensuring effective criminal investigations, rebalancing the workload among courts, and streamlining local prosecution service offices. These issues are the subject of monitoring under the cooperation and verification mechanism. Under this mechanism, the Commission continues to monitor judicial reform and the fight against corruption in Bulgaria. These areas are therefore not covered in the country-specific recommendations for Bulgaria, but are relevant for developing a positive socio-economic environment in the country.
- (32) The European Semester provides the framework for continuous economic and employment policy coordination in the Union, which can contribute to a sustainable economy. Member States have taken stock of progress regarding United Nations' Sustainable Development Goals (SDGs) implementation in their 2020 National Reform Programmes. By ensuring the full implementation of the recommendations below, Bulgaria will contribute to the progress towards the SDGs and to the common effort of ensuring competitive sustainability in the Union.
- (33) In the context of the 2020 European Semester, the Commission carried out a comprehensive analysis of Bulgaria's economic policy and published it in the 2020 country report. It has also assessed the 2020 Convergence Programme and the 2020 National Reform Programme and the follow-up given to the recommendations addressed to Bulgaria in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Bulgaria, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(34) In the light of that assessment, the Council has examined the 2020 Convergence Programme and its opinion⁹ is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Bulgaria take action in 2020 and 2021 to:

1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Mobilise adequate financial resources to strengthen the resilience, accessibility and capacity of the health system, and ensure a balanced geographical distribution of health workers.
2. Ensure adequate social protection and essential services for all and strengthen active labour market policies. Improve access to distance working and promote digital skills and equal access to education. Address the shortcomings in the adequacy of the minimum income scheme.
3. Streamline and accelerate the procedures to provide effective support to small and medium-sized enterprises and self-employed, also ensuring their continued access to finance and flexible payment arrangements. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy and resources, environmental infrastructure and sustainable transport, contributing to a progressive decarbonisation of the economy, including in the coal regions.
4. Minimise administrative burden to companies by improving the effectiveness of public administration and reinforcing digital government. Ensure an effective functioning of the insolvency framework. Step up the efforts to ensure adequate risk assessment, mitigation, effective supervision and enforcement of the anti-money laundering framework.

Done at Brussels,

*For the Council
The President*

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