



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

RESOLUTION

on

**"Communication from the Commission – The Annual Growth Survey for
2016 – Strengthening the recovery and fostering convergence" COM (2015)**

690/26 November 2015

(own-initiative resolution)

Sofia, 2016

The 2016 Action Plan of the Economic and Social Council envisions the elaboration of a resolution on:

"Communication from the Commission –

The Annual Growth Survey for 2016 "

ESC President – Prof. Lalko Dulevski submitted the draft resolution for discussion to the Plenary Session

At its meeting of 10 March 2016 the Plenary Session adopted the resolution.

1. GENERAL CONCLUSIONS AND RECOMMENDATIONS

- 1.1. The Economic and Social Council (ESC) welcomes the European Commission's (EC) Annual Growth Survey (AGS) for 2016, which was presented on 26 November 2015 and focused its main attention on strengthening the recovery and promoting convergence between EU Member States.
- 1.2. ESC regards and shares the summary conclusions of the analyses in their main areas, as well as the emphases, recommendations and messages of the documents accompanying AGS 2016 including:
 - Alert Mechanism Report (AMR) 2016; Draft Joint Employment Report of the Commission and the Council; Challenges to Member States' Investment Environments; Recommendation for a Council Recommendation on the economic policy of the euro area;
 - and the Communications of the European Commission prior to the AGS 2016. – Steps to the completion of the Economic and Monetary Union (of 21 October 2015) and Modernisation of the Single Market: More Opportunities for Citizens and Businesses (of 28 October 2015).
- 1.3. Clearly highlights the need for continued policy of following the three pillars summarized in the recommendations in AGS 2015, relating to: the revival of investment, carrying out structural reforms and implementation of a responsible fiscal policy. They remain top priorities and recommendations for the economic and social policy of the EU and the Member States and in 2016
- 1.4. ESC supports the approach deployed by the EC which relies on connecting the main priorities in the previous and new European Semester, with a view to the series of unresolved problems in the economic and social spheres. The successful realization of these priorities will contribute to overcoming the emergent lag in achieving the main objectives of the Europe 2020 Strategy for smart, sustainable and inclusive growth and increased competitiveness, while also accelerating the process of socio-economic cohesion between Member States.
- 1.5. ESC stresses that economic and social priorities of AGS 2015 (for investment, structural reforms and fiscal responsibility) remain in place but in a new, updated version – taking into account the progress achieved, the remaining unresolved issues and the imbalances emerging from new challenges. Taking into account the available latest statistical data on major economic processes and its autumn economic forecasts, the Commission stated:

1.5.1. The EU economy is undergoing a moderate recovery in short-term prognosis for limited acceleration of economic activity. The expected rate GDP growth for the whole of the EU is expected to increase from 1.9% in 2015 to 2.0% in 2016 and to 2.1% in 2017¹. The forecasts for Bulgaria are lower and the comparable annual rate of growth, which is expected to be 1.7% in 2015, to decline to 1.5% in 2016, and rise to 2.0% in 2017². According to ESC serious concerns about the medium- and long-term prospects for growth in the Member States and the EU as a whole is raised by the impact on the recent trends of a set of positive but temporary factors. Among them, the European Commission notes primarily low oil prices, the relatively weak Euro, the expansionary monetary policy as well as the impact and the first results from the reforms conducted in recent years.

1.5.2. There are positive trends of improving the rate of unemployment and employment in the EU, but they remain insufficiently pronounced. Despite the drop in unemployment, it remains at a high level compared with the period before the crisis of 2008-2009. It is expected that the rate of unemployment in the EU will drop slightly in the forthcoming years – from 9.5% in 2015 to 9.25% and then to 8.9% in 2016 and 2017. Forecasts for employment in the EU envisage a relatively small increase – by 1.0% in 2015 and by 0.9% over the next two years (2016 and 2017). The forecasts for the dynamics of unemployment and employment in Bulgaria are similar. According to the EC the rate of unemployment in our country will permanently drop in the coming years, it will reach 10.1% in 2015, 9.4% in 2016 and 8.8% in 2017. The employment rate is expected to grow less – By 0.3% in 2015 and 2016 and by 0.5% in 2017³.

1.5.3. There are increasing concerns about security in the current geopolitical tension, incl. as a result of the hardly contained refugee and immigrant wave affecting all Member States, especially countries with developed economies and those located in the southern and South-eastern borders of the EU.

1.6. ESC expresses its concern regarding the forecasts of the European Commission for a slight increase in the annual inflation – to 1.1% in 2016 and to 1.6% in 2017. The deflation expected for Bulgaria is 0.8% in 2015 and low inflation is of 0.7% and 1.1% ii expected for 2016 and 2017⁴. According to ESC, combined with continued high unemployment, present and expected for the coming years low inflation do not create a serious and reliable preconditions to boost investment projects of private enterprise and economic growth.

¹ Annual Growth Survey 2016 COM (2015) 690 final, p. 3.

² See .: European Economic Forecast Autumn 2015. Forecasts for Bulgaria, http://ec.europa.eu/economy_finance/eu/countries/bulgaria_en.htm

³ See: European Economic Forecast Autumn 2015. Forecasts for Bulgaria, http://ec.europa.eu/economy_finance/eu/forecasts/2015_autumn/bg_en.pdf

⁴ The data concerns the harmonized index of consumer prices. See: European Economic Forecast Autumn 2015. Forecasts for Bulgaria, http://ec.europa.eu/economy_finance/eu/forecasts/2015_autumn/bg_en.pdf

- 1.7. ESC is particularly concerned to note the challenges associated with the still high levels of long-term and youth unemployment, the still weak productivity growth, which affect not only the competitiveness of the economy, but also the living standard of the population. For example, according to NSI data, in Bulgaria at the end of 2015 the youth unemployment rate is 19.2%, long-term unemployment remains high – over 63% of all unemployed persons have been without work for a period greater than one year⁵.
- 1.8. According to ESC, the high, and in some cases increasing, levels of private and public debt slow down the achievement of the goals and recommendations of AGS 2015. There is a reduction in the allocation of additional public resources for production investment, while the persistent macroeconomic imbalances slow down economic growth and employment. These factors hold true for Bulgaria, where gross public debt as a percentage of GDP, though far below the Maastricht criterion (60%), has increased permanently in recent years as the forecasts of the European Commission expect it to continue to rise to 31.8 percent in 2015, 32.8% in 2016 and 33.6% in 2017⁶.
- 1.9. ESC is pleased to note that, given the outlined challenges facing the labour market, this AGS puts a stronger emphasis on employment and social indicators. However, the Alert Mechanism Report for 2016 complements the main indicators with three additional indicators on employment which, according to the ESC, concern largely young people – the participation rate, long-term and youth unemployment and along with this there is an increased emphasis on social justice.
- 1.10. ESC strongly supports the call of the European Commission that the creation of jobs should remain a key priority of the reform efforts, given the data on continuing high level of unemployment in the EU (in August 2015 23 million Europeans have been without a job), very high long-term and youth unemployment, still low demand for workforce, in many cases of mismatch between the demand and supply of skills. Data on long-term unemployment in the EU, which makes up 50% of the total unemployment, are of particular concern, so ESC joins the evaluation of the European Parliament⁷ that this group of persons must be addressed in the same way as young graduates through the European Youth Guarantee.
- 1.10.1. In this regard, ESC calls on the Commission to take concrete actions to mobilize resources with which individual Member States can support their programmes and measures to deal with long-term unemployed, assuming uniform EU rules, but also taking into account the specificities of each Member State.

⁵ See: NSI <http://www.nsi.bg/bg/content/3998/безработни-лица-и-коефициенти-на-безработица-национално-ниво-статистически-районанд>

⁶ See: European Economic Forecast Autumn 2015. Forecasts for Bulgaria, http://ec.europa.eu/economy_finance/eu/forecasts/2015_autumn/bg_en.pdf

⁷ In the context of the Resolution of the European Parliament on the Council Recommendation for the Integration of Long-Term Unemployed in the Labour Market.

1.10.2. Furthermore, ESC considers it unnecessary for the EC to take action on summarizing the results of implementing the European Youth Guarantee in individual Member States. It would be better in 2016 to focus its efforts on achieving concrete results in tackling youth unemployment. Progress in this direction will contribute to reducing the social impact of unemployment and the large share (almost a quarter) of the EU population at risk of poverty or social exclusion.

1.11. ESC appreciates the quick action of the European Commission to quickly execute during the first year organizational activities and achieve initial results from the implementation of the Investment Plan for Europe adopted in 2015. There are already functioning European Fund for Strategic Investment (EFSI), European Investment Counselling Centre, and since the beginning of 2016 there is a European Portal for Investment Projects. ESC appreciates not only the efforts to promote public and private investment, but also the emphasis that the European Commission puts in AGS 2016 on the necessary support to human capital and social investments. Along with the gradual overcoming of the key challenges for investment at the national level summarized by the EC, it can help speed up the investment process, economic growth and convergence between EU Member States.

1.11.1. In this regard, ESC joins the position of the EC⁸ that reforms aimed at improving the business environment and optimizing the process of managing EU funds will help overcome investment challenges. ESC will follow with interest the next steps the Commission to supplement and refine the basic challenges summarized in the investment profiles of individual countries within the European Semester, particularly in national reports. At the same time, ESC believes that organized civil society can participate actively in the forthcoming dialogue between the Commission and Member States to outline in particular national challenges and to adopt the most effective measures for their removal.

1.11.2. ESC draws particular attention to the opportunities provided by the EFSI within the "Infrastructure and Innovation Window" which allows the implementation of strategically important for our country projects with high and lasting impact on employment and economic growth, and calls for urgent action to develop and implement proposals in this area.

1.12. ESC repeats its concern at the continuing through 2015 low investor confidence, high indebtedness of households and enterprises, while large savings in the private sector and high liquidity are observed. In this regard, ESC once again draws attention to the need for decisive measures towards increasing employment, income and consumption, stimulating and facilitating the conditions for lending to SMEs, which can reduce some of the factors limiting the potential for investment and economic growth at the national level and in the EU as a whole.

⁸ [Staff Working Paper - "National investment challenges 2015"](#) SWD (2015) 400 final, 26 November 2015.

- 1.13. ESC shares the position of the Commission on the need for active participation and joint actions of all institutions – the European and national parliaments, social partners, national, regional and local authorities and civil society as a whole. Such a position ESC has expressed repeatedly in a number of acts (including the Resolution on the AGS 2015) and considers that this is an important prerequisite for the implementation of the EC recommendations at national level.
- 1.14. ESC supports the prioritization of the modernization of the Single Market for goods and services, which is essential for the growth and future of the European Union and in several acts expressed specific recommendations⁹. Adapting the Single Market to the changing conditions is related to the concerns of the Investment Plan for Europe of the European Energy Union (presented by the Commission in February 2015), the Strategy for Digital Single Market (announced in May 2015), The Action Plan for building of a Union of Capital Markets (presented in September 2015). The prepared package of measures for the circular economy and the package of measures to support labour mobility are aimed at creating new competitive advantages. According to ESC, it is possible to expect real results from the building of a new strategy for the single market with a focus on practical measures to help SMEs and start-ups to develop and expand its business – which is already in the agenda of the European Commission.
- 1.15. Within the framework of the European semester in 2015 ESC adopted acts on specific problems in key areas where there are still significant challenges for Bulgaria and for the EU as a whole identified by the Commission in the AGS 2016. Among them special attention should be paid to the reflected analytical elements criticisms, constructive recommendations and proposals of ESC in the elaborated and adopted Resolution¹⁰ on the Review of the Implementation of the Europe 2020 Strategy in Bulgaria, the Resolution on "Communication from the Commission – Annual Growth Survey 2015", the Opinion on "Reduction and Prevention of the Informal Economy in Bulgaria as an Opportunity to Encourage Growth and Employment", etc¹¹.
- 1.16. In this year's Growth Survey the European Commission draws attention to the better implementation and monitoring of the Europe 2020 Strategy in the context of the launched programmes and the implementation of partnership agreements for the new programming period 2014-2020. Moreover, considering the last half of the period that

⁹ ESC resolutions on: "Single Market Act I - For a highly competitive social market economy - 50 proposals for improving the working conditions, entrepreneurship and trade for all of us" 2011 and "Single Market Act II - Together for new growth", 2013

¹⁰ See: "Key Positions of the Economic and Social Council on the review of the implementation of the Europe 2020 Strategy in Bulgaria"1/30/2015

¹¹ See: Resolution "Recommendation for a Council Recommendation on the National Reform Programme of Bulgaria for 2015 containing a Council opinion on the Convergence Programme of Bulgaria for 2015"; Analysis "Migration Attitudes among High-School Graduates in Bulgaria"; Opinion "Corporate Social Responsibility - Achievements and Challenges"; Opinion "Measures to Tackle Energy Poverty in Bulgaria"; Resolution "Integrated Policy for Young People in Bulgaria"; Resolution "The Realization of Young People in the Labour Market".

elapsed in 2015, EC made a review of the Strategy¹² including consultation with all stakeholders.

1.16.1. In this regard, ESC joined in the European consultative process by adopting in early 2015 a Resolution on the subject¹³, concerning the forthcoming re-evaluation of the objectives of the strategy, planned for mid-2016, as well as the launching the process for developing a new vision for the European Union after 2020.

1.16.2. The main findings of ESC are similar to the assessment of the European Commission in the AGS 2016 – namely there are still no significant results meeting the national targets set within the Europe 2020 Strategy – both national targets for individual Member States and those for the EU as a whole. Although the Commission considers fully achievable by 2020 the targets in the field of climate change, energy and education, ESC finds very disturbing the results regarding the targets for tackling poverty and social exclusion – the indicators in these areas are becoming worse.

1.16.3. ESC emphasises again that despite the constant efforts of the European Commission for economic policy coordination through the European Semester, the main reasons for the unsatisfactory results in some countries, including Bulgaria, are the lack of consistency and continuity in political governance and lack of will to conduct the imperative reforms¹⁴. Therefore ESC shares the view that the Europe 2020 Strategy will succeed "only if it has structured multi-level governance in order to meet the many challenges that lie ahead, and only if the general guidelines agreed at the European level, lead to concrete actions at the national and regional level"¹⁵.

1.16.4. ESC believes that streamlining the overall mechanism of the European Semester, expressed in the Commission Communication on deepening the EMU¹⁶ and providing better coordination of national stakeholders and institutions will help to achieve the objectives of the Europe 2020 Strategy and will lead to expectations of this effect for each Member State as well as for the European Union as a whole.

1.17. ESC restates its support for the actions of the European Commission and calls on EU institutions and Member States to support greater integration and coordination of

¹² Commission Communication on "Review of the Results from the Europe 2020 Strategy for Smart, Sustainable and Inclusive Growth".

¹³ ESC Resolution: "Key Positions of the Economic and Social Council on the Review of the Implementation of the Europe 2020 Strategy in Bulgaria", 2015

¹⁴ ESC Resolution "Key Positions of the Economic and Social Council on the Review of the Implementation of the Europe 2020 Strategy in Bulgaria", 2015.

¹⁵ EESC opinion on the Commission Communication "Review of the Results of the Europe 2020 Strategy for Smart, Sustainable and Inclusive Growth".

¹⁶ Communication from the Commission "Steps to the completion of the European economic and monetary union" - COM 600/21/10/2015.

policies and efforts to support the economy and investment, which will create conditions to achieve sustainable overcoming of the crisis, consolidate economic recovery and promote cohesion.

2. INTRODUCTION AND GENERAL BACKGROUND

- 2.1. The adoption of the AGS 2016 marks the beginning of the new European Semester for economic policy coordination at a time when Member States are showing modest recovery which remains unsustainable, exposed to increased external risks and vulnerabilities growth resulting from the high levels of indebtedness. An in-depth analysis of the persisting main areas of existing macroeconomic imbalances and risks are presented by the European Commission in this year's Alert Mechanism Report¹⁷.
- 2.2. ESC supports the opinion expressed by the European Commission and the need for a coordinated approach to macroeconomic policies in order to facilitate the process of correcting imbalances. In the uncertain global conditions and the slowdown in external demand, the recovery of the economies of the EU is largely dependent on domestic demand.
- 2.3. With particular concern ESC highlights the findings of the Commission of insufficient and slow pace of improvement of the labour market. The main issues and challenges relate primarily to:
 - 2.3.1. Continued high rates of unemployment and lack of tangible changes in the rate of economic activity in most EU countries. Observed slight increase in the rate of economic activity of the EU as a whole from 0.2 to 0.3 percentage points, which is a result of structural changes;
 - 2.3.2. Insufficient recovery rate of persons who have successfully found a job in relatively short time, which results in an increase in the rate of long term unemployment. According to ESC, this is particularly worrisome due to the severe social consequences that are reflected in the loss of human capital and deepening poverty;
 - 2.3.3. High rates of youth unemployment, which remains at 22.2% in the EU as a whole for 2014, despite the decline in its many member states (including Bulgaria). Moreover, there is reduced potential production and the rate of social exclusion remains high or rising;
 - 2.3.4. The results of increasing labour mobility in the EU because the human capital of mobile EU citizens and people born outside the EU is underutilized – unemployment among them is higher, and in many cases the level of their employment is lower.

¹⁷ Commission Report "Alert Mechanism Report 2016." COM (2015) 691 final.

- 2.4. In this complex economic and social situation ESC joins the EC recommendation for a firm commitment to change at the national level, and active collaboration of the EU institutions and Member States to revive growth and make progress towards sustainable development.
- 2.5. ESC shares the findings and calls on the European Commission for greater activity and coordination of policies and given the challenges of the increased influx of refugees and asylum seekers in some Member States. In the short term this will lead to a need for additional public spending, which will limit the potential for making productive public investments. However, according to ESC, it is impossible to expect unambiguous positive effects on growth in the medium and long term, although estimates of the EC envisage positive impact on labour supply, provided policies on access to the labour market are properly applied.
- 2.6. In this context, in the AGS 2016, the European Commission recommends to Member States that their policies should be aimed at **consolidating the recovery and promoting cohesion** using as a target criterion states that have achieved the best results.
- 2.7. In particular for 2016 the European Commission **retained and renewed the economic and social priorities of the AGS 2015** recommending that they be focused on strengthening political efforts to "make them more robust recovery for unlocking investments to increase the capacity to adapt to EU Member States, to promote productivity and accelerate the convergence process"¹⁸.
- 2.8. ESC supports the Commission's proposal on a specific plan for the following **three priorities for 2016** and their associated directions which include **more pronounced focus on employment and social outcomes:**

2.8.1. Resumption of investments. In the context of this priority, ESC joins the European Commission in highlighting the need for: 1) along with achieved progress in mobilizing public and private investments within the investment plan for Europe, to improve the investment and regulatory environment at the national and the European level; 2.) to complete the banking union to strengthen financial stability in the euro area and beyond; to speed up the work on the Union's capital markets so as to provide access to companies in a variety of funding sources, the financial sector to support the real economy; to undertake measures against the accumulated debts that hinder the financing of investments; 3) investment projects should not be limited to traditional infrastructure and be complemented by investment in human capital and related social investments.

¹⁸ Annual Growth Survey 2016 COM (2015) 690 final, p. 4.

2.8.2. Continuation of structural reforms for the modernization of the economies of Member States. ESC accepts the emphases of the European Commission on: 1) the implementation of reforms that aim at higher productivity and greater cohesion; 2) conducting policies on the labour market aimed at a balance between the aspects of flexibility and security, tackling youth and long term unemployment; 3) increasing the integrity and competitiveness of the markets for goods and services that stimulate innovation and job creation.

2.8.3. Implementing responsible fiscal policies. ESC shares the reference points highlighted by the European Commission in this connection: 1) continuation of the support for fiscal consolidation that is conducive to growth; 2) the need by tax systems to counteract to the factors that remove the incentives to create jobs, and to increase fairness and effectiveness; 3.) modernizing the social protection systems to respond effectively to the risks throughout the entire lifecycle while maintaining their fiscal sustainability in view of the demographic challenges in the present and in the future.

2.9. ESC notes with satisfaction that the European Semester 2016 implements a new approach and schedule for developing and providing Member States documents and instruments for analysis and coordination of economic policies containing key guidelines and recommendations on economic governance. ESC joins intention expressed by the European Commission for the European Semester to be structured in two successive stages, at a clear distinction between the European moment (from November to February), and national moment (from January to June).

3. POLICY PRIORITIES FOR 2016

3.1. RENEWAL OF INVESTMENT

3.1.1. ESC takes a position in support of the recommendation of the European Commission for **more investment** which is a key driver of growth, will increase the growth potential and competitiveness of the economies of Member States and the EU as a whole, will support the recovery and contribute to social cohesion in the coming years.

3.1.2. ESC highlights the findings of the European Commission for the still low levels of public and private investment despite the current conditions of low interest rates, ample liquidity in the financial markets and decrease in indebtedness, including in Bulgaria. ESC further considers that what stands out is the need for greater efforts to implement the Plan for investment in Europe, which aims to stimulate investment financing, removing the barriers to growth and innovation and the deepening of the single market.

3.1.3. ESC notes with satisfaction that the European Fund for Strategic Investment (EFSI), which was proposed by the European Commission, is in operation and

supports high-risk, high-return projects. Particularly necessary and useful ESC considers the work of the Counselling Centre on investments as well as the European portal for investment projects which started operation from the beginning of the current year.

3.1.4. ESC recognizes as positive the fact that Bulgaria is among the 18 member states with approved projects under window "Small and Medium Enterprises" of EFSI, but at the same time pays attention and recommends that the government of Bulgaria to take all necessary measures for the successful inclusion of our country in window "Infrastructure and innovation" (12 countries with a total of 32 approved projects) where so far Bulgaria has not been involved, while our strategic sectors (energy, water, rail transport) need urgent investment in infrastructure for recovery and development.

3.1.5. In its acts ESC has repeatedly emphasized the need for better absorption of EU funds. Therefore, ESC supports the call of the European Commission to use the possibilities of combining EFSI with other EU funds – under Horizon 2020, Connecting Europe and European structural and investment funds, etc. within the Financial Framework for 2014-2020.

3.1.6. In this regard, ESC recommended to identify and take action to remove existing administrative and regulatory barriers that impede the rapid provision of financing for investment projects. This will allow better absorption of the funds amounting to 100 million euros, with which Bulgaria has undertaken to contribute to the Plan for investment in Europe.

3.1.7. ESC joins the recommendation of the European Commission to improve the investment environment by eliminating or reducing obstacles to investment. In this respect, ESC emphasizes the importance of the key challenges for investment at the national level identified and published by the European Commission (as a separate document, supplementing the AGS 2016). ESC recommends to make the necessary efforts to overcome the challenges for Bulgaria which are mainly in the following areas:

- Regulatory barriers and administrative burdens
- Public administration
- Public procurement and public-private partnerships
- Judiciary System
- Insolvency procedure
- Education, skills, lifelong learning,
- Access to finance
- Sectors with a special regulation – mainly construction, the digital economy and telecommunications, energy.

In most of these areas ESC has repeatedly made specific recommendations in a number of acts, including the resolution on the Annual Growth Survey 2015.

- 3.1.8.** In connection with the EC recommendation relating to lending conditions, ESC renewed repeatedly expressed in various acts necessary to facilitate access to finance for SMEs, easing crediting conditions of their investment projects. At the same time, ESC draws attention to the barriers, still present in Bulgaria and other Member States, to the functioning of financial intermediation and to investment in the corporate sector arising from large private debt and the high level of non-performing loans.
- 3.1.9.** In the context of the need to alleviate the burden of debt service on the private sector, the ESC calls for measures to shorten the existing cumbersome bankruptcy procedures in Bulgaria. They lead to losses for debtors and lenders to preference for companies to retain (overdue) obligations, which creates uncertainty and reduces the attractiveness of Bulgaria to potential investors.
- 3.1.10.** With a view to strengthening financial stability, ESC supports the recommendation of the European Commission for faster transposition into national law and enforcement of the recovery and resolution of banks and recent amendments to the Directive on deposit guarantee schemes.
- 3.1.11.** ESC adopted with particular satisfaction the recommendation of the European Commission from AGS 2016 productive investment to be complemented with investment in human capital. The need stands out given the large role of highly qualified workforce in productivity, to counter unemployment, and reduce the risk of poverty and social exclusion. It is also reported that in the EU as a whole about 20% of the working age population has basic skills such as literacy and numeracy, and that 39% of enterprises have difficulties in finding staff with the necessary skills.
- 3.1.12.** Alongside satisfaction ESC expresses some concern in connection to the recommendation of the European Commission to promote social investment in general, including health care, childcare, support for housing and rehabilitation services. According to ESC, this will support the participation of people in the labour market, ensure economic and social return over time, especially in terms of employment prospects, wages and productivity, prevent poverty, and strengthen social cohesion.

3.2. FURTHER STRUCTURAL REFORMS TO MODERNIZE THE ECONOMY

- 3.2.1.** With regard to the second priority for 2016 ESC shares the recommendation of the European Commission for increasing efforts to ensure a better functioning market for labour, goods and capital, improve the quality of education and training, increase the efficiency of social security systems and promote innovation and entrepreneurship.
- 3.2.2.** ESC welcomes the European Commission for the planned development of benchmarking and sharing of best practices in the field of policy. ESC ascribes

particular importance to the common standards aimed primarily at labour markets, competitiveness, business environment and public administration, and in some areas of tax policy.

3.2.3. ESC expresses its strong support for the recommendation of the European Commission that jobs should remain a key priority of reform efforts. This is particularly important in the context of the continuing high level of unemployment in the EU (in August 2015 23 million Europeans have been without a job), very high long-term and youth unemployment, still low demand for workforce, in many cases of mismatch between the demand and supply of skills.

3.2.4. ESC puts a special emphasis on the need to achieve progress in tackling youth unemployment and recommends that the objectives of the "Youth Guarantee" should be followed, systemic changes should be made concerning the transition from school to work, the functioning of public employment services should be improved. This will allow to address the serious social consequences of unemployment – increasing poverty in the EU since the crisis as a result of which ¼ of the EU population is at risk of poverty or social exclusion.

3.2.5. ESC has repeatedly reported and alerted that in periods after graduation many young people face difficulties in accessing health care and unemployment benefits. In view of the employment challenges faced by young people in the EU, ESC has recommended in many of his acts to develop measures that would ensure the access of young people to social security systems¹⁹.

3.2.6. ESC is concerned to draw attention to the recommendation of the European Commission regarding the significant in some Member States inequality between men and women at the workplace. While women often achieve better results in education, they remain under-represented in the labour market. In Bulgaria the employment rate for men is higher (estimated at 52.7% in 2014) than women (43.6%).²⁰ A comprehensive approach to improving the balance between work and private life, including through measures for leave and flexible working hours, tax and social security system without disincentives to discourage second earners to work²¹.

3.2.7. As an important part of the reforms ESC examines the achievement of "flexicurity" (both flexibility and security) in the area of labour. EC recommendations in this area require the active involvement of the social partners on the basis of which to overcome the segmentation of the labour market, to introduce adequate changes in wages and systems of income support to implement policies to facilitate the transition to new work places.

¹⁹ See for example: Resolution on "Communication from the Commission - Annual Growth Survey 2015", p. 14.

²⁰ See: NSI <http://www.nsi.bg/bg/content/4009/заети-лица-и-коефициенти-на-заетост-национално-ниво-статистически-райони-области>

²¹ See: Resolution ESC "Integrated policies for young people in Bulgaria".

- 3.2.8.** According to the European Commission, one of the important directions for progress in terms of achieving greater cohesion among Member States is the further amendment of wages in line with productivity in the medium term. ESC joins the European Commission in this recommendation, considering the crucial role of the social partners in this process, to focus on frameworks for determining the salaries, to provide flexibility for differentiated wage increases across sectors and within them.
- 3.2.9.** ESC supports the recommendation of the European Commission for continuing to modernize and simplify the legislation on employment protection, ensuring effective protection of workers and promoting the transition in the labour market between different jobs and professions. In many cases in recent years the increase in total employment was due to the increase in the number of temporary contracts, which must be overcome to create the conditions for a transition to more permanent contracts and more secure jobs. In this regard, according to ESC, it becomes more important to implement concrete measures to eliminate barriers to full employment for the unemployed and temporary workers as well as to facilitate professional mobility.
- 3.2.10.** ESC agrees with the Commission that in order to boost employment and job creation, it is necessary to intensify reforms by taking action for reducing the tax burden on labour. ESC believes that measures should focus primarily on low-paid and younger workers. This is highlighted in ESC's Resolutions on the AGS 2014 and AGS 2015²².
- 3.2.11.** ESC also stresses the need for an effective social protection system for combating poverty and social exclusion in which to preserve the sustainability of public finances and work incentives. Regardless of the changes in this direction, the structure of-work benefits, unemployment benefits and minimum income should be developed or preserved as an incentive to entering the labour market.
- 3.2.12.** The still deteriorating indicators for employment and social situation, according to the ESC, indicate that this policy approach is not effective enough, there is a need to rethink economic governance by strengthening the social environment in the EU.
- 3.2.13.** ESC assesses as particularly important also the recommendation of the European Commission to improve the functioning of markets for products and services, overcoming challenges specific to each Member State. To facilitate investment and the efficient allocation of resources it is necessary to have open and competitive markets for goods and services, more flexible regulation of

²² Resolution on "Communication from the Commission - Annual Growth Survey 2014", p. 14; Resolution on "Communication from the Commission - Annual Growth Survey 2015" p. 13.

services markets to achieve higher productivity, easier entry of new participants in these markets, reducing the price of services.

3.2.14. ESC notes that similar recommendations were addressed to each Member State and in 2014 and 2015, but despite all efforts they still remain a challenge. Due to the insufficient and uneven progress in conducting reforms in the services sector following the entry into force in 2006 of the Services Directive, ESC recommends taking more action in these areas in order to facilitate and accelerate the process of completing the single market.

3.2.15. ESC attaches great importance to the need to enhance transparency, efficiency and accountability in public procurement, which represents 19% of EU GDP and therefore can have a crucial impact on investment. ESC believes that special attention should be paid to the development of e-procurement, which is currently lagging behind, as well as strengthening the administrative capacity for procurement, planning and implementation of public procurement.

3.3. CONDUCTING RESPONSIBLE FISCAL POLICIES

3.3.1. The main challenge in defining and adhering to future fiscal trajectory concerns, as in the previous European Semester, the necessary to adapt targeted revenue and cost to generate conditions conducive to economic growth.

3.3.2. According to ESC, under the third priority of the Commission for 2016, especially noteworthy is the negative trend of increasing sovereign debt, which acts as a brake on growth and increases the vulnerability of countries to shocks. In this regard, ESC considers that priority should be given to reduce and maintain public finances on a sustainable level and to make better use of available fiscal space.

3.3.3. In 2016 too it is necessary to put emphasis on expenditure that favours growth, especially on productive public investment. According to ESC, the combination of a reduction in running costs by optimizing their composition, as well as laying an emphasis on investment expenditure, may be reflected to a greater extent on the effectiveness of spending programmes and growth. However, the ESC considers that while doing this the functions of social systems in combating poverty and promoting social inclusion should not be underestimated and distorted.

3.3.4. ESC fully endorses the recommendation of the European Commission to stimulate growth through possible shift of tax burden from labour to other types of taxes. In this connection, ESC restates its repeatedly expressed position that the ongoing tax reforms should foster growth and promote employment, contribute to raising employment and adaptability of the labour market, to transform informal employment and undeclared work into regular employment. ESC has made more specific proposals for alternative options for adjustments

in the tax system, for example, the permanent taxes on real estate, environmental and other taxes.

3.3.5. ESC has repeatedly emphasized in its acts the need for more efforts to combat tax fraud and tax evasion. In this context, ESC welcomes the Action Plan presented by the European Commission in June 2015 intended to restore the link between taxation and the place of business, as well as to increase the transparency of taxation.

3.3.6. With great concern ESC shares the recommendations of the European Commission on the implementation of responsible policy under which pensions, health and long-term care systems are financially sustainable. Given the expected demographic consequences, it is necessary to develop accompanying measures to maintain income after retirement, savings for supplementary pension insurance, which can help by supporting the development of collective and individual pension plans, complementary public pension schemes.

3.3.7. ESC focuses again on the fact that increasing economic activity is one of the best ways to overcome the imbalances caused by the aging population in Europe. Ensuring a sustainable level of employment that will contribute to the financing of social security systems is one of the most sensible ways to offset negative demographic trends and the age dependency ratio.

3.3.8. With respect to the adequacy and sustainability of social systems ESC shares the recommendations of the European Commission and restates its opinion on the need for pension reforms with a view to linking the retirement age with life expectancy in which to ensure an appropriate balance between life at work and life after retirement.

3.3.9. ESC believes that special attention should be paid to reforms in health care and long-term care schemes. In order to meet the demographic challenges it is necessary to provide more effective primary health care and access to them, as well as disease prevention. ESC has repeatedly emphasized the recommendations of the Commission in this area of problems, while the positions, proposals and recommendations of ESC have been expressed in several opinions, resolutions and analyses adopted in recent years.

3.3.10. ESC restates its conviction that closer alignment and better coordination of fiscal, macroeconomic and structural policies at the national and the EU level will support and enhance the results of efforts to promote job creation, growth and investment in the name of the economic and the political future of the Member States and the EU. Thus, ESC supports the view that a more active investment policy within reasonable fiscal parameters and debt tools would contribute to a more rapid and successful recovery of the Bulgarian economy and, in particular, to important industrial sectors.

3.3.11. ESC stresses that the return of Europe to sustainable economic recovery and sustained economic growth requires a broad consensus on the right policy direction, support and involvement of national parliaments, the social partners and civil society in the development and implementation of reform programmes and policies at the national level.

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