



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

RESOLUTION
of
**THE ECONOMIC AND SOCIAL COUNCIL
OF THE REPUBLIC OF BULGARIA**
on
**THE DRAFT NATIONAL REFORM PROGRAMME
OF THE REPUBLIC OF BULGARIA**

Sofia, 2011

The 2011 action plan of the Economic and Social Council (ESC) envisions the elaboration of a resolution on the topic of:

The Draft National Reform Programme of the Republic of Bulgaria.

ESC President - Professor Lalko Dulevski, proposed for discussion in Plenary Session the draft resolution adopted by the President Board.

On its meeting held on 10.03.2011, the Plenary Session adopted this resolution.

This resolution of the Economic and Social Council of the Republic of Bulgaria comes in response to the European Commission's call for active involvement of civil society in the preparation and implementation of the Europe 2020 Strategy.

This resolution is the next step of the coherent and active agenda of the civil parliament of Bulgaria for the consensual development and adoption of proposals aimed at solving the country's strategic problems in the context of its membership in the EU.

As an institution that combines the will and interests of the main structures of civil society, the Economic and Social Council expresses in this resolution its support for the finalisation of a strong and effective National Reform Programme which provides for a dignified future and an appropriate place of Bulgaria and its citizens in the European Union.

I. GENERAL FINDINGS AND RECOMMENDATIONS

1. The draft National Reform Programme (NRP) follows the structure previously recommended by the European Commission (EC) and contains two main focuses - macro-economic scenario and monitoring and thematic coordination. It sets out multiple priorities and measures related mainly to five national objectives formulated in relation to the Europe 2020 Strategy.
2. The Economic and Social Council (ESC) observes a definite imbalance between the macro-economic scenario and monitoring part and the thematic coordination part of the Programme. The main part of the document is dedicated to describing a significant number of priorities and measures that correspond primarily to the declared five national objectives while macroeconomic part is much less developed with respect to the envisaged scenario, reforms and policies.
 - 2.1. ESC recommends that the macroeconomic part of the NRP should be expanded within a long-term perspective (if possible, for the whole period until 2020) to create a much clearer reference points for planned strategy for growth within the programming period;
 - 2.2. ESC believes that the first part of the NRP should contain more than one macroeconomic scenario depending on the expected future effects of the planned structural reforms. Thus, the baseline scenario could present the

projected growth without the effects of planned reforms, while the other scenario(s) may include the expected effects. Such an approach is very useful to demonstrate the necessity and usefulness of relevant reforms and provide the necessary widest support for their implementation.

3. ESC is of the opinion that more attention must be paid to bottlenecks (barriers to growth) in the first part of the document and complemented with other particularly serious challenges facing Bulgarian economy.

3.1. In a number of its opinions ESC has presented its unified position regarding the problems and the challenges facing the Bulgarian economy and its sectors, labour markets, the social security system, demographic growth, labour force, etc.¹ Along these lines ESC proposes to the team developing the NRP to reassess their main findings concerning the challenges to growth presented with a high degree of social responsibility and concern in the major acts issued by ESC.

4. ESC is of the opinion that the presented measures to overcome the challenges to growth are insufficient unlike the extremely large number of provided measures to implement national objectives. ESC proposes that the need for inclusion in the document of additional priorities and measures is discussed, e.g. for the development of transport infrastructure to ensure the necessary connectivity between the Bulgarian economy and that of the EU.

4.1. With the exception of the pension reform the other reforms and policies are rather stated than developed in the necessary depth, they lack the comprehensiveness and consistency that is required for their direct realisation;

4.2. ESC recommends that, along with a more concrete presentation of planned reforms, the macroeconomic should include specific deadlines for the implementation of their milestone stages, which will create the necessary basis for time interval assessment of their impact on the recovery and stabilisation of growth;

4.3. More specific estimates for providing financing for the reforms and envisioned mechanisms for effective and efficient spending of individual

¹ Cf. Opinions of the ESC: “Demographic trends and Challenges to the Demographic Policy of Bulgaria;” “Problems of the Pension System in Bulgaria;” “National Strategy of the Republic of Bulgaria on Migration and Integration 2008 – 2015;” “The System of Education in Bulgaria – Problems and Necessary Reforms;” “Opportunity for Reducing Administrative Obstacles and Improving the Business Environment in Bulgaria;” “Challenges to the Bulgarian Economy;” “Current Problems and Policies on the Labour Market;” “Social Insurance and Social Protection;” “The Healthcare Reform,” etc.

resources is another element whose inclusion the NRP will provide the necessary conditions for assessing the effects of envisaged measures for restoring growth and employment;

4.4. ESC recognises that different measures to overcoming bottlenecks to restoring growth have different character in terms of the expected short, medium and long-term effects. With respect to this it is appropriate to consider the possibility of some prioritisation of the planned reforms and policies to ensure timely implementation of those that will have the most powerful and timely effect to the respective implementation phase of the Europe 2020 Strategy;

4.5. A certain degree of prioritisation of reforms and policies can be made from the viewpoint of systematisation of those which can be carried out immediately and have direct and immediate impact on the recovery of growth and employment and another group reforms and policies which require a gradual approach to their realisation.

4.6. ESC fully subscribes to the opinion presented in the Europe 2020 Progress Report of the European Commission stating that in order to urgently accelerate economic recovery and create new jobs in 2011 and 2012 all efforts should be focused on the implementation of measures that do not require enormous public investment and have most tangible impact on the resuscitation of the labour market and economic growth. These measures, as part of the policies of leading initiatives, should provide clear economic benefits in the short / medium term and are relatively quick to adopt.

5. At the same time, ESC believes that the initial focus of efforts on realising the faster short-term measures should not shift the main focus off key reforms and policies for the attainment of national objectives 2020

6. ESC believes that the NRP has to concentrate primarily on future measures and actions and reduce to a minimum retrospective analysis of already implemented measures or measures that are currently under way. This is particularly relevant for measures and actions included in the NRP section on thematic coordination.

7. The part of NRP dedicated to thematic coordination includes a significant number of priorities and measures addressing explicitly the five stated national objectives under the Europe 2020 Strategy. Nevertheless, ESC is of the opinion that these measures do not correspond sufficiently to the policy for overcoming challenges and the restoration of growth and employment

laid out in the first part of the document. Bearing in mind the European debate and the findings of the European institutions on NRP projects ESC considers the objective fact that similar problems are observed in most NRPs. At the same time ESC considers that the clearer connection between the objectives and reforms for restoration and stimulation of growth and the five national goals and their flanking policies and measures is the only possible way of achieving the necessary synergy and the optimal use of existing potential and resources.

8. In this respect, ESC fully agrees with opinion of the European Commission stated in its Annual Growth Survey that given its cyclical nature, recovery alone can not provide the impetus for leading Europe back to the pre-crisis economic situation and absorb the deficit accumulated. To avoid stagnation Europe must accelerate the consolidation of public finances and focus on structural reforms. ESC is of the opinion that the consolidation and synergy of all the planned within NRP reforms, policies and measures is the only possibility to achieving necessary economic growth and employment for the country as well as achieving the objectives of the Europe 2020 Strategy.

II. THE NATIONAL OBJECTIVES WITHIN THE EUROPE 2020 STRATEGY

National Objective 1 - "Achieving employment rate of 76% among people aged 20-64 years by 2020"

Defined sub-objectives:

- Reducing unemployment among youths (15-29 years) to 7% by 2020;
- Achieving employment rate of 53% among older employees (55-64 years) by 2020

9. With respect to employment Bulgaria has declared a higher objective than the one laid down by the Europe 2020 Strategy. At the same time, the average employment rate for 2020 declared by Member States is 72.4 to 72.8% - when taking into account the lower and upper limits of the ranges which some of them have stated. With respect to this, ESC considers the objective in the area of employment defined by Bulgaria as extremely ambitious, especially in the context of an aggravatingly problematic integration of disadvantaged groups, including ethnic communities.

- 9.1. ESC has always supported the adoption of higher goals for Bulgaria as compared to the EU average. In terms of the draft NRP, however, ESC expresses its concern that the provided measures encouraging employment

are insufficient and alone may not guarantee the attainment of the defined objective.

9.2. The planned measures for achieving the national objective concerning employment amount primarily to an active employment policy - an area in which some perturbation in connection to budgetary funding may be objectively expected in the following years.

9.3. ESC believes that without serious reforms and policies aimed at the real economy, stimulating the creation of new jobs, achieving the defined objective will be difficult. Another crucial factor is the reform in education and training for preparation of work force corresponding to the needs of the changing economy.

9.4. ESC holds that the key factor for achieving recovery and growth in real employment is the character and rate of economic growth which, according to the assessment of the European Commission, currently is not generating new jobs.

National Objective 2 - "Investing 1.5% of GDP in Research and Development combined with measures to improve the business environment."

10. The Europe 2020 Strategy calls for a rate of investment in R&D amounting to 3% of GDP and the average declared by Member States is 2.7 to 2.8% of GDP. When compared to the EU average Bulgaria has committed to provide two times less funding.

10.1. ESC believes that this objective can be realised only by creating the right conditions and environment to engage the necessary public and especially private resources.

National Objective 3 - "Reaching 16% share of renewable energy sources in the gross final energy consumption and increasing energy efficiency by 25% by 2020 ."

11. Europe 2020 Strategy provides the following indicators for the achievement of this objective: reducing carbon dioxide emissions by at least 20% as compared to 1990 levels or 30% in the presence of appropriate conditions; increasing the share of renewable energy sources in final energy consumption by 20% and increasing energy efficiency by 20%.

- 11.1. The analysis of the parameters declared by other Member States under this objective shows an average level of increase in the share of renewables to 20%; reduction of emissions by 20% (as compared with 1990 levels) and reducing energy consumption with less than 10%.
- 11.2. Assessing performance under this objective will face some difficulties because, as the Commission observes, many Member States have not provided information as to their indicator for energy efficiency, while others have used different methodologies to explain their national targets. In summary, however, the EC noted with concern that the planned national measures for tackling climate change are not yet sufficient to achieve the headline targets by 2020.
- 11.3. ESC finds that the draft NRP does not specify a concrete measurable objective for reducing greenhouse gas emissions in 2020 as compared to 1990 as well as to 1998 - the year adopted as the base year under the Kyoto Protocol.

National Objective 4 - "Reducing the rate of early school leavers to 11 % by 2020 and increasing the share of 30-34 year-olds with completed higher education to 36% by 2020"

12. Based on the indicators stated by Member States under this objective, the European Commission sets down the average expected rate of early school leavers to 10.5% and the average expected share of 30-34-year-olds with completed higher education to 37.3%.
 - 12.1. ESC believes that due to the emerging problems in our country the parameters declared by Bulgaria in relation to this objective should be more ambitious as compared to the EU average. With respect to this ESC shares the opinion of the European Commission that more attention should be paid to current problems and possible solutions to them than to developing concrete reform plans and supporting measures. Also it is not sufficiently clear whether the described measures correspond to the priorities of Europe 2020 or are at least adapted to them.

National Objective 5 - "Reducing the number of people living in poverty to 260 thousand."

13. The main objective in the Europe 2020 Strategy is to reduce the number of citizens who live below the poverty threshold by 25% or 20 million. This objective is based on three criteria which reflect different aspects of poverty

thus extending the traditional indicator of relative poverty due to low income.

13.1. It is very difficult to perform an accurate assessment and draw conclusions on the basis of the national parameters stated so far in relation to this objective. The European Commission noted in its preliminary analysis that relative poverty remains a major problem in most EU Member States.

III. MAIN CHALLENGES AND POSSIBLE DIRECTIONS FOR DEVELOPMENT OF THE NATIONAL REFORM PROGRAMME

14. According to the ESC a factor of key importance to the successful realisation of NRP is the much more precise and timely clarification of the nature of this document. On the one hand, the draft document presented for discussion is seen as a programming document containing the reforms and policies necessary for the achievement of the Europe 2020 Strategy. On the other, the draft NRP, especially in the section on thematic coordination, is reads more like an action plan for the realisation of the stated five main objectives.

14.1. The initial expectations after the adoption of the Europe 2020 Strategy were aimed at developing a national strategy encompassing the period until 2020 which defines more clearly the national objectives and structural reform policies that should be achieved, the stages of their implementation, financial security and expected effects, the result of their implementation and the achieved synergies. Therefore, in 2010 ESC has developed and adopted a number of opinions which focus on strategic challenges to Bulgarian economy, the labour market, social security system, social protection, healthcare, etc. as well as on possible reforms and policies to address them. The expectations of ESC were that consultations with stakeholders on strategic proposals to achieve sufficient public consensus and develop a National Programme Bulgaria 2020 will be continued.

14.2. The approach adopted by the European Commission and EU Member States significantly limited the expectations for the adoption of a comprehensive strategy document with scope at least until 2020 and the emphasis was laid particularly on the first three years of the programme. NRPs remained the only national document that must simultaneously integrate major structural reforms and policies with concrete measures and actions for the implementation of planned national objectives. With respect to this ESC finds a deficiency in the approach to programming national

reforms in the framework of Europe 2020ES and combining them with specific action plans. In practice, NRP is the main programme document in which Member States should formulate the reforms and measures to address the challenges facing the economy and restore growth and employment; its macroeconomic scenarios cover a period only to 2014. At the same time the section on thematic coordination contains the national objectives to 2020 as well as a wide range of priorities and measures which rather state major directions in the implementation of relevant policies but no specific deadlines and milestones for the programming period.

14.3. Concerning the period between 2014 and 2020 it is very difficult to relate the necessary policies and measures to the timing of their implementation in order to guarantee the gradual achievement of the declared five national objectives. Also, in the macroeconomic section of the draft NRP the measures to overcome bottlenecks to growth present rather a general vision for the planned reforms and policies without specifying the stages of their implementation, the necessary financial support and the expected effects on the recovery of growth and employment. Separate stages and expected effects in the medium term are provided only with respect to the pension reform - which is a direct result from the agreement between the Bulgarian Government, employers and unions.

14.4. ESC hereby expresses its opinion that a much clearer specification of the nature of the NRP and its adequate structure should be provided by the European Commission timely. The striving to include in a single document strategic objectives, structural reforms and policies with scope until 2020 and at the same time trying to combine them with concrete measures for action mainly for the period until 2014 creates some problems concerning the clear definition of separate stages and synergistic effects expected from the realisation of strategic and operational actions.

14.5. ESC also notes the lack of sufficient connection between the macroeconomic and the thematic part of the NRP. Some of the measures that correspond to the thematic part of the stated national objectives are in nature elements of the reforms and policies set down in the macroeconomic section. On the other hand, the realisation of the macroeconomic policies of reforms is directly related to the measures and actions that must be implemented in order to achieve the five national objectives. The lack of the necessary connection between the actions and measures related to the five national goals, on the one hand, and the reforms and macroeconomic policies put forth in the other part of NRP, on the other hand, poses a number of problems in terms of achieving coordination between the

objectives of restoring growth and employment and the declared five national objectives concerning the Europe 2020 Strategy. To ESC this is rather a matter of principle, because it is hardly possible at this stage to foresee how and to what extent the successful implementation of the measures to overcome bottlenecks to growth will have particular impact on the achievement of the five stated national objectives. Similarly, there is also the question whether achieving the five national objectives will largely coincide with in the macroeconomic scenarios envisaged in the first part of the NRP .

15. Based on the analysis of draft NRPs in other EU Member States, ESC remarks that similar problems can be observed in most National Reform Programmes. Therefore, timely and specific consultation with the European Commission on the content, scope and structure of the NRPs is crucial for the successful preparation of this key document of considerable importance for the country.

15.1. It is essential to achieve better coordination between different parts of the document which should ensure adequate synergies between policies and measures to restore and boost growth and the achievement of the five national objectives.

15.2. ESC recommends that the NRP should also provide the implementation stages of individual policies and measures as well as the expected effects of the reforms included in the document and policies throughout the programming period to 2020 in order to provide the necessary support for gradual attainment of the stated objectives.

15.3. ESC restates its position expressed in the opinion on the draft NRP (2006 - 2009) that in order to ensure gradual implementation of NRP it is necessary to develop and adopt an Action Plan for the respective time schedule which clearly specifies the institutional arrangements and responsibilities.

15.4. It is essential to adopt appropriate procedures for monitoring and control as well as for overall coordination of the implementation of NRP and the Action Plan under the supervision of the Deputy Prime Minister invested with the necessary responsibilities and management powers for overseeing the whole process of implementing the Europe 2020 Strategy.

16. ESC recommends an in-depth analysis of draft NAPs in other Member States and particularly of those that will receive the highest regard of the

European Commission. Isolating good practices through horizontal analysis is an effective source for further improvements in the Bulgarian NRP.

17. ESC allows for the objective fact that the developed draft NRP should be as consistent as possible with the guidelines for economic and employment policies in order to establish the necessary coordination for the implementation of the Strategy at a European level. At the same time, ESC notes that within the Annual Growth Survey the European Commission presented its Progress Report on Europe 2020 Strategy the findings and proposals of which should be integrated appropriately in the final NRP.

17.1. ESC lays a strong emphasis on the crucial position of the European Commission presented in the Progress Report on Europe 2020 Strategy and stating that in order to emerge from the crisis Europe must implement a coordinated and comprehensive reform programme covering fiscal consolidation, a return to stable macroeconomic conditions and growth promotion by appropriate means. At the same time, ESC fully supports the Commission's view that fiscal consolidation is the main precondition for growth but on its own it is not enough. In the absence of active policies potential growth is likely to remain weak throughout the current decade. Without growth the achievement of fiscal consolidation will be even more difficult. In this sense finding a balance between the policies for fiscal consolidation and those for growth must be an important feature of NRPs. Moreover, in the Annual Growth Survey the European Commission expressed its concern that the medium-term growth potential for Europe is expected to remain low (the forecast is about 1.5 percent by 2020) if no significant structural reforms are undertaken for its recovery.

18. ESC draws particular attention to the 10 priority action for 2011-2012 consistent with the Europe 2020 Strategy which were specified by the European Commission in the "Annual Review of Growth: Advancing Comprehensive EU Response to the Crisis." Moreover, the Commission suggests that these actions form the basis of an EU agreement to the implementation of which the Member States should commit.

18.1. ESC shares the position of the European Commission for integrated approach to recovery which requires key reforms and policies in the context of Europe 2020 to focus on three main areas: strict fiscal consolidation in order to increase macroeconomic stability, reforms in the labour market to increase employment, and measures to boost growth. In this regard, ESC recommends that these three areas of policies and reforms are integrated

appropriately in the NRP with the ten priorities actions proposed by the Commission in its Communication on the Annual Growth Survey.

19. In the publicly discussed and adopted opinion: "Strategic Priorities of the Bulgarian Economy within the Europe 2020 Strategy," ESC proposed the adoption of a unified national strategic objective which could serve for greater and more effective coordination and integration of individual policies and reforms. In this respect, ESC proposed for discussion as a strategic goal the achievement by 2020 of GDP PPP per capita equal to 60% of the EU average. To achieve this goal ESC addresses in its opinion the major challenges as well as the key priorities, the main structural reforms as well as the appropriate mechanisms. Regardless of ESC's strong desire to identify a key national strategic objective which may integrate the main policies and reforms to date, ESC has not so far received the necessary response from the relevant institutions concerning the possibility of using such an approach in the development of NRP.

20. In many of its opinions ESC has expressed its consensual position that in the medium and long run the largest challenges that Bulgaria will face will be related to the effects of demographic trends and low labour productivity.

20.1 With extraordinary concern ESC shares the conclusion of the European Commission expressed in the Annual Growth Survey that the budgetary impact of the crisis will include the impact of demographic problems, which will add additional fiscal burden of about 4.5 percent of GDP in the long run. And also that the structural weaknesses which were not addressed before the crisis have become more obvious and urgent. Comparing the nature of demographic processes in Bulgaria to the average European trends, ESC is convinced that the increase of the fiscal burden as a result of demographic change in Bulgaria will be much greater already in the medium term as compared to the EU average previewed by the European Commission. Therefore, ESC again notes with extraordinary concern that so far in Bulgaria there is no clear estimate of the expected load of public finances as a result of demographic developments - especially after 2020 - 2025 year. This problem is not reflected in the draft NRP which in the future can create serious problems for the achievement of the stated objectives. Once again, ESC restates its proposal for the achievement of sufficient public consensus and the adoption of a long-term strategy for demographic development and human capital by the National Assembly.

- 20.2. ESC proposes that the issues related to increasing the productivity of labour form a separate key aspect of NRP. ESC shares the observation of the European Commission that there are growing differences between the EU and the USA in terms of labour productivity, and that potential growth in Europe may remain low unless serious action is undertaken to bridge the gap in labour productivity between Europe and its major competitors. This issue is particularly relevant to Bulgaria considering the very low levels of labour productivity in the country even as compared to the EU average. Therefore, it is possible to discuss the idea of putting another national strategic objective related to achieving a certain level of labour productivity by 2020. Moreover, a considerable increase in labour productivity is the most effective potential measure to offset the consequences of demographic development in the country and the expected increase in fiscal pressures.
21. A particularly noteworthy finding of the European Commission expressed in the Annual Growth Survey is that Member States should take necessary actions in 2011 and 2012 to avoid slow economic growth which creates few new jobs. The Commission defines this type of economic growth as the "scenario of the lost decade." With considerable concern ESC observes that the trend of reduction of jobs in Bulgaria comes as a consequence of this scenario and that NRP does not address sufficiently this problem.
- 21.1. Another serious aspect is the low degree of participation in the labour market which the European Commission sees as one of the main long-term structural weaknesses. Repeatedly in its opinions ESC has stressed that this problem is especially relevant for Bulgaria because of the nature of demographic change and the already obvious problems associated with illiteracy, lack of training and social exclusion of certain population groups. In this regard, during its presidency of the network of national ESCs of Member States, in 2009 the Bulgarian ESC proposed that in a special document, along with three key priorities of shared commitments to employment, the problem of low participation in the labour market to be displayed with priority. ESC is pleased to note that this proposal was supported by the national ESCs and is already reflected in the Commission's key positions on Europe 2020 Strategy.
22. ESC recommends the achievement of sufficient coordination and synergy between the NRP and the Programme for Stability and Cohesion - the two key strategic documents ensuring that reforms are implemented in accordance with the Europe 2020 Strategy.

23. The successful execution and implementation of NRP also depends on the extent to which all available EU instruments are utilised to support the planned reforms and policies. ESC believes that it is essential to achieve additional effects in the NRP by optimal use of the opportunities for Bulgaria in relation to the EU Cohesion Policy, Common Agricultural Policy, and Strategy for the Danube Region, etc. ESC attaches particular importance to the Single Market Act - with respect to which it issued a special resolution and engaged in formal consultations with the European Commission and the European Economic and Social Committee.

In conclusion, the Economic and Social Council states once again its readiness and willingness to participate actively in the preparation and implementation of the Europe 2020 Strategy.

Guided by the proven principles of its work so far, ESC is convinced that the necessary solutions for the economic and social development of Bulgaria which are supported by the civil society may only be achieved on the basis of constructive dialogue and cooperation.



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